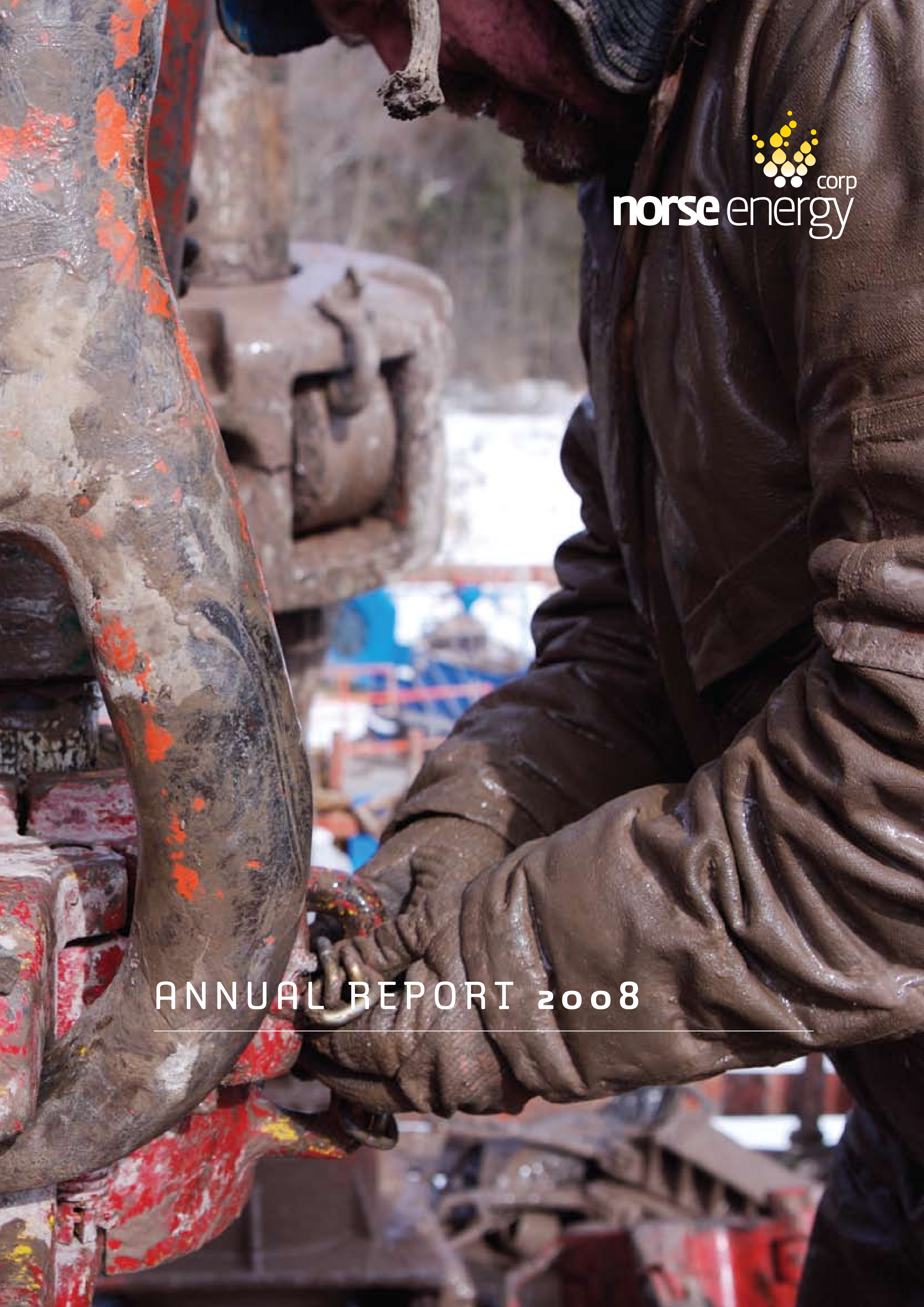


norse energy corp

ANNUAL REPORT 2008

CONTENTS

FINANCIAL CALENDAR

May 19
2009

May 19, 2009 First quarter presentation and Annual General Meeting

Aug 18
2009

August 18, 2009 Second quarter presentation

Nov 10
2009

November 10, 2009 Third quarter presentation

ASSETS IN BRAZIL

Camamu-Almada Basin – Offshore

- 10% interest Manati gas field, pipeline, gas plant and production platform
- 10% interest BCAM-40 block
- 18.3% interest BM-CAL 5 block (farmed-out in April 2009)
- 18.3% interest BM-CAL 6 block
- 20% interest Sardinha field

Santos Basin – Offshore

- 35% interest Coral field
- 65% interest Estrela-do-Mar field
- 50% interest Cavalo Marinho field
- 50% interest S-M-1035, S-M-1037 and S-M-1100 blocks (as operator)

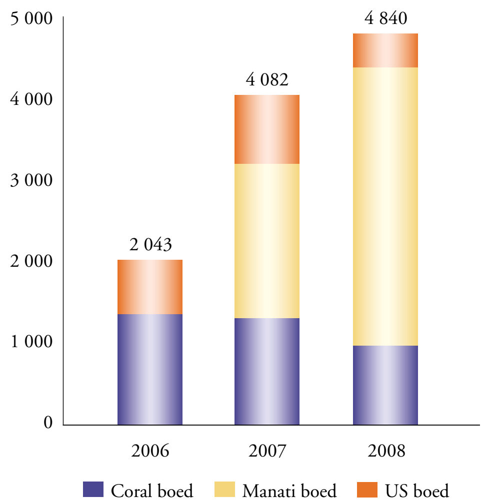
Recôncavo Basin – Onshore part of Camamu-Almada Basin

- 30% interest BT-REC-30 block

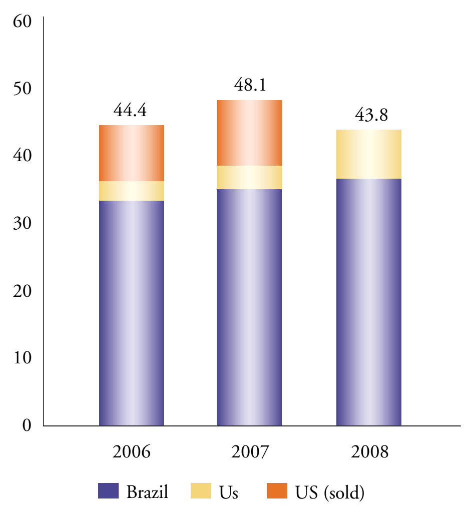
ASSETS IN USA

- In excess of 100 operated gas wells in Appalachia, plus participation in another 30 wells as a partner
- 175 000 gross leased acres
- 350 miles of gas gathering and transmission lines, including
  - – One 320–mile producer gas gathering system
  - – A 26-mile pipeline leased until 2020 to a municipal utilities facility
- 18% interest in an E&P company having exploration rights over 100 000 acres and several hundred miles of seismic data

Group oil and gas production (boed)

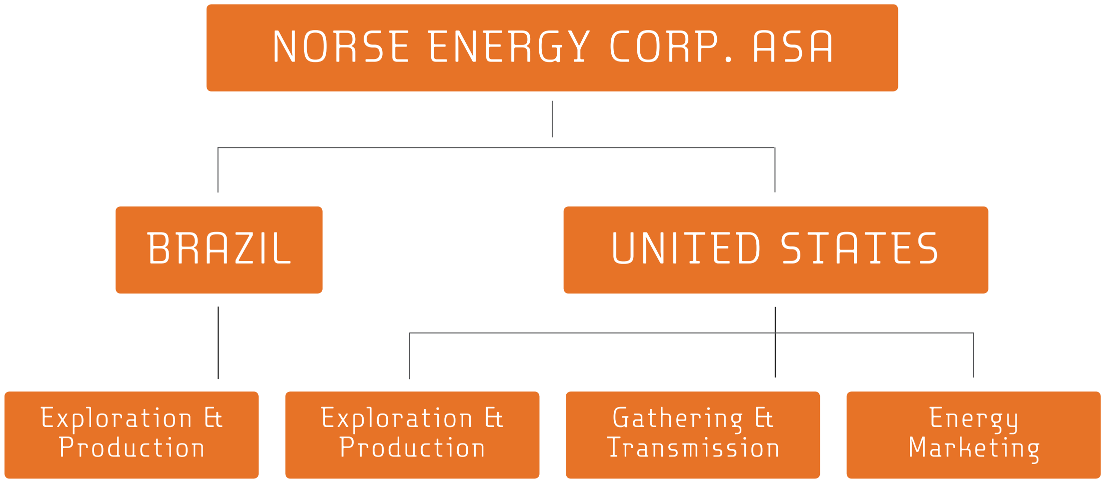


Reserves by geography (MMBOE)

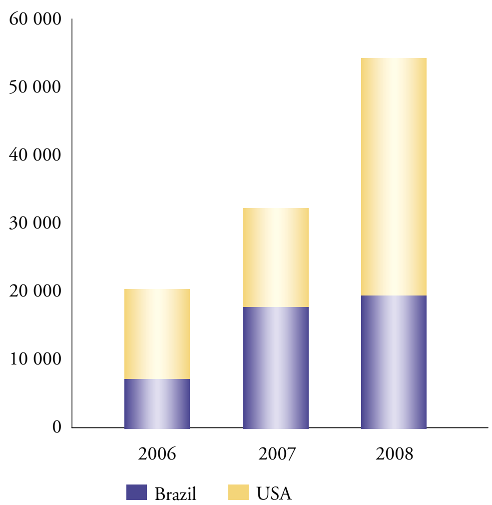


COMPANY OVERVIEW

Norse Energy Corp. ASA, through its subsidiaries, is engaged in oil and natural gas exploration and production with operations in the US and Brazil. In addition to its E&P assets, Norse Energy owns and operates pipeline systems in the northern Appalachian Basin of the US for gathering and transmission of natural gas, and provides energy marketing services to Appalachian end users and producers. The company is a Norwegian publicly traded company, listed on the Oslo Stock Exchange under the ticker symbol NEC.



EBITDA (USD ´000)
before corporate overhead and eliminations



NEC share price development (NOK/share)

2008 HIGHLIGHTS

4,840 BOE/day	Average production – a new record
43.77 MMBOE	Certified 2P reserves
377 MMBOE	Certified 2C contingent resources – an 860% increase
USD 41 million	EBITDA – a record high
USD 67 million	Sales price of US Medina field assets
6,000 Mcf/day	US production at the end of the year, replacing the production sold earlier in the year
37	Number of wells drilled in the US
6 of 6	Manati gas wells producing throughout the entire year
USD 15 million	Secured in revolving credit facility

KEY FIGURES

	2008		2007		2008		2007
Revenues (USD million)	334.5	↑	214.7	2P Reserves (MMBOE)	43.77	↓	48.12
EBITDA (USD million)	41.2	↑	26.8	2C Contingent resources (MMBOE)	376.71	↑	39.26
EBIT (USD million)	-1.4	↑	-28.3	Production (BOE/day)	4,840	↑	4,082
Net profit/loss (USD million)	-10.5	↑	-28.7	Stock Price per 12/31 (NOK)	3.54	↓	4.56

CEO´S LETTER

Dear shareholders,
In 2008 we invested about USD 100 million in exploration and development activities in our US and Brazilian business. We closed the year with the highest production in the history of the company, record high generation of resources, Schlumberger certified 2C of 2 Tcf (346 MMBOE) in the US and in Brazil Gaffney Cline & Associates certified 2C of 30.50 MMBOE, and a solid USD 41 million EBITDA.

Even with this success, we acknowledge that 2008 is more likely to be remembered for the global financial turmoil and the collapse in commodity prices towards the end of the year. As a result, our shareholders experienced high volatility, with share values declining significantly from an all-time-high in a matter of months. Market volatility and the credit crunch will pose challenges also in 2009 and possibly for the years to come.

Our focus need to remain on the value drivers we can influence, such as converting resources to reserves and optimizing financial flexibility. We believe the 21st century will be the age of natural gas and have transformed our company's activities accordingly, especially in the US. We are now a natural gas producer in both Brazil and the US, with long lived reserves and large resource bases in both regions.

Our production growth, due to the success of the Herkimer play, is anticipated to more than double in 2009, in addition to working on converting our 2 Tcf contingent resources into reserves. Growing our business will be challenged by our financial flexibility and the ability to build a larger organization.

In Brazil, our aim is to continue the ongoing structural processes and continue to develop our 100+ MMBOE BS-3 integrated Santos project. Our 2008 offshore drilling program commenced at a time with high drilling costs, in addition to a non-functioning equity market, this resulted in financial challenges for the company.

Net of asset sales, which are integral to our strategy, we have invested USD 166 million over the past four years as a public company. Let us look at what we have accomplished:

	2004	**2008**
Production (BOE)[1]	740,824	1,766,600
Reserves 2P (MMBOE)	14	44
Resources (MMBOE)	-	376
EBITDA (USD million)	0.7	41.2

1 Production sales, net of retainage

Main highlights for the US operations in 2008;
- Divested the gas producing Medina assets (4,300 Mcf/day) for USD 67 million

- Replaced divested production and reached 6,000 Mcf/day by the end of December 2008
- Drilled 37 wells, of which 19 horizontal, making us the most active horizontal driller in New York State
- Increased land position to 175,000 acres
- Continued to build on our geological confidence in the Herkimer formation, which we believe could yield some 500 Bcf (90 MM-BOE) of natural gas
- Established Norse Energy as a "3-in-1 play", with our Mar cellus, Utica shale in addition to the Herkimer formation all present on large portions of our acreage
- Schlumberger certified 2P reserves of 33 MMBOE and 2C contingent resources of 346 MMBOE.

Our focus in 2008 has been on the Herkimer formation which so far has exceeded expectations. Multiple wells are producing more than 1,000 Mcf/day and we have seen wells producing in the vicinity of 3,000 Mcf/day. This far exceeds our 2009 budgeted average of 300 Mcf/day for the 25 horizontal wells we plan to drill this year. Our F&D cost is very competitive, at around USD 1 per Mcf.

We have been tailoring our activity level to prioritize near-term cash flow with corresponding increase in funding availability through reserve based lending. Our production guidance of 12,000 Mcf/day (2,100 BOE/day) towards the end of 2009 would represent a doubling of the volume from year-end 2008.

We have strengthened our organization and geosciences staff and land position over the past years, and I am quite confident that our US division will produce exciting results for our shareholders in the years to come. We are now streamlining our operation into two offices in Pittsburgh and Buffalo. This important step should provide for more cost efficient operations and allow for a more dynamic work environment.

Main highlights for the Brazil operations in 2008;

- The Manati gas field produced from all six wells. Manati has a long term guaranteed sales contract from this field containing more than 1 Tcf, of which Norse Energy owns 10%.
- The Coral oil field commenced abandonment.
- Active exploration program.
- BS-3 integrated Santos Basin field studies conducted with the help of a 3rd party engineering company.

In Brazil, we have been working on structural opportunities, including an IPO attempt and multiple private placement and divestiture processes, in order to strengthen the balance sheet of the company and secure financial flexibility to develop our Santos Basin assets. However, the sharp drop in oil prices, weak equity markets and a generally weaker investment climate made this a challenging process. Our active exploration program unfortunately has not yielded the commercial results we hoped for, which negatively impacted our 2008 financial statements. Following the recent farm-out of BM-CAL 5, we have reduced our capital commitments and significantly limited our future exploration exposure.

Despite the lack of exploration success, I remain enthusiastic about Brazil and the opportunities we have seen during our short presence. Brazil is an underexplored energy region, and the world class discoveries seen in 2008 may only be the beginning. I see a great future for Brazil as an energy nation, and I believe our position in the Santos Basin, especially our development assets such as the 100+ MMBOE BS-3 project, provides a major opportunity as an early entrant in this underexplored basin. I see multiple opportunities to develop small to medium-sized fields in this basin which is a good fit for our company's size and future strategy.

Looking forward, the main challenge will be access to capital in light of the international credit crunch. However, we are positioned in two of the most promising energy regions in the world, offshore Brazil and onshore USA. Our entrepreneurial and dynamic organization makes me optimistic that we can timely execute on our numerous opportunities.

I wish you all the best for 2009 and the years to come. I would also like to thank our Board members for their dedication and significant progress we have made together in 2008. I am also very proud of all our employees both in US, Brazil and Norway, who have worked under very challenging conditions in 2008. The employees have responded with their dedication, support, and caring for Norse Energy.

Best regards, and thanks for your support,

Øyvind Risberg
Chief Executive Officer

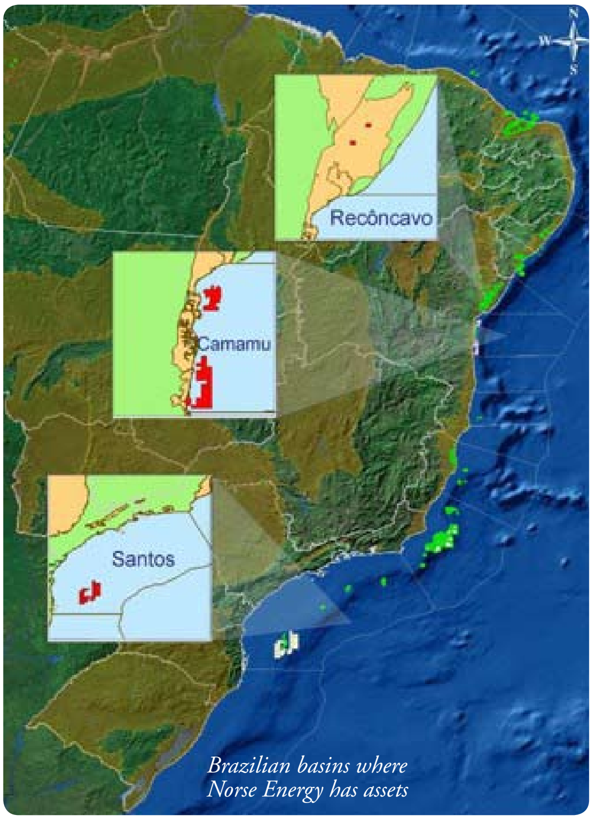
COMPANY OPERATIONS

Brazil Operations highlights
2008 was a volatile year with several important events for Norse Energy in Brazil. The Manati gas field increased and stabilized the production. The facilities have been successfully tested to be able to produce up to 7 MMm3/d, and average production increased 78% compared to 2007, to a total of 5.7 MMm3/d (about 35,000 BOE/d to 100% of the field). The field is producing according to expectations and the six wells drilled so far are sufficient to supply the existing gas contract. The BCAM-40 license where Manati is located also received IBAMA licenses in 2008 to drill three prospects, Cravo, Dende and Canela. Cravo was spudded in early Q1 2009 and completed in early April 2009, but was not considered commercial.

In Santos the Coral field produced above the expectations as a result of using well number five for water injection. The water injection in Coral made the field produce on average 984 BOE/d in 2008, a 25% reduction from 2007. The unexpected high production coupled with high oil prices during the year generated good cash flow. In December the water cut intensified and became too high to continue operations and it was decided to commence abandonment. The company expects that there is still a significant volume left in the reservoir, enough to justify a redevelopment of the field, in conjunction with a development of the other fields in the area (BS-3 integrated). The positive experience with the water injection has been very important for the understanding of the reservoir quality and the upsides by applying water injection as a drive mechanism for the fields in the area. In 2008 Norse Energy concluded to perform our own studies of the potential in the area independent of the operator. The studies resulted in substantial increase in the contingent resources in the area from 2 MMBOE to 25 MMBOE (best estimate), later verified by the independent engineering Company Gaffney Cline. Furthermore the base case for the development is to develop all fields in the area simultaneously in order to reduce the opex and capex per barrel. Norse Energy has shown in these studies the feasibility of the technical solutions for tie back of all the Norse-fields in the area to one common set of infrastructure. Break even rates after tax indicates less than USD 50 /bbl required to make an economical integrated development. This is based on Norse Energy's studies verified by Gaffney Cline.

In the recently acquired 50% ownership exploration blocks in Santos, operated by Norse Energy, a contract to acquire 3D seismic is agreed in principal with Petroleum Geo-Services (PGS). Currently the consortium is evaluating the timing of this activity. The blocks have two identified and well defined structures that are located in an area where Petrobras recently did a new discovery.

CAMAMU-ALMADA BASIN
<u>Manati project (10% interest)</u>
The Manati gas field has been online with all six wells for the entire 2008. Average daily gas and condensate sales were 3,437 BOE/day compared to 1,908 BOE/day in 2007, an increase of 80%. However, the field did not attain its full production capacity due to local gas market weakness observed in the 4Q 2008. Investments were made in order to connect the Manati infrastructure to the pipeline to the northeastern market in Brazil These investments were made in order to be positioned for increased gas production in the future. In addition, the consortium invested in a living quarter on the Manati production platform, mainly for safety reasons. Finally, the consortium continued its studies of the engineering project for the compression system.



Brazilian basins where Norse Energy has assets

The company's share of the Manati field certified 2P reserves as of December 31, 2008 is 16.65 MMBOE, down 2.5% from last year. Reduced Manati reserves over the year reflect the produced volumes and some redistribution of reserves between categories reflecting effects of observed production performance. Further these reserves are only committed reserves under the take and pay contract. The company anticipates ultimate recoverable reserves to exceed the current gas contract volume.

Work is in progress by the operator to review the geological model of the Manati field, including a possible northern extension of the field. To drain this area a 7th well might be needed. Manati reserves are currently based on the six wells and the reserve estimate is based on the contracted volume to the gas purchaser.

BCAM-40 exploration block (10% interest)
The BCAM-40 block consists of the Manati gas field and more than 530 square kilometers (130,000 acres) of exploration acreage covering both shallow and deepwater areas. There are three remaining exploration prospects in BCAM-40 Cravo, Dendê and Canela. In addition there are several leads that may be drilled given an extension of the license period.

In August 2007, the consortium received the environmental license for the Gengibre well, the first of four exploration wells originally planned to be drilled within the BCAM-40 block. Presence of light oil was found, but the finds were not deemed to be commercial. However, the Gengibre results have confirmed the existence of an active petroleum system in the BCAM-40 block, with oil generation and migration capacity as well as good quality reservoir rocks.

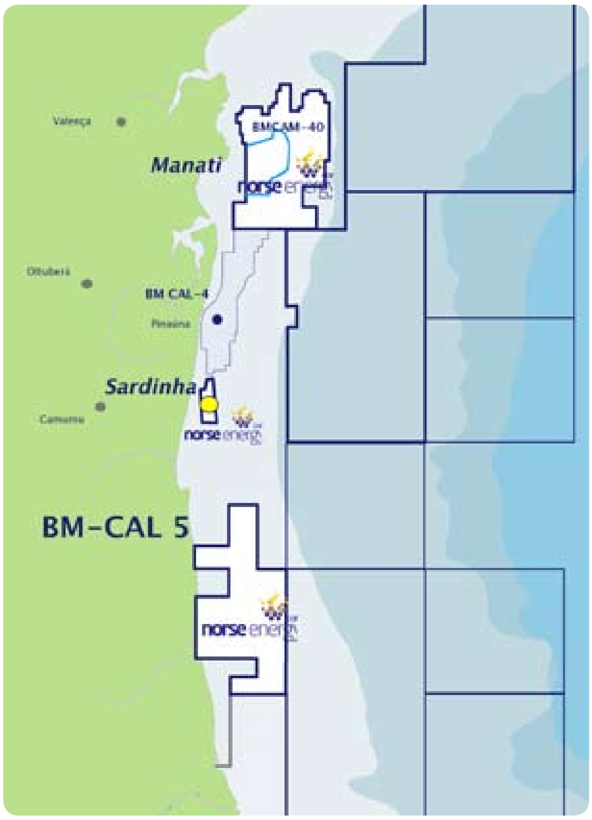
The environmental licenses for Cravo, Dendê and Canela were issued late 2008. Cravo was spudded on January 6, 2009. The prospect is located at 270 meters of water depth, only 18 km northeast of the Manati production platform. The well reached a total depth of about 4,000 meters, with the main objective in the Sergi formation. In accordance with the operator's obligations towards ANP, the operator on January 27, 2009, notified the Brazilian Regulatory Agency (ANP) about hydrocarbon indications on the Cravo prospect below 1 581 meters of depth. The well was completed in early 2009 and the well was logged and the logs showed that the Rio das Contas sandstone reservoir had eight meters net thickness with gas, but the main target in the Sergi sandstone was water bearing.

However, the Sergi reservoir had 50 meter sandstone with good porosities. This is positive for the remaining prospects in the BCAM-40 block, as reservoir quality was considered the main risk factor for these deep water prospects. The well confirmed a functioning petroleum-system in the area and that gas had migrated to the prospect. The fact that the Sergi reservoir was water-bearing indicates that the seal in the structure was inefficient. Consequently, the Cravo well will be plugged and abandoned.

The company will recommend the consortium to study these facts and the relevance for the remaining prospects in the license before continuing the exploration campaign.

BM-CAL 5 and 6 (18% interest)
The BM-CAL 5 and 6 blocks are located offshore the Bahia state south of BCAM-40 in waters ranging from 360 to 1400 meters. Three wells were planned in these two blocks; Copaíba and Jequitibá in BM-CAL 5 and Peroba in BM-CAL 6. Drilling licenses for the wells were granted on April 4, 2008 (BM-CAL 6) and April 15, 2008 (BM-CAL 5).

The Peroba prospect drilling was completed on June 23, 2008, and the prospect was a dry well. The second prospect in the



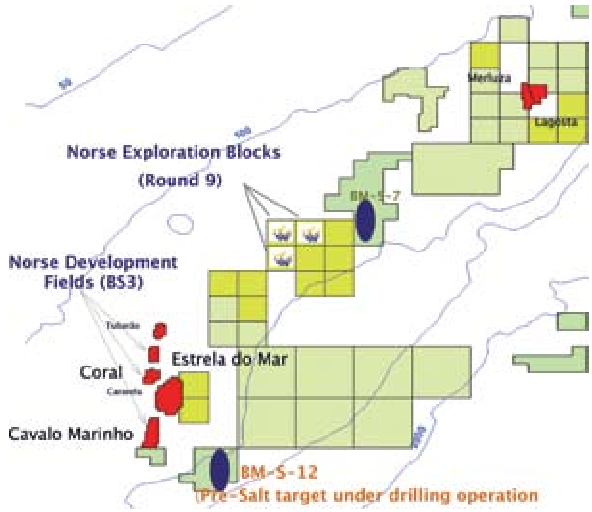
BM-CAL 6 block (Marfim) was contingent on the Peroba results, and will not be drilled.

The Copaiba well was spudded on July 3, 2008, and drilling was concluded on September 22, 2008. The well discovered two intervals with hydrocarbons and flow tests were conducted in these intervals. The results are being analyzed by the operator together with other geological and geophysical data. It is too early to conclude whether the discovery is commercial or not.

In the beginning of April 2009, the company accepted an offer from Petrobras and Queiroz Galvão to take over the company's 18.3% participating interest in the BM-CAL 5 block (the Copaiba discovery and the Jequitibá prospect). The company will not receive any compensation, but the transfer of ownership implies that the company will not carry any further drilling costs in BM-CAL 5 where drilling of Jequitibá is planned to commence shortly.

Sardinha Field (20% interest)
The Sardinha Field is located in the Camamu-Almada Basin, 50 kilometers south of the Manati gas field and at 4 kilometers distant to shore. Prior to the company's purchase of its 20% interest, the field had been defined by 11 exploration wells supported with 2D and 3D seismic. Throughout the year, economic feasibilities studies were conducted by the operator to analyze optimal development of the field. Proposals dis-

cussed between the partners included the production of both oil and gas and another for gas-only production. Currently, the partners continue to evaluate conceptual solutions for a development.



SANTOS BASIN

BS-3 Integrated Project

The company has defined the BS-3 Integrated Project to include the Cavalo Marinho (50% interest), Estrela-do-Mar (65% interest), Coral re-development (35% interest), Caravela (100% Petrobras) and a pipeline to shore.

During 2008, the company did a series of third party feasibility studies, including the geological mapping and modeling of the reservoirs, production modeling, conceptual engineering and risk analysis in the BS-3 project. The studies showed significant additional recoverable volumes and improved economic robustness. The studies also show the feasibility for an integrated development concept for the field development, including Estrela do Mar and a potential re-development of Coral. The results of the studies have been verified by the 2008 GCA certification, which resulted in a significant increase to the contingent resources. The best estimate for the company's contingent resources in the BS-3 Project thus increased with more than 23 MMBOE, from 2 MMBOE to 25 MMBOE. According to the GCA reserve report, estimated 2P reserves in the BS-3 Project are 20 MMBOE.

The BS-3 area development concept recommended by Norse to the partners consists of four fields developed in an integrated solution; Caravela (100% Petrobras owned), Cavalo Marinho, Estrela-do-Mar, and a re-developed Coral field, all together resulting in a +100 million BOE project. In this scenario, the fields will have subsea well templates connected to a joint FPSO, and the produced gas will be transported through a pipeline to be built to shore.

The company's goal is to finalize a feasible development plan for the BS-3 Integrated Project in 2009.

Coral (35% interest)

The Coral field, in Block BS-3, was one of the first fields to be developed in the Santos Basin. Norse Energy inherited its original ownership in the field from the merger with Northern Oil in 2005. Commercial productivity of the Coral field was projected to terminate in early 2008 when an unsuccessful workover in Coral #5 permanently stopped production from this well. The field production was then entirely concentrated on the Coral #4, and the consortium decided to use Coral #5 for water injection, aiming to boost the production flow on Coral #4 and gained valuable information for reservoir characteristics on the other fields to be developed in the integrated BS-3 project. The water injection was very successful and together with record high oil prices during part of 2008, the field's lifetime was extended into Q4 before abandonment commenced. About 660,000 barrels of oil were produced during 2008 (100%), in addition to the expected production before water injection.

Average daily production in 2008 was 986 BOE/day net to Norse interest compared to 1,323 BOE/day in 2007, a 25% decrease.

S-M 1035, S-M 1037 and S-M 1100 (50% interest)

The company was the successful bidder on three offshore blocks in the Santos Basin in the 9th Bid Round offered by the ANP (National Agency of Petroleum). The company signed the concession agreement with the regulatory agency on March 12, 2008, and is now officially an offshore operator in Brazil.

The blocks are located adjacent to each other, about 100 kilometers northeast of the Coral field, in about 200 meters of water depth with reservoir characteristics similar to the company's other assets in the area. These exploration blocks, which cover an area of approximately 510 square kilometers, are anticipated to hold significant exploration potential.

During the period, Norse as operator of the consortium developed the regular legal documentation for the three blocks, including the JOA, yearly working plan and budget, approved by the partner, as well as the regular reports and documents and submitted to ANP. The initial technical work has been based on the acquisition of 2D seismic data from Schlumberger, confirming the existence of two significant prospects in these blocks: Jandaia and Sabia. The 2009 work plan for these concessions includes a 3D survey and processing, in order to gain a better understanding of the two prospects identified in the area, the Sabia and Jandaia prospects, and define the best location for potential wells. Such wells, if approved, are to be drilled after 2011.

On January 6, 2009 Petrobras announced an important gas discovery in the nearby BM-S-7 block which is only 40 km from Norse Energy's S-M-1036 block. This block has the same geological play as Norse Energy's Sabiá Prospect with the same reservoir characteristics and depth.

US OPERATIONS

Overview

Since 1996, Norse Energy has concentrated its energy activities in the northern Appalachian basin in New York and Pennsylvania. In 2008, our focus was on exploration and development of the company's extensive acreage position in central New York in pursuit of natural gas production. The company currently controls about 130,000 acres in central New York, of which approximately 5,000 acres are owned by Norse where we also receive the royalty. With recent leasing prices in excess of USD 2,000/acre in 2008, the company implemented a strategy of purchasing the entire land area, including mineral rights, at prices that were competitive with the cost of leasing.

Norse Energy also continued to expand its pipeline capacity to better service its current drilling program and its established acreage position in central New York. Our pipeline system presently delivers natural gas to a major interstate pipeline, Dominion Transmission, Inc. ("Dominion") and a large gas and electric utility, New York State Electric & Gas ("NYSEG"), servicing the New York State. Critical to a successful drilling program is easy access to attractive available markets with premium gas prices. During 2008 the company accelerated its efforts to add more delivery options and by year's end we approached completion of a pipeline right-of-way that will ultimately provide access to two additional major interstate natural gas transmission pipelines, Tennessee Gas Pipeline ("Tennessee") to the north and Millennium Pipeline ("Millennium") to the south. Tap and meter-site agreements have been established with Millennium and are presently being pursued with Tennessee. Once completed, our trunk-line system will gather gas along a pipeline corridor that extends for over 70 miles and encompasses three counties. It will provide access not only to a large utility customer servicing the area but three major interstate pipelines that will ultimately deliver gas to the New York City metropolitan area and other premium markets in the northeastern United States.

Throughout the year we refined our knowledge gained from an operating, engineering and geological perspective to successfully pursue our unique Herkimer play. With current average anticipated recoverable reserves estimated at an average 1.2 Bcf per well for the field, projected total "all-in" finding and development costs in the current area of production are USD 1.05/Mcf (including drilling, pipeline, land and seismic costs). It is particularly encouraging for future development that the last wells drilled in 2008 were the most promising with Initial Production flows averaging in excess of 1,000 Mcf/well per day. This trend continued into 2009 where multiple wells produce around 3,000 Mcf/day (535 BOE/day) per well. The company estimates that the Herkimer play could exceed 500 Bcf.

Schlumberger Technology Corporation ("Schlumberger") has certified our contingent resources to be 346 MMBOE, up 962% from 32.59 MMBOE last year. This increase is attributed to the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. A total of 37 wells were drilled during 2008, of which 23 were completed in the Herkimer formation. Of the 37 wells drilled in 2008, all have penetrated the shallower Marcellus formation and as a result, Norse has garnered valuable insights regarding the characteristics of this exciting shale formation.

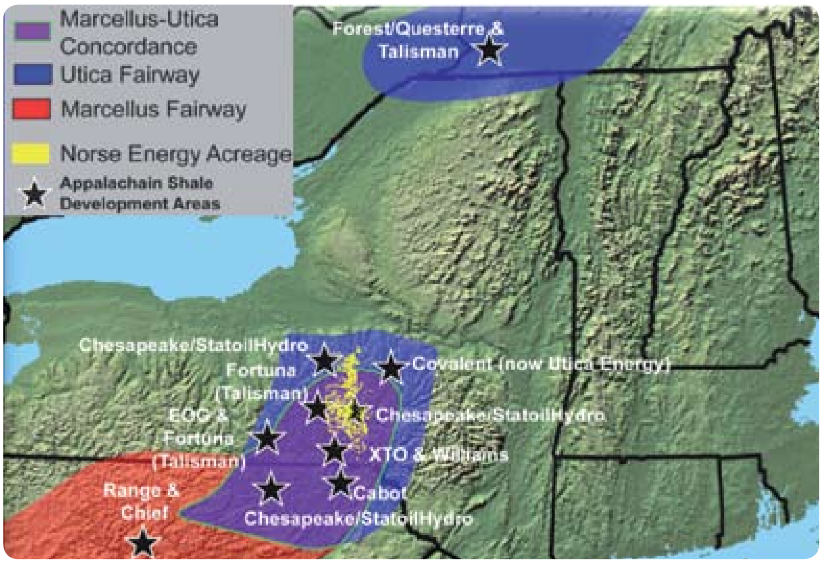
In early 2008, the company sold all of its Medina formation assets (4,300 Mcf/day) in New York and Pennsylvania for USD 67 million and set as target to replacement that production by year's end. The company exceeded the goal by producing in excess of 6,000 Mcf/day at the close of 2008. Norse also continued to add to its acreage position in Western New York where it now controls 45,000 acres. It has found encouraging results in this region in pursuit of the Theresa Play. Collectively, Norse now controls around 175,000 acres in New York State.

The marketing division, Mid American Natural Resources (MANR), also continued to add value to the company's profitability, increasing total gas volume marketed by over 10%, from 21 million Mcf in 2007 to 23.2 million Mcf in 2008. Gross Sales also increased by approximately 40%, from USD 158.2 Million in 2007 to USD 225.2 Million in 2008.

Exploration & Production

For the past 13 years, Norse Energy has concentrated its exploration and production activities in the Northern Appalachian Basin. In 2008 Norse Energy drilled several successful wells in the Theresa Formation in Western New York but our primary focus has been, and remains, exploration and development of Herkimer wells in central New York. During 2008 we focused our efforts on drilling locations in close proximity to our existing mainline gathering system to ensure that wells were promptly placed into production. As a result, by year's end wells were being brought on line and producing on average in less than 30 days from completion.

A total of 37 wells were drilled during 2008, of which 23 were completed in the Herkimer formation. 19 of the Herkimer wells were drilled horizontally and four were drilled vertically. Of the 37 wells drilled in 2008, all have penetrated the shallower Marcellus formation and as a result, Norse has garnered valuable insights concerning the shale formation. From the wells drilled over the last five quarters, Norse Energy has 18 wells currently awaiting pipeline connection. The company now operates in excess of 100 natural gas wells in New York State. Norse's pipeline facilities are already operating in approximately one-third of the over 70 mile trunk-line corridor being designed to bring gas discoveries to the Tennessee, Dominion, Millennium and/or the NYSEG pipeline.



Due to the divestiture of the Medina assets early in the year, average daily gas production in 2008 was 430 BOE/day, which is about 49% lower than the average daily production in 2007. After the divestiture of the Medina assets, the company established a goal to replace the production sold (approximately 4,300 gross Mcf/day) by the end of the year. The company not only met this target, but surpassed it, as total production from the US exceeded 6,000 gross Mcf (1,068 BOE) per day by the end of the year. Based on retained assets the increase was 110% in 2008.

2P reserves as stated by Schlumberger, decreased to 7.25 MMBOE down 45% compared to 2007. Excluding the sale of the Medina assets, the 2P reserves increased by 3.88 MMBOE. Additionally, Schlumberger has certified contingent resources to be 346 MMBOE, up 962% from 32.59 MMBOE last year. This increase is attributable to the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. The company is actively planning for development of this resource when opportunity permits, utilizing the valuable information gained.

The primary formations targeted in the company's revised exploration strategy are the Herkimer sandstone, Theresa sandstone and the Utica and Marcellus shales. Our exploration department shot 502 miles of 2D seismic during the year. The company invested about USD 55 million in exploration and production in 2008.

In order to capitalize on our position and finance our expansion program, the company has retained Jefferies & Company to assist in securing a potential strategic partner to develop its shale potential.

Pipeline capacity servicing our acreage position expanded throughout 2008. The first major accomplishment was the completion of a 12-inch plastic pipeline in October, which connects the existing sales points Bradley Brook (Dominion) and Diehl (NYSEG Pipeline), and should provide for a more rapid production increase which will be seen into 2009. Production flow should be further enhanced by a capacity upgrade to the Dominion Transmission delivery meter scheduled for mid-2009. The new pipeline capacity is 15,000 Mcf/day, with potential for upgrading for additional capacity.

Norse also holds working, royalty and overriding royalty interests in various minor oil and gas leases in the Mid-continent region of the United States, primarily in Oklahoma. The company does not serve as operator of any wells on these properties.

Gathering and Transportation

The Gathering and Transportation division ("G&T") oversees two pipeline operating systems involving company-owned natural gas pipelines covering approximately 350 miles in western New York and northwestern Pennsylvania.

The largest grid, covering approximately 320 miles, known as the Norse Pipeline system, gathers gas from third-party customers, as well as company-owned wells, and delivers it to several distribution points for sale. The delivery points include major interstate pipelines, local distribution companies and end users. Annual throughput on this system has increased since it was bought from Columbia Gas Transmission in 1999. However, in 2008 average daily throughput was 14,729 MMBtu, compared to 18,764 MMBtu in 2007. This decrease reflects that one of our larger customers left the transportation system in late 2007.

The other system, known as Nornew Energy Supply ("NES") is a 26-mile natural gas transmission line located in western New York with connections to a major interstate pipeline and the company's pipeline system. The line is currently leased to the City of Jamestown, New York Board of Public Utilities to provide gas supply to its power generation facility for an initial term of 20 years, expiring in 2020. Norse Energy has retained Jefferies to also assist the company in evaluating strategic alternatives for our midstream gathering and transportation pipeline operations.

Energy Marketing

The company, through its Mid American Natural Resources ("MANR") marketing arm, creates profit margins by effectively aggregating supply from Appalachian producers, marketers and utilities. MANR transports and balances those supplies and delivers them to strategically targeted markets. Consistent with our ongoing strategy, on a volumetric basis, customers are split roughly 50/50 between larger wholesale customers such as utilities and third-party wholesale marketers as well as commercial and industrial customers. This creates an effective portfolio, both from a risk and unit margin perspectives.

MANR marketed 23.2 BCF in 2008, about a 10% increase when compared to the 21 BCF marketed in 2007. Because of the record high NYMEX prices seen during much of 2008, Gross Sales increased from USD 158.2 Million in 2007 to USD 225.2 Million in 2008, approximately a 40% increase. MANR's EBIT in 2008 was USD 6.2 Million compared to USD 3.8 Million in 2007. Among the positive factors in 2008 when compared to prior years was continuing growth on the National Fuel Gas Distribution Corporation (NY), Equitable Resources Inc., New York State Electric & Gas, and Rochester Gas & Electric systems plus MANR's ability to profit from market volatility through aggressive wholesale marketing and transportation optimization. Consistent with MANR's ongoing efforts to limit business risk, MANR began to utilize Credit Insurance in 2008 and will continue to do so in 2009

RESERVES AND CONTINGENT RESOURCES

The company has adopted a policy of regional Reserve Reporting using external third party companies to audit its work and certify reserves and resources according to the guidelines established by the Oslo Stock Exchange (OSE). Reserve and Contingent Resource estimates comply with the definitions set by the Petroleum Resources Management System (PRMS) issued by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE) in March 2007.

Each region (division) has a long standing relation with its certification agents; Gaffney, Cline & Associates in Brazil and Schlumberger Technology Corporation in the US. A full "Annual Statement of Reserves" will be published in May 2009.

Norse Energy's final 2008 reserve reports are summarized in the table below;

Reserves (certified volumes reflecting approved development plans):

Division	1P reserves (MMBOE)	*	2P reserves (MMBOE)	*	3P reserves (MMBOE)	*
Total US	4.35	↓	7.25	↓	8.32	↓
Estrela-do-Mar	-	=	5.70	=	6.80	=
Cavalo Marinho	5.66	↑	14.17	↑	20.29	↑
Manati	12.80	↓	16.65	↓	18.64	↓
Total Brazil	18.46	↓	36.52	↑	45.73	↑
NEC TOTAL	**22.81**	↓	**43.77**	↓	**54.05**	↓

** Compared to the 2007 reserve report*

The grand total of 43.77 MMBOE of 2P reserves represents a decrease of 9% compared to last year's certified reserves, mainly as a consequence of the disposals of the US Medina assets. The company 1P reserves of 22.81 MMBOE correspond with a reserve replacement ratio of 1.84 considering a production of 1.85 MMBOE and asset sales of 7.93 MMBOE in 2008.

Best estimate Contingent Resources (certified volumes but without approved development plans):

US Division	2C Contingent Resources (MMBOE)	*
Herkimer	26.18	↑
Oneida	4.39	↑
Vernon Shale	1.11	↑
Marcellus Shale	130.89	↑
Utica Shale	182.76	↑
Others	0.88	↑
Total US	**346.21**	↑

Brazil Division	2C Contingent Resources (MMBOE)	*
Coral	3.43	↑
Estrela-do-Mar	6.20	↑
Cavalo Marinho	15.07	↑
Caravela Sul	0.40	=
Sardinha	4.47	=
BAS-131	0.93	↑
Total Brazil	**30.50**	↑

According to the SPE definitions, categorization of volumes as reserves are only permitted when approved development plans demonstrating acceptable economics are available. For Brazil, GCA was this year asked to review ongoing work undertaken by the Norse Energy and partners in order to improve development solutions for assets currently pending approved development plans. These assets have been categorized as Contingent Resources and reflect GCA's assessments of best recoverable volumes.

Best estimate (2C) Contingent Resources shows an increase of 860% from 39.24 MMBOE to 376.71 MMBOE at the end of 2008. For Brazil the increase from 6.65 MMBOE in 2007 to 30.50 MMBOE in 2008 is mainly attributable to introducing revisions to the BS-3 Development Plans by integrating more fields, sharing common infrastructure, as documented by studies conducted by the Norwegian based consultancy company AGR.

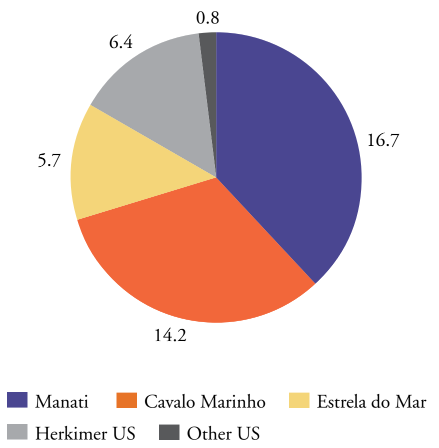
For the US the increase is attributed the success in the Herkimer play and the addition of a large number of locations in the Marcellus and Utica shale. In 2008, the company invested time to evaluate the potential resources contained in some of the shale formations underlying the current lease positions. This evaluation yielded positive results and provided additional locations to the 2C category in the reserve report. The company is actively planning for development of this resource when opportunity permits.

During 2008, the company had the following reserves development:

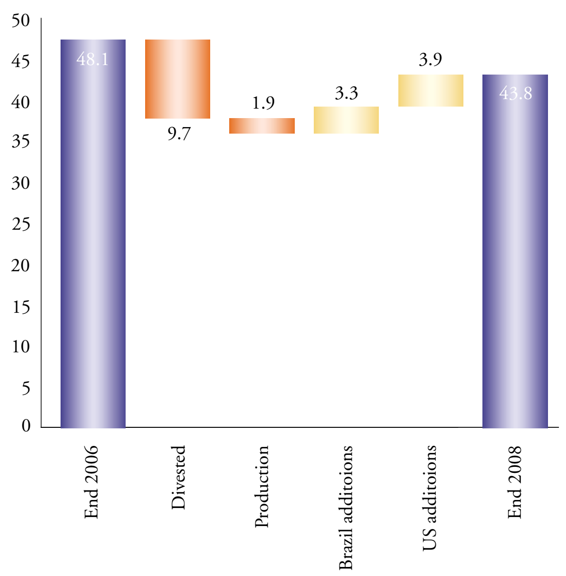
Reserves Development	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2007	48.12
Production 2008	-1.85[1]
Acquisitions/disposals since previous ASR	-9.72
Extensions and discoveries since previous ASR	-
New developments since previous ASR	3.88
Revisions of previous estimates	3.34
Balance (current ASR) as of December 31, 2008	43.77

1 Brazil 1.69 MMBOE, US 0.16 MMBOE

2008 2P reserves by field (MMBOE)



2008 2P Reserve development (MMBOE)



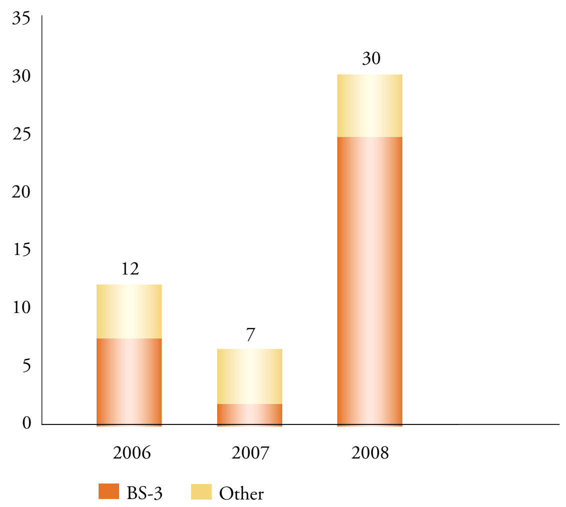
The most significant changes compared to last year's report are mainly attributable to:

Brazil:

- Reduced Manati reserves over the year partly reflect the produced volumes, partly a redistribution of reserves between categories reflecting effects of observed production performance. Work is in progress by the Operator to review the geological understanding of the Manati field, including a possible northern extension requiring a 7th well. Results of these studies were not available for this report.
- As in 2007, the 2008 GCA review considers only the actual gas sales contract volume of 23 billion m3 as 1P recoverable volume
- Manati reserves are based on a six wells field development and reserves estimates are based on the contracted volume to the gas purchaser, Petrobras. The field is anticipated to have a much larger ultimate recovery as reported by the operator of the field, Petrobras. The field has produced for two years and reached a cumulative gas production of 3.2 billion m3 (100%). Acquired production and pressure data, in each one of the producing wells, support reservoir model forecasted volumes.
- Coral production was terminated December 25, 2008 and the field is currently under temporary abandonment. However, studies indicate a possible future re-development in a larger area field integrated concept. This option is reflected in the shown Contingent Resources volumes.
- Cavalo Marinho reserves are marginally improved, following a revised formula for cost split in the approved development plan for integration of the Cavalo Marinho and Caravela fields. During 2009, the partners intend to revise this development concept with integration of further fields to the shared infrastructure as well as considering the introduction of more wells, different well solutions, artificial lift, and increased water handling capacity in order to further optimize the concept. The effects are indicated in the Contingent Resources table.
- For Estrela-do-Mar, lower oil price expectations have resulted in no 1P reserves for the stand-alone development concept that reflects the current development plan submitted to the authorities. As indicated above, work is in progress to expand the scope of the integrated development project including Estrela-do-Mar. As for Coral and Cavalo Marinho above the effects are indicated in the Contingent Resources table.
- In total, GCA revisions for the 2P category have added gross 3.34 MMBOE of reserves.

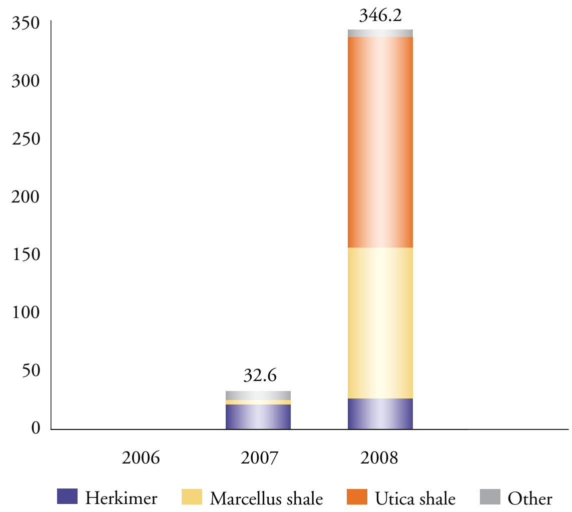
BRASIL

Contingent resources (2C) development



US

Contingent resources (2C) development



USA:

- The company transitioned from its Medina development focus (western New York State) to exploration and development in eastern New York State. As a consequence of the sale of the Medina assets, 2P reserves were reduced by 9.72 MMBOE. Despite this, our total US 2P reserves for the year were reduced by only approximately 6 MMBOE, while 2C increased from 32 MMBOE to 346 MMBOE.
- The first half of 2008 was spent drilling multiple areas in our eastern New York state leases to determine the potential. After delineating much of the field and confirming the observations obtained through seismic and geologic mapping, the focus shifted to replacing the production lost in the sale of the Medina assets. The majority of drilling activity was concentrated in the northern part of the field where the company had a fair amount of 3D seismic data and pipeline infrastructure. The access to this data and proximity to pipeline allowed for rapid identification of locations and reduced production lag. This focus allowed for significant growth in proven reserves.
- Excluding the sale of the Medina assets, the US 2P reserves increased by 3.88 MMBOE during 2008 with special emphasis on the contingent resources of 1.9 Tcf (346 MMBOE) providing a significant upside potential value to our shareholders. Economic conditions will determine development timing for these assets.
- The focus in the existing area limited the growth in the 2P and 3P reserve categories. As the company drills south into new areas the growth of the 2P and 3P values should also grow proportionally. With the reduction in gas prices and focus on the successful Herkimer play, much of the reserves from other zones such as the Oneida and Vernon Shale were moved to the contingent category.
- An extremely large jump in the contingent reserves can be observed. This can be attributed to the research and evaluation of the Marcellus and Utica shale deposits in the company's acreage. That evaluation shows significantly large potential from the shale zones which is reflected in that number.
- The company spent USD 56 million in the US in 2008, drilling 37 wells of which 19 were horizontal Herkimer wells and built infrastructure to transport anticipated 2009 gas production.
- Infrastructure to flow all anticipated gas production in 2009 was built during 2008, and we are currently moving gas into two main pipeline systems
- The company drilled four successful exploration wells in the deeper formation Theresa, all these wells are still awaiting pipeline connection.
- In addition, 2.8 Bcf (0.5 MMBOE) of 1P reserves are still awaiting pipeline connection in central New York as of year-end.

The reserve and resource estimates are based on the following assumptions:

- All US numbers from Schlumberger are net to the company's interest after royalties.
- All Brazil numbers from GCA include royalty, but the royalty is excluded in economical calculations (PV10).

DEFINITIONS:

1P) Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known resevoirs and under defined economic conditions, operating methods, and government regulations.

2P) Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering date indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

3P) Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

Contigent Resources

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

Source: Gaffney, Cline & Associates Inc.

+ DIRECTORS' REPORT 2008

Norse Energy was listed on the Oslo Stock Exchange (OSE) on July 13, 2005 under the ticker symbol "NEC" with corporate headquarters located at Lysaker, near Oslo. The company's business consists of exploration, production, transportation and marketing of oil and natural gas. The operations are located offshore Brazil and in the North East US.

Operational Performance

Brazil Division

The company experienced record production as the Manati gas field, the largest non-associated gas producing field in Brazil, contributed to steady production from all six wells. Additionally, the company had higher oil production from Coral in the Santos Basin than originally anticipated prior to commencing abandonment operation by end of the year.

During 2008, the Manati field produced net to the company's 10% interest a total of 207.71 million m3 of gas and 232,593 barrels of condensate, equivalent to 3,437 BOE/day. Manati gas sales were 195.87 million m3 (1,231,688 BOE net to Norse Energy) or 3,364 BOE/day. The Manati gas price is fixed in Brazilian Reais and is annually adjusted by the Brazilian inflation index. As such, the gas price is fluctuating when converted to US dollars. The gross sales price of gas sold averaged USD 6.98 per MMBtu in 2008. For 2009 the price in Brazilian Reais is adjusted upwards with 9.8% in accordance with the inflation index.

Oil production from the Coral field was 986 BOE/day of 41° API oil, resulting in sales of 1,066 BOE/day at an average price of USD 106.65 net to the company's 35% interest. Production from the field was prolonged as the water injection was successful and sales at all-time high oil prices. As abandonment of the field commenced, production ceased by the end of the year.

Drilling of the Gengibre well in the BCAM-40 exploration block concluded in early 2008. The well logs revealed three hydrocarbon bearing zones and presence of light oil was found, but was not deemed commercially viable. However, the Gengibre results have confirmed the existence of an active petroleum system in the BCAM-40 block. The second prospect in the BCAM-40 license, Cravo was spudded and drilled in Q1 2009. The well was logged and the logs showed that the Rio das Contas sandstone reservoir had eight meters net thickness with gas, but the main target in the Sergi Sandstone reservoir was water bearing, and deemed non-commercial in early April 2009.

The drilling of the Peroba prospect in BM-CAL 6 was completed in June 2008, and the prospect was deemed to be a dry well. In the adjacent BM-CAL 5 block, the drilling of the Copaiba prospect concluded in September 2008 after a discovery of two intervals with hydrocarbons. Test results are under analysis. After the close of the year, the company farmed out the BM-CAL 5 block to the partners Petrobras and Queiroz Galvao and charged USD 18 million to the 2008 income statement.

During 2008, the company continued its focus on Santos Basin with a series of third party studies of the reservoirs in the BS-3 project for a possible concept for development of the fields. The studies show significant additional volume and improved economic robustness. The results of the studies have been verified by the 2008 Gaffney Cline certification, which resulted in a significant increase in contingent resources. The company is working towards an integrated BS-3 area development which consist of four fields; Caravela (100% Petrobras owned), Cavalo Marinho, Estrela-do-Mar, with a re-developed of Coral field and a pipeline to shore. Such development is subject to the operator filing a development plan on behalf of the partners in accordance with the company's plan.

The company was the successful bidder as a 50% owner and operator of three offshore blocks in the Santos Basin in the 9th Bid Round in late 2007. In March 2008, the company signed the concession agreement with the regulatory agency. Two prospects have been identified in these blocks based on the initial technical work. Our 3D Seismic commitment is anticipated to commence in 2009.

US Division

During 2008, we drilled 37 wells of which 23 targeted the Herkimer formation; 19 horizontal wells and four vertical wells. At year end, the company was operating about 100 producing gas wells and participating in some non-operated wells in Appalachia and Oklahoma.

In March 2008, the company sold all its Medina formation assets for USD 67 million. This assets sale represented 4,300 Mcf/day of gas production versus total US Company production at the time of about 5,800 Mcf/day. The company's resources have since been focused on converting its vast resources in to proven reserves through exploration and development of the company's extensive 175,000 acreage position in New York State.

Average daily gas production from the retained wells was 430 BOE/day in 2008, down from 850 BOE/day in 2007. The decline is a result of the divestment of the Medina assets. Based on retained assets the increase was 110% in 2008. After the divestiture of the Medina assets, the company set as a goal to replace the production sold (approximately 4,300 Mcf/day) by the end of the year. The company surpassed this goal, as total production from the US exceeded 6,000 Mcf (1,069 BOE) per day by the end of the year.

A significant accomplishment for the pipeline division was the completion of a 12-inch plastic pipeline in October that connects two existing sales points in central New York. This should provide for around 15,000 Mcf/day of gathering capacity. To flow this volume, further capacity upgrade to the Dominion Transmission delivery meter is needed. Throughput for the Norse Pipeline division was 5.4 Bcf. The average daily throughput was 14,729 MMBtu, down from 18,764 MMBtu in 2007.

Energy Marketing boosted gas sales to a record high of USD 225 million with solid margins.

The Accounts

The Board of Directors confirms that the annual financial statements have been prepared pursuant to the going concern assumption, in accordance with §3-3 of the Norwegian Accounting Act. The premise of the going concern assumption is dependent upon a successful solution of the financial challenges that the company is currently facing which is further described in this report.

Financial Performance and Activities

The financial results for 2008 were affected by the sale of most of the company's producing assets in the US, increased natural gas production in Brazil and impairment and exploration costs. The increase in net results compared to 2007 was mainly attributable to the sale of assets in the US, increased sales, as well as lower depreciation and impairment charges. The divestment of assets and increased production sold at high oil and natural gas prices, contributed to a record high USD 41 million EBITDA for the year.

Norse Energy capital expenditure program for 2008 net of impairment and dry hole costs, resulted for accounting purposes in capitalization of assets totaling USD 71 million, split in USD 16 million for the Brazilian division and USD 55 million for the US division. Adjusted for dry hole cost, the gross amount spent in 2008 was about USD 100 million. In addition, assets in the Brazilian division were significantly affected by changes in foreign exchange rates, decreasing the book value of the assets by approximately USD 33 million.

Condensed Consolidated Income Statement

(Amounts in USD 1,000)	2008	2007	Change
Total revenues	**334,508**	**214,711**	**56%**
Operating Expenses			
US Marketing purchases	-206,500	-141,588	46%
Production costs	-27,949	-25,802	8%
Exploration and dry hole costs	-27,225	-2,629	936%
Depreciation	-16,719	-28,901	-42%
Impairment	-25,911	-26,159	-1%
General and administrative expenses	-31,605	-17,870	77%
Total operating expenses	**-335,909**	**-242,949**	**38%**
Operating profit / (-) loss	**-1,401**	**-28,238**	**-95%**
Net financial items	**-10,229**	**-8,205**	**25%**
Net profit/ (-) loss before tax	**-11,630**	**-36,442**	**-68%**
Income tax expense	1,090	7,737	-86%
Net profit/ (-) loss	**-10,540**	**-28,705**	**-63%**

In 2008, total sales revenues were USD 334.5 million, an increase of approximately 56% from USD 214.7 million in the previous year. A significant portion of the sales revenue relates to Norse Energy's Marketing division in the US which contributed with revenues of USD 225.2 million in 2008, compared to USD 158.2 million in 2007 – an increase of 42%. In accordance with IFRS, revenues from the Marketing division are booked on a gross basis. Additionally, the gain on the sale of Medina assets of approximately USD 28 million and the 100% increase in Manati gas sales from USD 18.7 million to USD 37.4 million, contributed to the increase in revenues.

Production costs increased by 8% from USD 25.8 million to USD 27.9 mainly due to higher volumes from oil production in Brazil. Exploration and dry hole costs increased significantly in 2008 and totaled USD 27.2 million for the year, most of this relating to the Brazil division. Depreciation decreased by 42% from USD 28.9 million in 2007 to USD 16.7 million in 2008. This decrease is mainly related to the Coral field, which for accounting purposes was written down to USD 0 per December 2007 and was therefore not depreciated in 2008 although it was still producing. An impairment charge of USD 25.9 million was booked in 2008 compared to USD 26.2 million in 2007. The impairment for 2008 relates to the license for the BM-CAL 5 & 6 blocks in Brazil as well as an increased abandonment charge for the Coral field. As activity level and number of employees increased, coupled with reorganization, general and administrative expenses increased from USD 17.9 million in 2007 to USD 31.6 million in 2008.

Operating loss for 2008 was USD 1.4 million compared to an operating loss of USD 28.2 million in 2007. This improvement mainly came as a result of the sale of assets, the increase in natural gas sales in Brazil, as well as the lower depreciation and impairment charges seen this year. Cash flows from operations were USD 5.9 million in 2008 compared to USD 2.8 million in 2007.

Net financial items were negative USD 10.2 million in 2008, from negative USD 8.2 million in 2007. The increase in financial expenses is mainly attributable to net interest costs of USD 23.8 million in 2008 compared to costs of USD 16.1 million in 2007. This was partially offset by positive financial items such as foreign exchange effects and warrant effects of our listed NEC-J warrants.

The company's financial statements were impacted by changes in foreign exchange rates. The company has assets and liabilities denominated in both Norwegian Kroner and Brazilian Reais, and as these currencies fluctuate versus the US dollar, a gain or loss is recognized. The company utilizes currency swaps for risk management purposes in order to hedge the long-term interest bearing bond loans denominated in NOK. The effect of these currency swaps and net foreign exchange gains and losses was a gain of USD 5.8 million in 2008 compared to USD 4.1 million in 2007.

During 2006, Norse Energy entered into two loans with detachable warrants. The warrants are separately listed on the OSE under ticker code NEC-J, and the fair value of the warrants is estimated at each reporting date with any change in the fair value being recorded in the income statement. The decline in the share price contributed to a non-cash financial income of USD 8.1 million in 2008 compared to a financial expense of USD 3.3 million in 2007.

For further details on the company's financial instruments and transactions, refer to note 10 in the consolidated financial statements.

Income tax expense for 2008 was positive USD 1.1 million compared to USD 7.7 million in 2007. This gives an effective income tax rate of 9.4% in 2008. This low rate is mainly the result of foreign exchange effects from the company's Brazilian operations, as well as use of previously unrecognized losses carried forward.

Net loss for 2008 was USD 10.5 million compared to net loss of USD 28.7 million in 2007. The main reasons for this change is the sale of assets in the US, increased natural gas sales in Brazil and lower depreciation.

Norse Energy's total assets decreased by USD 38 million in 2008, which was mainly due to a reduction in short term assets following the sale of Medina assets previously classified as assets held for sale and impairment charges. The company spent approximately USD 100 million in oil and gas assets, however, the net increase in long-term assets for the year was about USD 10 million due to significant transfers of exploration costs to the income statement, depreciation and impairment in Brazil, as well as foreign exchange effects. The asset balance was USD 436 million at the beginning of the year, whereas the asset balance was USD 398 million at the end of the year. Of this, current assets amounted to USD 79.6 million. At the end of 2008 the book equity ratio was 17%, compared to 19% at the end of 2007. The Board is continuously working on improving the company's financial flexibility and recognizes the need to improve the financial position of the company.

Allocation of Profit in Norse Energy Corp. ASA
The Board of Directors proposes that the profit for the year of NOK 117.0 million in the parent company is transferred to other equity. As of December 31, 2008 the company has NOK 117.0 million in unrestricted equity.

Funding, Share, Debt and Bond Issue
During 2008, the only share issue that took place was related to an exercise of stock options by one of our employees. In the second half of 2008, the company extended the maturity date for a total of NOK 153 million of its bond loans from July 2010 to September 2012. This conversion of bonds also resulted in a change from floating to fixed interest rates. Subsequently, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue (NEC04) and in NEC03 (NOK 200 million 3-year at 3-month NIBOR + 4.25%) to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers were to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5 % and 10.707 %, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer, swapping bonds at USD/NOK 7.08 and USD/NOK 6.92.

Upon issuance of NEC04 in late September, the company entered into a currency swap in order to reduce overall NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders exchanged their bonds into the new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01; the company's NOK 286 million bond loan and the currency swap will last until July 2010. Following this currency swap, the remaining NOK debt exposure is NOK 174.5 million. The weighted balance between USD and NOK is now more aligned with the company's overall currency strategy. The company has the current outstanding bond loans per December 31, 2008:

Name	USD/NOK rate for swap/exchange	Denomination and amount	Interest	Maturity
NEC01	-	NOK 147 million	Fixed 10.00%	July 2010
NEC01 (USD swap)	5.76	USD 24.1 million	Fixed 8.50%	July 2010
NEC03	6.92	USD 8.8 million	Fixed 9.50%	July 2010
NEC03PRO	-	NOK 0.5 million	3-month NIBOR + 4.25%	July 2010
NEC02	-	USD 75 million	Fixed 6.5%	July 2011
NEC04	7.08	USD 17.8 million	Fixed 10.707%	September 2012
NEC04PRO	-	NOK 27 million	Fixed 11.50%	September 2012

Management and the Board of Directors have initiated a number of actions including sale of assets, joint ventures, or raising additional equity in order to meet short- and long-term financial obligations, among them interest payments in Norway due July 2009. The Board of Directors is of the opinion that the measures taken are sufficient in order for the company to meet its short-term obligations.

The company's first repayment of debt in Norway is scheduled for July 2010 with approximately USD 54 million. Weighted average interest costs on outstanding loans as of December 31, 2008 was 8.5%.

In Brazil, the company obtained a USD 21.5 million (BRL40 million) bridge loan with two banks in the third quarter as part of a BRL 100 million exploration and development loan initially approved by the banks to be supported by BNDES (Brazilian State Development Bank). The tranche is expected to be replaced with BNDES Reais financing during 2009. The outstanding gross debt in Brazil is approximately USD 79 million and most of the debt is set to be repaid quite aggressively with current latest principal payment in 2013. The repayment schedule in Brazil is thus very aggressive and not aligned with the long-term cash flow generation from our 10 % ownership in the Manati gas field. The company is working on numerous ways of refinancing its Brazilian debt portfolio in order to be more aligned with its long term cash flow.

In the US, the company continues to base its borrowing on reserve based lending. By the end of the year, the company increased its lending base to USD 15 million with a local US bank. Reserve based lending utilizes bank approved and audited net proven production and reserves as collateral for the note. As reserves and production increase, funds are made available for lending purposes and the company expects to accelerate the reserve based lending leverage into 2009 along with converting resources to proven reserves.

At December 31, 2008 and at the date of this report, the company was in compliance with all covenants related to the senior unsecured bond loans. The company was not in compliance with the covenants related to the loans in the subsidiaries Coplex and Norse Energy do Brasil. The companies were in breach of the debt service coverage ratio in Coplex and Norse Energy do Brasil, since little income was recorded after Coral abandonment commenced. The company is in the process of transferring these loans as part of a comprehensive debt restructuring to Rio das Contas, the subsidiary holding the BCAM-40 license with the Manati field. In addition Rio das Contas has requested an adjustment of the debt service coverage calculation for dry hole costs in the EBITDA number for covenant compliance purpose. If this is accepted, we will be in compliance with covenants in Rio das Contas. The company is still awaiting waivers on the current situation. This is likely to be concluded as part of the debt restructuring described above.

In the US, the company was not in compliance with the G&A over Net Income covenants related to the US reserve based lending due to the sale of most all its production assets, but a waiver has been communicated for this.

For further details on the company's bond loans, refer to note 15 in the consolidated financial statements.

Risk Factors and Funding

The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk, alignment in the consortium when it comes to the development plans and obtaining the necessary licenses and approvals from the authorities. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared to the plans laid out by the operators of these fields.

The company has taken several measures to reduce these market risks. Oil put options have been purchased for a significant portion of the Coral production, and these put options were sold by the end of the year as Coral production ceased. Also, portions of the US natural gas production have been hedged using forward sales. For further details on the use of financial instruments, refer to note 10 in the consolidated financial statements.

The company's revenues and expenses are primarily denominated in US Dollars; however the gas contract in Brazil for the Manati gas sales is denominated in the local currency. Some other costs and income items are also incurred and earned in the local currency in Brazil and Norway. The company has not taken specific measures to hedge against fluctuations in exchange rates between Brazilian Reais and US Dollar, since there is a high degree of balance in the cost and revenue denominated in Brazilian Reais. However, the company has balanced some of the Reais risk against some Reais denominated loans. In addition, our experience is that both Reais and NOK, as commodity currencies, somewhat run in parallel and as such our NOK loans is view as a hedge against the Real.

During 2008, the company has worked to minimize both the foreign exchange risk and the floating interest rate risk by swapping several NOK denominated loans into USD denominated loans with a fixed interest rate. In mid-year 2008, the company terminated two currency swaps at USD/NOK 5.03 realizing a significant gain. As part of the refinancing during the second half of 2008, the company entered into a new currency swap for a total of USD 24.1 million at an exchange rate of 5.76 USD/NOK. For further details on the company's loans and currency exposures, refer to notes 10 and 15 in the consolidated financial statements.

Financing the development of company reserves beyond 2008 is dependent on the company's ability to secure adequate external debt financing, sale of assets and/or contribution of working capital. The optimal financing structure is continuously being evaluated. There are no assurances that total financing will be successfully secured to develop all company projects and assets. Due to the global financial turmoil the availability of funding has become scarcer and the price of capital has increased. These changes will impact the company's growth opportunities, but Norse Energy is focused on preserving financial flexibility through its capital expenditure program. The aim is to have a self financed US business model and at the same time reducing the committed capital expenditure program to a minimum in Brazil. The main challenges are related to securing the necessary funding within the required time frame, especially in Brazil. The cash position in Brazil is limited and will continue to be so until a refinancing is in place.

The company has also initiated several processes on raising funds on the subsidiary level by engaging financial advisors for Brazil. This has involved an attempt to do an IPO in Brazil which was unfortunately aborted in early 2008 due to a difficult equity market. Later in the year, the company pursued a private placement process which coincided with a collapse in commodity prices. The company is working towards attracting equity partners at the subsidiary level in order to reduce the Brazil versus US exposure. In the US, the company has retained financial advisors to find an optimal financial structure for the large shale position, which unfortunately was caught in a commodity collapse. In addition, the company has been working with a financial advisor to optimize the value of its pipeline division. Timing related to these processes is uncertain but Norse Energy will continuously seek to align its capital spending with the price and availability of financing.

Norse Energy could potentially be classified as a passive foreign investment company for U.S. federal income tax purposes. In that event, beneficial owners of common stock which are subject to U.S. federal income tax could incur adverse consequences. Such beneficial owners of Norse Energy common stock should consult their tax advisors.

Corporate Governance

The principle behind good corporate governance is to establish and maintain a strong, sustainable and competitive company in the best interest of the shareholders, employees, business associates, third parties and society at large. The Board recognizes that the shareholders and others should have confidence in the way the company is governed and managed. A successful value-added business is profoundly dependent upon transparency and internal and external trust. The company believes that this is achieved by building a solid reputation based on financial performance, the company's values and by fulfilling our promises. The Board acknowledges the Norwegian Code of Practice for Corporate Governance of December 4, 2007 and the principle of comply or explain. We have implemented the Code and will use its guidelines as the basis for the Board's governance duties. A summary of the corporate governance policy is incorporated in a separate section of this report and a lengthier version of the policy is posted on the company's website at www.NorseEnergy.com.

Discrimination and Equal Employment Opportunities

Norse Energy is an equal opportunity employer, and integrates an equality concept into its human resources policies. All employees are governed by Norse Energy's codes of ethics and operations to ensure uniformity within its workforce. At Norse Energy, we embrace a diversified working environment, valuing and respecting our individual abilities and differences. Employees are remunerated based upon skill level, performance and position within the company. Norse Energy is a knowledge-based company in which a majority of the workforce has earned a college or university level education, or has obtained industry-recognized skills and qualifications specific to their job requirements. Norse Energy supports its employees in continuing development of their skills through ongoing education that furthers Norse Energy's goals of being at the forefront of efficient and innovative industry practices. During 2008, Norse Energy expanded its workforce in response to the company's continued operational growth and to support future growth. The company employed 109 persons at the end of 2008, whereof six in Norway, 28 in Brazil, 74 in the US, and one in Canada, 61% were men and 39% were women. Women account for 9% of Norse Energy's senior management. Overall workforce turnover is relatively low.

Health, Safety and the Environment (HSE)

In order for Norse Energy to meet its goals, the company maintains high standards in its work environment, whether in the office or in the field. The safety of our employees is of the highest priority, thus our focus is on continuing to maintain and improve our work environment and to be flexible with initiating new procedures to ensure consistency in safety results as conditions change. This is especially critical during the colder months of our US operations, as weather is frequently a factor in adhering to safety parameters. The company observes excellent industry practices in line with all regulatory required standards for health, safety and the environment. Norse Energy's primary goal is to conduct its operations in such a way that it does not harm people or the environment.

The company's activities in Norway do not pollute the environment. In Brazil the company's 2008 operations were all conducted in licenses where the operator carries the physical responsibilities of operating at acceptable HSE standards on behalf of the licensees. To our satisfaction, we have noted that no accidents resulted in loss of human lives or damages to individuals or property. Furthermore, to our knowledge, all the operations where the company was involved have been conducted within limits set by approved environmental regulatory authorities. During 2008, Norse Brasil became the offshore operator of three exploration blocks in shallow waters of the Santos basin. One of the activities conducted was to get acquainted with ANP regulations and peer E&P company practices and HSE manuals and procedures.

In the US, where the company operates nearly all of its gas properties, Norse Energy endeavors to follow strict environmental and safety policies in accordance with US federal and state regulatory requirements governing such exploration and production activities. During 2008, to the best of the company's knowledge, it was in compliance with all federal, state and local regulations regarding workers' health, safety and the environment. However, it should be noted that the company did experience two well fires in the first quarter of 2009.

The US E&P division has employed an expert with specific experience in safety matters to help in addressing the company's safety policies.

The US G&T division conducts annual Occupational Safety and Human Administration (OSHA) training, safety meetings and has an established written safety procedure.

Company time lost due to employee illness or accident was less than one percent during both 2008 and 2007.

It is the company's policy to always work towards identifying and employing technical solutions that ensure safe and efficient operations. This policy has been pursued during 2008 for all our identified development projects.

The working environment in the company is considered good, characterized by an entrepreneurial and caring spirit where constructive ideas and initiatives are welcome, and trust between employees and the company's management is solid.

Directors and Shareholders

According to its articles of association, the company must have a minimum of five and a maximum of eight directors on its Board. The current number of board members is five, all non-executive directors. Two board members are female. The members have varied backgrounds and experience which offer the company valuable perspectives. The Board held 13 meetings during the year.

During 2008, our new Board members Kathleen Arthur and Bjarte Bruheim, replaced Board members Øivind Risberg and Joey S. Horn.

In early January 2008, Axel C. Eitzen personally and through his affiliated companies sold 67.6 million shares This sale represented approximately 19% of the outstanding shares in Norse Energy. Approximately 11.7 million shares were bought by insiders and the remaining 55.9 million shares by non-insiders.

Outlook

Norse Energy is positioned in two of the most promising energy regions in the world as a natural gas producer with both long lived oil and gas reserves offshore Brazil and onshore USA. In Brazil the company has a fixed minimum-priced, inflation-adjusted take-or-pay contract with Petrobras for the Manati gas, whereas the company in the US has secured parts of the natural gas production on forward sales. This should provide stable cash flow in challenging times.

The company's aim is to have the US arm as a self funded division, primarily through the access to reserve based lending, partnership structures and divestitures. As production grows and decline history of the Herkimer wells is established the company expects reserve based lending to increase. The production yield so far is above budgeted expectations and with continued drilling and corresponding buildup of infrastructure in the Central New York State area, Norse Energy is optimistic about the growth prospects.

In offshore Brazil, the primary focus going forward will continue to be to capitalize on development of the Southern Santos position and fine tune the portfolio accordingly. The company's strategy is to rebalance the portfolio given the current challenging financial markets. In 2008 the company achieved the goal of verifying the large resource potential in the Southern Santos region. This was accredited through the 3rd party year-end contingent reserve report. The study conducted by a third party engineering company verified the belief that the Southern Santos asset potentially contains hydrocarbons of much greater magnitude than previously thought. In order to capitalize on this, an integrated solution between the fields is the most economical and the company's goal is to have the operator on behalf of the partners to file a new development solution by 2009. Our partners and the Brazilian regulatory environment will continue working with us to reach a common development solution.

Offshore Brazil is a capital intensive area and in today's challenging financial market the strategy will be to secure the financial flexibility through preservation of capital, limitation of future exploration commitment and capitalize on the growth prospects in the Southern Santos. With a long lived take-and-pay gas contract through the 10 % ownership in Manti the company has a long term cash flow. However, as the current debt repayment schedule is very aggressive the company will work on repayment schedule more aligned to the cash flow. Additionally, the company is working on capitalizing certain assets as well as restructure the entire debt portfolio. Given a repayment schedule that is more aligned with the long term cash flow from the Manati field comes in place the company should improve its financial flexibility. The company's primary focus going forward will then be to work out a restructuring plan with the Brazilian banks as part of the plan to meet the 2009 budget. However, the Board recognizes that financing the development of the company's reserves is dependent on the company's ability to secure adequate external financing, sale of assets and/or contribution of equity.

General cost optimalization is in focus and in the US the operations have already been centralized in the Northeast improving the cost structure and productivity. In Brazil, the company is expecting cost to be lower as the company fine tunes its portfolio.

2008 was a year of proving up the play and corresponding resources in both the US and Brazil. The shale formation in Appalachia received widespread media attention and high acquisition prices were noted as the majors entered the region. Schlumberger recognized Norse's potential and 2C contingent resources went up ten times from 2007 mainly due to the Marcellus and Utica shale inventory. Parallel to this, Gaffney Cline & Associates accredited the comprehensive study conducted in the Southern Santos assets in Brazil which were reflected in the sharp increase in the year-end 2C category.

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

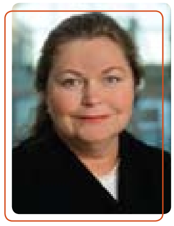
Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

BOARD OF DIRECTORS

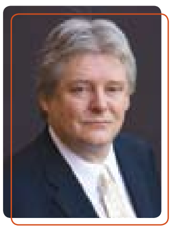
Petter Mannsverk Andresen, Chairman of the Board, born 1964. Mr. Mannsverk Andresen is partner with marchFIRST, an advisory and investment company. Mr. Mannsverk Andresen was head of Enskilda Corporate Finance from 1997 to 2000. Other positions include Corporate Finance senior staff member in Handelsbanken Markets, Shipping Analyst in R.S. Platou Securities and Senior Project Leader in Arkwright. Mr. Mannsverk Andresen graduated from Oslo Business Management Institute in 1990. Mr. Mannsverk Andresen is a Norwegian citizen and resides in Oslo, Norway.

Lise Heien Langaard, Non-Executive Director, born 1957. Ms. Langaard has long experience from Hafslund ASA and is currently the CEO of Hafslund Produksjon AS. Ms. Langaard is a board member of Kinetic Energy AS. Ms. Langaard holds a master of science from ETH Zurich, Switzerland. Ms. Langaard is a Norwegian citizen and resides in Oslo, Norway.



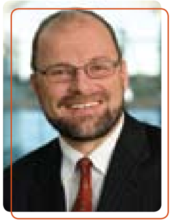
Kathleen Arthur, Non-Executive Director, born 1953. Ms Arthur is a former Vice President Exploration and Production in Chevron Corporation. Ms. Arthur has considerable operational experience, in addition to various board positions. Ms. Arthur currently serves as a board member of TGS Nopec Geophysical ASA. Ms Arthur is a Canadian citizen and resides on Vancouver Island, Canada.

Jon-Aksel Torgersen, Non-Executive Director, born 1952. Mr. Torgersen is CEO of Astrup Fearnley AS, an international brokerage house involved in shipping, offshore, finance and energy. Mr. Torgersen is a Board member of I. M. Skaugen ASA, Chairman of the Board of Atlantic Container Line AB, Chairman of the Board of Finnlines Plc, and Board member of a number of private companies involved in shipping, energy, financial services and real estate. Mr. Torgersen graduated from the University of St. Gallen, Switzerland with an MBA in 1975. Mr. Torgersen is a Norwegian citizen and resides in Oslo, Norway.



Bjarte Bruheim, Non-Executive Director, born 1955. Mr. Bruheim is a graduate of the Norwegian University of Science and Technology with an MSc in physics and electronics. Mr. Bruheim has considerable business and operational experience, and he is one of the founders of Petroleum Geo-Services ASA. Mr. Bruheim served as President and Chief Operating Officer in PGS until 2001, and he currently holds multiple board positions, among others in Electromagnetic Geoservices ASA and Odim ASA.

SENIOR MANAGEMENT

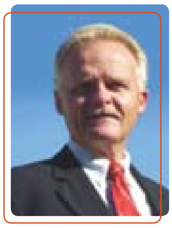


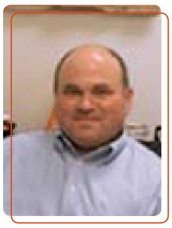
Øivind Risberg, Chief Executive Officer of the Norse Group since 1991, born 1958. He was the cofounder and CEO of our US activity and has lived in Houston, Texas since 1993. Mr. Risberg divested most all of the US natural gas business in 1997 and focused on building Norse Energy's US future in the Appalachian Basin. Mr. Risberg has been the Chairman of the Board, CEO and President of Norse Energy Corp. USA since 1993. Mr. Risberg is Chairman of the Board of Norse Energy do Brazil. He holds a Bachelor of Science degree from the University of Oslo, Norway, and a Bachelor of Business Administration degree from the Norwegian School of Management. Mr. Risberg is a citizen of Norway.

Anders Kapstad, Chief Financial Officer, born 1964. Mr. Kapstad joined Norse Energy Corp in August 2005. Mr. Kapstad holds a Bachelor of Science degree from the University of San Francisco and an MBA from SDA Bocconi in Milan, Italy. Mr. Kapstad has 15 years of investment banking experience, holding positions within equity sales, portfolio management, private banking and corporate finance. Mr. Kapstad is a Norwegian citizen and resides in Oslo, Norway.

Kjetil Solbrække. Chief Executive Officer Norse Energy do Brasil S.A., born 1962. In 1989 he completed his degree in Economics at the University of Oslo. After graduation he worked for the Ministry of Petroleum and Energy in Norway for six years. Mr. Solbrække joined Hydro in 1998, where he held many different positions including Chief Financial Officer and Senior Vice President of International Business Development. In 2005 Mr. Solbrække became the Country manager for Hydro Brazil, responsible for establishing Hydro Oil and Energy within Brazil. On October 1st 2007, after the Statoil and Hydro merger, Mr. Solbrække was appointed Senior Vice President for the South Atlantic Region, with responsibility for Latin America and Africa in the Department of International Exploration and Production in the newly formed Norwegian oil and gas giant StatoilHydro, based in Oslo. He joined Norse in early 2008 as Chief Executive Officer. Mr. Solbrække is a Norwegian citizen and resides in Rio de Janeiro, Brazil.

Mark A. Williams. Executive Vice President M&A and Finance in the United States, born 1955. Mr. Williams has responsibilities of Business Development, Finance, Pipeline and Accounting, and he also holds several positions with the subsidiaries as: President, Nornew Energy Supply, President, Drillco, Inc. and President, Mid-American Natural Resources. Mr. Williams was recently promoted to his new corporate position to create a Business Development Division and develop a new Merger and Acquisition Group. Mr. Williams has 28 years of experience in the oil and gas industry and is also on the Board of Directors for the Pennsylvania Oil and Gas Association. Mr. Williams has extensive knowledge and experience in natural gas drilling, production and marketing. He holds a Bachelor of Business Administration Degree from Youngstown State University. Mr. Williams is a US citizen and resides in Pittsburgh, PA, USA.





Stuart Loewenstein, Executive Vice President of Exploration and Development in the United States, born 1960. In 1983 Mr. Loewenstein completed a Bachelors degree in geology from the State University of New York at Buffalo, and did graduate work in geology with a concentration in geophysics at the University of Buffalo from 1983 to 1985. Since that time, he has worked as a geologist, geophysicist and manager in the oil and natural gas industry in the Appalachian Basin, including President of Quest Energy which he founded in 1997 and was co-owner until its sale in 2006. Mr. Loewenstein has co-authored numerous professional papers on geology and exploration methods in the Appalachian Basin. Mr. Loewenstein is a member of the American Association of Petroleum Geologists and the Society of Exploration Geophysicists and has served on the Board of Directors of the Independent Oil and Gas Association of New York. He joined Norse Energy in early 2006. Mr. Loewenstein is a US citizen and resides in Buffalo, New York State, USA.

Steve Novakowski, Executive Vice President of Engineering in the United States, born 1959. Mr. Novakowski began his career in the energy industry in 1981 as a petroleum engineer for Halliburton working primarily in the northern Appalachian Basin of the U.S. where he gained technical proficiency in the areas of cementing, completion and stimulation of oil and gas wells. From 1988 to 1990, he was a drilling and production engineer for a mid-sized independent producer and became manager of the northeastern operations for that company in 1990, being directly responsible for 1100 Appalachian Basin oil and gas wells and a staff of 35 employees. In 1994, he became an independent drilling, production and completions consultant with continuing Appalachian emphasis until joining Nornew full time as staff engineer in 2001. Mr. Novakowski holds a Bachelor of Science degree in Petroleum and Natural Gas Engineering from Pennsylvania State University. Mr. Novakowski is a US citizen and resides in North East, Pennsylvania, USA.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements

(Amounts in USD 1,000, except share information)

Years ended December 31,	Note	2008	2007	2006
Revenues		300,949	214,867	186,664
Other Income		33,559	-156	-
Total Revenues and Other Income	**3, 4, 10**	**334,508**	**214,711**	**186,664**
Expenses				
Trading purchase of natural gas		-206,500	-141,588	-135,329
Production costs	4	-27,949	-25,802	-20,550
Exploration and dry hole cost	4	-27,225	-2,629	-1,660
Depreciation	4, 8, 9	-16,719	-28,901	-15,124
Impairment	8, 9	-25,911	-26,159	-
General and administrative expenses	5	-31,605	-17,870	-13,261
Total operating expenses		**-335,909**	**-242,949**	**-185,924**
Operating profit / (-) loss	4	**-1,401**	**-28,327**	**740**
Interest income	4, 10	5,190	4,002	2,646
Interest expense	4, 10	-28,961	-20,064	-11,136
Net foreign exchange gain / (-) loss	4, 10	5,828	4,146	1,354
Other financial items	3, 10	7,714	3,711	-6,801
Net financial items		**-10,229**	**-8,205**	**-13,937**
Net profit / (-) loss for the year before tax and minority interests		**-11,630**	**-36,442**	**-13,197**
Income tax expense	4, 6	1,090	7,737	876
Net profit / (-) loss for the year before minority interests		-10,540	-28,705	-12,321
Minority interest		-	-	-56
Net profit / (-) loss for the year	4	**-10,540**	**-28,705**	**-12,377**
Earnings / (-) loss per share				
Net profit / (-) loss for the year before tax and minority interests	7	-0.03	-0.10	-0.04
Net profit / (-) loss for the year	7	-0.03	-0.08	-0.04
Diluted earnings per shares	7	-0.03	-0.08	-0.04

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

Consolidated Balance Sheet

(Amounts in USD 1,000)

As of December 31,	Note	2008	2007
ASSETS			
Non-current assets			
Intangible assets			
Licence interests and exploration assets	8	132,386	119,117
Goodwill and other intangible assets	9	5,755	5,790
Deferred tax asset	6	10,105	-
Total intangible assets		**148,246**	**124,907**
Properties and field investments			
Field investment and equipment	8	150,218	159,160
Other fixed assets	8	6,252	4,459
Total properties and field investments		**156,470**	**163,619**
Investment in equity accounted investees	3	1,852	1,734
Other non-current assets	10	11,911	18,446
Total non-current assets		**318,479**	**308,706**
Current assets			
Inventory	12	290	3,051
Accounts receivable and other short-term assets	10	47,102	43,523
Cash and cash equivalents	10, 13	32,207	43,747
Assets held for sale	2	-	36,568
Total current assets		**79,599**	**126,889**
TOTAL ASSETS	4	**398,078**	**435,595**

Consolidated Balance Sheet

(Amounts in USD 1,000) **As of December 31,**	**Note**	**2008**	**2007**
EQUITY AND LIABILITIES			
Equity			
Issued capital		43,614	43,526
Share premium		261	76,983
Treasury shares		-14	-14
Other paid-in capital		76,983	-
Total paid-in equity		**43,861**	**120,495**
Other equity		-53,095	-37,072
Total equity	14	**67,749**	**83,423**
Long-term liabilities			
Long-term interest bearing debt	10, 15	145,360	194,660
Deferred tax liability	6	11,788	14,460
Asset retirement obligations	16	4,874	12,632
Other long-term liabilities	10	20,681	29,529
Total long-term liabilities		**182,703**	**251,281**
Current liabilities			
Asset retirement obligation	16	10,950	-
Accounts payable	10	26,563	48,610
Short-term interest bearing debt	15	84,007	48,765
Other current liabilities	6, 10	26,106	1,920
Liabilities associated with Assets held for sale	2	-	1,596
Total current liabilities		**147,626**	**100,891**
TOTAL EQUITY AND LIABILITIES	4	398,078	435,595

Consolidated Statement of Changes in Equity

(Amounts in USD 1,000)	Note	Nominal share capital	Share premium reserve	Treasury shares	Other paid in capital	Retained earnings	Other Equity	Total
At 1 January, 2007		**43,526**	**76,983**	**-14**	**-**	**-16,858**	**1,578**	**105,215**
Cash flow hedges amount recognized in income	10	-	-	-	-	-	-564	-564
Cash flow hedges amount recognized in equity	10	-	-	-	-	-	-749	-749
Employee share options	5, 11	-	-	-	-	-	768	768
Currency translation and other adjustments		-	-	-	-	-41	7,499	7,458
Net profit/(loss) for the year	4	-	-	-	-	-28,705	-	-28,705
Total income and expense for the year		-	-	-	-	-28,746	6,954	-21,792
At December 31, 2007		**43,526**	**76,983**	**-14**	**-**	**-45,604**	**8,532**	**83,423**
At 1 January, 2008		**43,526**	**76,983**	**-14**	**-**	**-45,604**	**8,532**	**83,423**
Share premium reserve reduction (not formally registered)	14	-	-76,983	-	76,983	-	-	-
Share issue	14	88	261	-	-	-	-	349
Cash flow hedges amount recognized in income	10	-	-	-	-	-	26	26
Cash flow hedges amount recognized in equity	10	-	-	-	-	-	-	-
Employee share options	5, 11	-	-	-	-	-	580	580
Currency translation and other adjustments		-	-	-	-	-	-6,089	-6,089
Net profit/(loss) for the year	4	-	-	-	-	-10,540	-	-10,540
Total income and expense for the year		-	-	-	-	-10,540	-5,483	-16,023
At December 31, 2008		**43,614**	**261**	**-14**	**76,983**	**-56,144**	**3,049**	**67,749**

Consolidated Statement of Cash Flow

(Amounts in USD 1,000)

Years ended December 31,	Note	2008	2007
Cash flows from operating activities			
Net profit / (-) loss	4	-10,540	-28,705
Adjustments to reconcile net profit / (-) loss to cash flows from operating activities			
Depreciation	8, 9	16,719	28,901
Impairment and non-cash items of dry-hole & exploration	8, 9	16,600	26,159
Market adjustments, warrants, options and shares	10	-27,158	-2,516
Other non-cash items		41,176	-12,709
(Gain)/Loss on sale of property, plant & equipment	2	-27,981	-1,470
Interest income	10	-5,190	-4,002
Interest expense	10	28,934	20,064
Share of net loss/(gain) of associate	3	58	423
Working capital adjustment:			
Change in accounts receivable and other short-term assets		-6,621	-22,525
Change in accounts payable	10	-22,047	3,542
Change in other assets and liabilities	10	1,974	-4,349
Net cash flows from operating activities		**5,924**	**2,813**
Cash flows from investing activities			
Investments net of cash, in acquired business		-	-5,087
Proceeds from sale of acquired assets	2	66,652	4,000
Investment in shares		-446	-
Acquisition of oil put options		-	-
Interest received		9,023	3,515
Investment in property, plant and equipment	8	-71,969	-59,214
Investment in other assets		-2,313	-
Net cash flows from investing activities		**947**	**-56,786**
Cash flows from financing activities			
Net proceeds from issuance of shares	14	349	-
Proceeds from issuance of long-term debt	15	50,796	112,335
Proceeds from issuance of short term debt	15	42,061	-
Interest paid		-22,697	-17,890
Repayment of debt	15	-101,969	-59,964
Proceed from settlement of derivatives	10	14,853	-
Net cash flows from financing activities		**-16,606**	**34,481**
Effect of foreign currency translation adjustment on cash balances		**-1,804**	**7,499**
Change in cash and cash equivalents during the period		**-11,539**	**-11,993**
Cash and cash equivalents at beginning of the period	**13**	**43,747**	**55,740**
Cash and cash equivalents at the end of period	**13**	**32,207**	**43,747**

NOTES to Consolidated Financial Statements

NOTE 1 Significant accounting principles

Corporate information
Norse Energy Corp. ASA and its subsidiaries ("Norse Energy", "the company" or "the Group") was established as a result of the merger between NaturGass (USA) AS (NG) and Northern Oil ASA (NOI) in 2005. The transaction was effective for accounting purposes, February 25, 2005.

Norse Energy is an independent oil and natural gas company engaged in the acquisition, exploration and development of oil and natural gas properties in Brazil and in the US. In the US, the company operates the majority of its natural gas properties, and in addition owns and operates gathering and transmission pipeline systems for natural gas and is engaged in marketing of natural gas through its Energy Marketing division.

The company is the 100% owner (direct and indirect) of all active companies in Brazil and the US, see note 22 for information on Company Structure.

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

Statement of compliance and Basis of preparation
The consolidated financial statements for the year ended December 31, 2008 were authorized for issue and signed by the Board of Directors on April 20, 2009. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations, as well as additional disclosure requirements from the Norwegian Accounting Act and Oslo Stock exchange regulations, effective for the year ended December 31, 2008.

In preparing the consolidated financial statements for the current year, the company has adopted the following amendments to IFRS and new standards:
- IFRS 8, Operating Segments
- IFRIC 11, Group and Treasury Share Transactions (effective January 1, 2008)
- IFRIC 12, Service Concession Arrangements (effective January 1, 2008)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (effective January 1, 2008)

Basis of consolidation
The consolidated accounts comprise the parent company Norse Energy Corp. ASA and its subsidiaries in Canada, Brazil and the US.

The group presents its financial statements in USD. This is also the functional currency for all subsidiaries except for Rio das Contas that has Brazilian Real as the functional currency. Consistent accounting policies are applied in the accounts of the companies and their respective subsidiaries, for the purpose of preparing the consolidated figures. All significant inter-company transactions, receivables and liabilities are eliminated.

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

If the initial accounting for a business combination cannot be determined by the end of the period in which the combination is effected because the fair values to be assigned to assets and liabilities or the cost of the combination can be determined only provisionally, the provisional values are used. However, these provisional values may be adjusted within 12 months from the date of the combination.

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

Foreign currency translation
Functional currency is the currency of the primary economic environment in which each company operates and is normally the currency in which the company primarily generates revenues and incurs expenses.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

In the consolidated financial statements, the assets and liabilities of non-USD functional currency subsidiaries, including related goodwill, are translated into USD at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-USD functional currency subsidiaries are translated into USD using applicable average rates as an approximation for the exchange rates prevailing at the dates of the transactions. Foreign exchange adjustments arising when the opening net assets and the profits for the year retained by non-USD functional currency subsidiaries are translated into USD are taken to a separate component of equity.

The foreign exchange rates applied for 2008 were;

	2008		2007	
	Average rate	Reporting date rate	Average rate	Reporting date rate
Norwegian kroner	5,6361	6,9989	5,8600	5,4110
Brazilian Real	1,8375	2,3370	1,9483	1,7713

Interests in associates
An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence is presumed to exist when the company holds an interest between 20% and 50% in another entity. However, significant influence can also exist when the company has an ownership interest less than 20% if factors such as representation on the board of directors or influence of the day-to-day decision-making in the other entity are present.

Associates are accounted for using the equity method and are initially recognized at cost. The company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements includes the company's share of the income and expenses and equity movements of the investee, after adjustments to align the accounting principles of the investee to those of Norse Energy, from the date that significant influence commences until the date such influence ceases. When the company's share of losses exceeds the interest in the investee, the carrying amount of the interest is reduced to zero and further losses are only recognized to the extent that the company has an obligation or has made payments on behalf of the investee.

Where a group entity transacts with an associate of the company, profits and losses are eliminated to the extent of the company's interest in the relevant associate.

Interests in jointly controlled assets and joint venture entities
Certain of the group´s activities are conducted through joint ventures where the venturers have a direct interest in and jointly control the assets of the venture. The income, expenses, assets and liabilities of these jointly controlled asets are included in the consolidated financial statements in proportion to the group´s interest.

Revenue recognition
<u>Sale of petroleum products</u>
Sales of petroleum products are recognized as income using the "entitlement method". Under this method, revenue is recorded on the basis of the company's proportionate share of total gas sold from the affected wells. A liability is recorded for the share of the production owned by any partners or royalty owners in the property. Revenue from fields in production is recorded net of royalties.

<u>Gathering and transmission revenue</u>
Revenues from the transportation of natural gas are recognized based on volumes delivered in accordance with contractual terms. Revenues from excess retained fuel is a component of the company´s tariff structure and is included within other income (refer to note 4).

<u>Energy Marketing Revenue - Trading</u>
Revenues for the energy marketing are recognized in the period in which the commodity is delivered to customers. Sales revenues and purchases related to the Energy Marketing division are recorded gross, as the entity takes title to the gas it buys and bears the risks associated with the trading cycle such as marketing risk and credit risk.

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

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

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

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

Current and deferred tax for the period
Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Norse Energy's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

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

Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The company's management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once property, plant and equipment and intangible assets are classified as held for sale, no further depreciation will take place.

Goodwill
Excess value on the purchase of operations that cannot be allocated to identifiable assets or liabilities on the acquisition date is classified in the balance sheet as goodwill.

The goodwill acquired in a business combination is measured after initial recognition at cost less any accumulated impairment losses. The goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Property, plant, equipment and intangible assets
Licenses & exploration assets and property, plant and equipment are recorded in the balance sheet at their historical cost less accumulated depreciation and any impairment charges.

The company accounts for its natural gas exploration, development and production activities under the successful efforts method of accounting. Under this method, costs of acquiring properties, costs of drilling development wells, and costs of drilling successful exploratory wells are capitalized. Costs without any identifiable future benefit are expensed, like geological and geophysical costs, and the costs of drilling exploratory wells that do not find proved reserves are expensed. Costs for future abandonment of the offshore and onshore facilities are capitalized as part of the investment, and accrued as a liability. Interest costs related to financing for fields under development are being capitalized.

Capitalized costs and production equipment are depreciated under the unit-of-production method based on estimated proven developed oil and natural gas reserves, while depreciation of licenses & exploration assets are based on proven developed and undeveloped reserves. The depreciation base includes total capitalized costs and it is reduced with salvage value.

In classifying costs, a distinction is made between tangible and intangible assets. This assessment is made on a field-by-field basis. Costs relating to drilling exploratory wells and costs relating to acquisition of exploration licenses are initially classified as intangible assets. Such assets will be re-classified to tangible assets when the technical feasibility and commercial viability of extracting the resources are demonstrable.

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

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

Impairment of long-lived assets

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

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

Leasing

The group is leasing assets in the exploration and production phase which most of the risk and return associated with the ownership of the assets have not been transferred to the Group. The leases are classified as operating leases. Lease payments are classified as operating costs and recognised in the income statement in a straight line during the contract period.

Derivatives and hedge accounting

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

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

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

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

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

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

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

Pension expenses
Norse Energy has no pension liabilities or pension plans for foreign subsidiaries. All employees in Norway are organized under a defined contribution plan, in which pension fund contributions are charged to profit upon payment.

Inventory
Inventory consists of crude oil and are valued at lower of production cost and net realizable value. Production cost consists of cost of direct material, labor and a proportion of corporate overhead cost. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

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

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

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

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

Cash-flow hedges
Cash-flow hedges represent the total net change in the fair value of the cash-flow hedge until the hedged cash flow arises or is no longer expected to arise.

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

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

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

Asset retirement obligation
Net present value of the estimated asset retirement obligation is recognized as soon as the obligation to dismantle and remove production assets, pipelines and other installations exists. The corresponding cost of the retirement obligation is capitalized as part of the development cost or acquisition cost and depreciated. The asset retirement obligation is accreted to the discounted liability, with the accretion of the discount being classified as interest expense.

Provisions
Provisions are recognized when the company has a valid liability (legal or estimated) as a result of events that have taken place and it can be proven probable (more probable than not) that a financial settlement will take place as a result of this liability, and that the size of the amount can be measured reliably. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense necessary to be free of the liability. When the effect of time is significant, the provisions will be the present value of future payments to cover the liability. Any increase in the provisions due to time is presented as interest costs. The present obligation under onerous contracts are recognized as provisions.

IFRS and IFRIC Interpretations Not Yet Effective
As of the date of authorization of these financial statements, the standards and interpretations detailed below are anticipated to be relevant to Norse Energy's financial reporting under IFRS.

- Amendment to IFRS 2, Share-Based Payment: Vesting Conditions and Cancellations (effective January 1, 2009)
- Amendment to IFRS 3, Business Combinations (effective July 1, 2009)
- Amendment to IAS 1, Presentation of Financial Statements: A Revised Presentation (effective January 1, 2009)
- Amendment to IAS 23, Borrowing Costs (effective January 1, 2009)
- Amendment to IAS 27, Consolidated and Separate Financial Statements (effective January 1, 2010)
- Amendments to IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (both effective January 1, 2009)
- Amendments to IAS 39 Financial Instruments: Measurement and Recognition – Eligible hedged items.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRS 1 and amendment to IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate (effective date Janyary 1, 2009
- IAS 39 and IFRS 7 amendment, Reclassification of financial assets (effective for accounting periods commencing on July 1, 2008)
- IFRS 7, Improving disclosures about financial instruments (effective date January 1, 2009)
- IFRIC 9 and IAS 39 amendment, Embedded derivatives (effective date June 30, 2009)

The effective dates listed above are applicable to accounting periods beginning on or after that specific date. The company plans to adopt the new standards and interpretations from each of the effective dates.

The company expects that adoption of the pronouncements listed above will not have any major impact on the company's financial statements in the period of initial application. However, such impacts are still being evaluated.

Operating segments
The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 January 2008 (and restated 2007 figures accordingly). IFRS 8 defines operating segments as "components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". The Group describes the nature of the identified segments and discloses financial information related to these in a separate disclosure note. To the extent that the operating segments are not identified based on the differences in related products and services or differences in geographical area of operations, additional information is disclosed.

Implementing IFRS 8 has not lead to any significant change in the reportable segments although the terms primary and secondary reporting format no longer are in use.

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

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

<u>Exploration and leasehold costs</u>
Norse Energy Corp capitalizes the costs of drilling exploratory wells and leasehold costs pending determination whether the wells have found proved oil and gas reserves. Judgments on whether these expenditures should remain capitalized or charged to profit due to impairment in the period may materially impact the operating income for the period. The carrying amounts for licenses and exploration costs were USD 132 million and USD 119 million in 2008 and 2007, respectively.

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

Reserves
The company uses reserve reports prepared by independent reservoir engineer firms (Gaffney Cline & Associates for reserves in Brazil and Schlumberger Data & Consulting Services for reserves in the US) as basis for its investment plans in oil and gas properties. Such reports are obtained at least annually to establish the expected production profiles for the fields in production and the expected economic lifetime of the fields. Any significant reduction in reserves might lead to a write down of field investments through impairment tests, increased future depreciations and alterations of planned capital expenditures. The carrying amounts for field investments were USD 122 million and USD 139 million in 2008 and 2007, respectively.

Inventory
Estimated selling price is normally based on Brent Blend and the estimated selling expenses are based on average direct production costs including royalties. The carrying amounts for inventory were USD 0.3 million and USD 3.1 million in 2008 and 2007, respectively.

Asset Retirement Obligation
When production from a well or a field ceases, the company is obligated to shut in the well and remove installation from the well or field. Provisions for these costs are the best available estimates from the field operator, based on today's technology and today's prices for equipment and manpower. The amount recognized is the estimated expenditures determined in alignment with the field operator, local conditions and requirements. Asset retirement obligations were booked at USD 15.8 million and USD 12.6 million in 2008 and 2007, respectively.

Technical risk in development of Brazilian oil and gas fields and production start-up
The development of the Brazilian oil and gas fields in which Norse Energy has an ownership is associated with significant technical risk and uncertainty with regards to timing of production start. Risks include, but are not limited to, cost overruns, production disruptions as well as delays compared to initial plans laid out by the operator. Some of the most important risk factors are related to the determination of reserves, the recoverability of reserves, and the planning of a cost efficient and suitable production method. There are also technical risks present in the production phase that may cause cost overruns, failed investment, and destruction of wells and reservoirs.

Tax
Income tax expense and capitalized deferred tax is based on estimated future taxable profits and is depending on changes in tax legislation in Norway, Brazil and USA.

Financial Instruments
Valuation of unquoted financial instruments recognized at fair value, is based on estimated future cash flows and discounted with interest rates prevailing December 31, 2008

Areas of critical judgment in applying accounting principles that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 6 – Income Tax
Note 8 – Exploration assets and Property Plant & Equipment
Note 9 – Goodwill and other intangible assets
Note 10 – Financial Instruments
Note 16 - Asset retirement obligation

NOTE 2

Disposal of assets

Sale of Medina Field Assets
On October 29, 2007, Norse Energy Corp. ASA accepted an offer to sell all of its Medina Field assets in New York and Pennsylvania. On January 17, 2008, the company entered into a Purchase and Sale Agreement with EnerVest, Ltd. and certain of its affiliated parties to sell these assets for a consideration of USD 66.7 million. The company closed this sale in March 2008 after the purchaser had performed a due diligence. The effective date of the agreement was January 1, 2008, and the closing date of the agreement was March 14, 2008.

The gain on the disposal, which is included in revenues, was USD 28.0 million.

NOTE 3

Interest in joint ventures and associates

Brazil

Santos Basin

Norse Energy participates in multiple E&P Jointly Controlled Field Assets. The company's entrance in Brazilian oil industry was made by participating in three oil development and production licenses located in the Santos basin outside the southeast coast of Brazil together with the partners Petrobras (Operator) and Queiroz Galvão. These licenses are for Coral, Estrela-do-Mar and Cavalo Marinho. Per year-end Norse Energy owns a 35% interest in Coral, 65% in Estrela-do-Mar and 50% in Cavalo Marinho.

The Coral field has been developed and in production since February 2003. The license partners have entered into joint venture agreements in respect to the exploration and development of the Coral and Estrela-do-Mar fields, and another similar agreement for the Cavalo Marinho field.

The partners in the Coral field have also entered into an oil sales agreement with Petrobras for the oil produced from the Coral field with price linked to Brent Blend. Norse Energy has only one market and one segment for its oil production activities; Brazil. In late 2008, the production from Coral was rapidly declining and was stopped before year-end.

In the ANP (Brazilian Petroleum Agency) 9th bidding round held in November 2007, the company was awarded three blocks in the Santos basin; blocks S-M-1035, S-M-1036 and S-M-1100. Norse Energy is the operator of these blocks with an interest of 50%. The contracts were signed in 2008.

Camamu-Almada Basin

Norse Energy's asset portfolio in Brazil also includes three distinct Jointly Controller Field Assets in the Camamu-Almada offshore basin, located on the northeastern coast of the country: BCAM-40 Block, Sardinha field, as well as BM-CAL 5 and BM-CAL 6 exploration blocks.

The concession for BCAM-40, covering approximately 935 km^2, was awarded to Petrobras in 1998. In 1999 Petrobras presented a farm in opportunity for participation in the concession. As a result of that offering a Consortium Contract, a Participation Agreement and a Joint Operating Agreement among Petrobras, Queiroz Galvão and Petroserv were executed in 2000. In 2006, Norse Energy finalized the acquisition of Rio das Contas Petróleo Ltda from Petroserv, a company that participates in the consortium. Two important discoveries were made on this block: the Manati gas field (which production commenced in 2007), currently the second biggest unassociated gas field in Brazil, and the BAS-131 oil and gas accumulation, which is under evaluation. Petrobras operates the exploration and the development and production activities in the block and holds 35% of the interests, while Queiroz Galvão (45%), Brasoil do Brasil (10%) are the partners along with Rio das Contas who participates with 10%.

The Sardinha field lies about 3 km from the coast line of Bahia State. It is a gas field with an oil rim on the eastern side of the structure. The operator is El Paso Corporation (40%) and the partners are Petrobras (40%) and Norse Energy (20%). The consortium is currently discussing the development plan of the field.

Norse Energy is part of another Joint Operatin Agreement in the Camamu-Almada basin for the exploration blocks BM-CAL 5 and BM-CAL 6. Both blocks comprise an area of 1,120 km^2. The partners in the Jointly Controlled Field Asset are; Petrobras (operator) that holds 45% interest, Queiroz Galvão with 18.34%, El Paso with 18.33% and Norse Energy, through its subsidiary Rio das Contas with 18.33%. The exploration blocks BM-CAL 5 and BM-CAL 6 were impaired and written of in 2008

Lastly, Norse Energy holds interests in a Jointly Controlled Field Assets related to the concession of the exploration blocks BT-REC-22 and BT-REC-30. These blocks sum a total of 51 km^2 and are on the first exploration period. The composition of the consortium that holds the concession is: Starfish Oil and Gas (operator with 40%), Norse Energy (30%) and Dove Energy (30%).

Development and production is in accordance with the joint operating agreements. The joint operating agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks inherent in exploration and production projects.

USA

In the US certain of the natural gas wells are in joint arrangements with other partners. The joint operating agreements correspond to a widely adopted practice in the international oil industry, where companies endeavor to share the risks in exploration and production projects.

Associates

In the US, the Company has interests in two companies that are treated as associates companies.

Somerset Production LLP is a Delaware limited company engaged in the business of oil and gas exploration and production in the Appalachian Basin. Although Norse Energy holds less than 20% of the common shares in Somerset and it has less than 20% of the voting power in the shareholder's meetings, the Company exercises significant influence by virtue of a contractual right to appoint one director to the Board of Directors in Somerset, as well as influence on day-to-day operations together with technical expertise provided by Norse Energy.

Evergreen Investments LLC, an entity which sole purpose has been operating a rig, disposed of most of its assets to a new entity late December 2008 – Drillco – that is 100% owned by Norse Energy. There are still some assets remaining in Evergreen. Norse Energy is – together with the other owners – still considering whether the remaining assets shall be distributed to the owners and the entity liquidated.

In accounting for the interest in associates, the company has made certain adjustments to the financial statements provided from the associates to align this to the accounting principles of Norse Energy. Most notably, adjustments have been made to apply the successful efforts method of accounting as opposed to the full cost method (Somerset only). A summary of the financial figures (unadjusted) from the Associates for 2008 is provided below.

(Amounts in USD 1,000) Associate	Norse Energy interest	Total Assets	Total Liabilities	Gross revenue	Profit after tax	Norse Energy share of Operating profit	Net book value of investment
Somerset	18.1%	20,454	2,529	245	-93	-17	1,565
Evergreen	33.33%	860	-	781	349	116	287

NOTE 4

Operating segments

The Group has four reportable segments, which are the Groups strategic business units. The units offer different products and are managed separately because they require different technological and different financial and marketing strategy. The following summary describes the operations in each of these segments:

- **Exploration and Production of oil and natural gas in Brazil (Brazil E&P)**

Norse Energy participates in a number of oil and natural gas exploration and production licenses located in the Santos basin outside the south-east coast of Brazil and in the Camamu-Almada basin offshore Brazil in the state of Bahia. All revenues in this segment is from sales to one customer, Petrobras.

- **Exploration and Production of natural gas in the US (USA E&P)**

The US E&P operates in two main areas, the Lake Shore field of western New York and northwestern Pennsylvania (the Jamestown area) and the Bradley Brook field in central New York. The company operates ~400 wells and owns an interest in several non-operated wells. The divisions land, geological and geophysical activities are located in Buffalo, NY.

- **Gathering and Transmission of natural gas in the US (USA G&T)**

The company owns and operates ~500 miles of gathering and transmission pipelines. One pipeline system consists of about 320 miles of high pressure steel pipeline capable of gathering natural gas from over 6,500 gas wells located in western New York and northwestern Pennsylvania. The lines have delivery points into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US (USA EM)**

The EM division is made up of Mid American, an established energy marketing and trading company in the Appalachian region. The focus of the EM division is to add value to the company's business by attracting gas flow to its proprietary pipelines and by optimizing the value of the Norse Energy's gas production and that of the other local Appalachian producers. The division offers a full range of services to the natural gas producers, commercial and industrial consumers, and pipeline companies from the Ohio Valley to the East Coast of the US.

The remaining of the Group's activities and intercompany eliminations are shown in the "corporate and eliminations" column. These activities mainly consist of corporate activities such as funding of Group activities, administration and Corporate functions. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Information regarding the Group´s reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

2008

(Amounts in USD 1,000)	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues – external	73,551	12,887	3,540	216,549	-	306,527
Medina gain	-	27,981	-	-	-	27,981
Revenues – within the group	-	120	1,467	8,667	-10,254	-
Total revenue	**73,551**	**40,988**	**5,007**	**225,216**	**-10,254**	**334,508**
EBITDA	**19,766**	**25,874**	**3,060**	**6,250**	**-13,721**	**41,229**
Interest revenue	4,162	289	32	210	497	5,190
Interest expense	-15,804	-621	-653	-45	-11,838	-28,961
Foreign exchange gain/(loss)	-16,460	-	-	-	22,288	5,828
Depreciation, amortization and impairment	-37,124	-4,106	-974	-34	-392	-42,630
Share of profit of an associate and/or joint ventures	-	-58	-	-	-	-58
Income tax	10,674	-10,032	-620	-2,695	3,763	1,090
Other financial items – gains/(losses)	-	-	-58	570	7,260	7,772
Profit after tax	**-34,786**	**11,346**	**787**	**4,256**	**7,857**	**-10,540**
Material non-cash items						
Impairment and non-cash items of dry-hole & exploration	-16,600	-	-	-	-	-16,600
Depreciation	-11,213	-4,012	-1,068	-34	-392	-16,719
Warrants effect	-	-	-	-	8,096	8,096
Assets	**228,940**	**98,037**	**19,825**	**45,044**	**4,379**	**396,227**
Investment in associate and joint ventures	-	1,852	-	-	-	1,852
Total Assets	**228,940**	**99,890**	**19,825**	**45,044**	**4,379**	**398,078**
Total liabilitites	**215,412**	**71,183**	**16,650**	**32,087**	**-5,003**	**330,329**

2007

(Amounts in USD 1,000)	Brazil E&P	USA E&P	USA G&T	USA EM	Corporate and eliminations	Consolidated
Revenues – external	46,621	14,407	4,385	149,298	-	214,711
Revenues – within the group	-	-	2,261	8,949	-11,210	-
Total revenue	**46,621**	**14,407**	**6,646**	**158,247**	**-11,210**	**214,711**
EBITDA	**18,029**	**6,736**	**4,123**	**3,803**	**-5,869**	**26,823**
Interest revenue	2,142	47	49	453	1,311	4,002
Interest expense	-6,326	-842	-690	-3	-12,203	-20,064
Foreign exchange gain/(loss)	6,544	-	-	-	-2,398	4,146
Depreciation, amortization and impairment	-50,297	-3,391	-1,028	-45	-299	-55,060
Share of profit of an associate and/or joint ventures	-	-423	-	-	-	-423
Income tax	9,153	-286	-286	-1,367	523	7,737
Other financial items – gains/(losses)	-	-	-	-	4,134	4,134
Profit after tax from continuing operations	**-20,755**	**1,841**	**2,168**	**2,841**	**-14,801**	**-28,705**
Material non-cash items						
Impairment Coral	-26,159	-	-	-	-	-26,159
Depreciation	-24,138	-3,391	-1,063	-45	-264	-28,901
Warrant effect	-	-	-	-	-3,235	-3,235
Assets	**271,783**	**74,471**	**23,553**	**38,446**	**25,608**	**433,861**
Investment in associate and joint ventures	-	1,734	-	-	-	1,734
Total Assets	**271,783**	**76,205**	**23,553**	**38,446**	**25,608**	**435,595**
Total liabilitites	**207,050**	**68,397**	**21,106**	**23,140**	**32,479**	**352,172**

Geographical segment (Amounts in USD 1,000)	Brazil		North-America		Corporate and eliminations		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues from external customers	73,551	46,621	260,957	168,090	-	-	334,508	214,711
Non-current assets	183,675	227,154	110,850	61,336	86	38	294,611	288,528

Non-current assets for this purpose consist of property, plant and equipment and intangible assets (excl. Financial instruments, deferred tax assets and post-employment benefit assets)

(Amounts in USD 1,000)

Revenue from major products and services	2008	2007
Natural gas trading	213,706	148,398
Oil sales	36,141	27,895
Natural gas sales	47,877	33,274
Gathering and transmission income	3,225	5,300
Medina gain	27,981	-
Mark-to -market adjustments and other income	5,578	-156
Total	**334,508**	**214,711**

There are no differences in the nature of measurement methods used on segment level compared with the consolidated financial statements.

Inter-segment revenues are eliminated on consolidation. Deliveries between the segments are based on arm's length principle i.e the prices prevailing in transactions with external customers that are comparable to the intercompany transaction.

Segment operating profit includes revenues and expenses from inter-segment transactions.

NOTE 5

General and administrative expenses

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

(Amounts in USD 1,000)

Wages and other compensations to employees	2008	2007	2006
Wages	9,519	6,135	4,309
Employer's contribution	1,636	1,621	427
Other compensation	2,805	952	590
Total	**13,960**	**8,707**	**5,326**

Number of employees	2008	2007	2006
Norway	5	5	3
USA	80	68	55
Brazil	25	21	19
Canada	1	1	1
Total	**111**	**95**	**78**

Board of Directors statement on remuneration of executives
Statement for the current year (2009)
In accordance with the Norwegian Public Limited Liability Companies Act §6-16a, the Board of Directors must prepare a statement on remuneration of executives.

The Board of Directors has appointed a Compensation Committee that determines the compensation structure and levels of the company's CEO. Remuneration for the CEO consists of both fixed and variable elements. In addition to a fixed salary, the CEO has been granted stock options in the company. The CEO is also entitled to two years severance payment.

Norse Energy has established a compensation program for the executive management that reflects the responsibility and duties as management of an international oil and gas company, and at the same time contributes to added value for the company's shareholders. The goal for the Board of Directors has been to establish a level of remuneration that is competitive both in domestic and international terms to ensure that the company is an attractive employer that can obtain a qualified workforce.

Remuneration for the executive management consists of both fixed and variable elements. The fixed elements consist of salaries and other benefits (free phone, electronic communication, newspaper, car allowance etc), while the variable elements consist of performance based bonus arrangement and a stock option scheme that was approved by the Annual General Meeting (AGM) in 2006. The annual bonus will be determined based on the achievement of certain pre-set targets.

The 2008 AGM approved a new stock option scheme for the company's key employees and consultants with a limit of 8 million new shares with par value NOK 0.88. The program corresponds with the share option program approved in 2006. The Board of Directors is authorized to resolve the further details of the share option scheme.

The company has established a pension scheme for all employees in Norway that the executive management in Norway participates in. There are no agreements in place for severance payment for executive management except for the CEO.

The remuneration of the company's CEO and the executive management in the prior year (2008) was based on the same general principles as disclosed above for the current year.

Management remuneration
Executive management is considered to consist of the CEO (who is also Head of US operations), CFO and Head of Brazil operations.

Executive management remuneration is summarized below:

(Amounts in USD 1,000) **Executive management remuneration 2008**	**Salary**	**Bonus**	**Benefits**	**Pension costs**	**Value of options issued**	**Total**
Øivind Risberg (CEO)	529	200	43	21	121	914
Anders Kapstad (CFO)	259	35	27	9	46	376
Kjetil Solbrække (Head of Brazil Operations)	325	-	-	-	-	325
Total Remuneration	**1,113**	**235**	**70**	**30**	**167**	**1,615**

Executive management remuneration 2007	**Salary**	**Bonus**	**Benefits**	**Pension costs**	**Value of options issued**	**Total**
Øivind Risberg (CEO)	520	-	17	-	324	861
Anders Kapstad (CFO)	239	99	-	22	81	440
José Almeida dos Santos (Director Brazil)	278	23	-	-	64	365
Total Remuneration	**1,037**	**122**	**17**	**22**	**469**	**1,667**

The CEO and the Head of the Brazilian operations have agreements of two year's salary in case of resignation. The CFO participates in the general pension scheme established in the parent company (see details on pension plan below). The company also has an employee options program, refer to note 11 for details.

The company has a long term note receivable to the CEO of USD 50,000. The note has no stated maturity date, is due on demand and bears an interest rate of Prime plus 0.5%.

The company has a long term note receivable to Kjetil Solbrække, Head of the Brazilian operations, of USD 856,000. The note principal is due in March 2013 and carries an interest of 3%. In addition, Kjetil Solbrække has 700,000 synthetic options in the subsidiary Norse Energy do Brasil.

Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in USD 1,000) **Board of Directors**	**2008**	**Board fee** **2007**	**2006**
Petter Mannsverk Andresen, Chairman	62	64	23
Axel C. Eitzen, former Chairman	-	73	31
Joey S. Horn, Director	53	64	23
Lise Heien Langaard, Director	53	-	-
Jon-Axel Torgersen, Director	53	64	23
Bjarte Bruheim	-	-	-
Kathleen Arthur	-	-	-
Total	**221**	**265**	**100**

No loans have been given to, or guarantees given on the behalf of, any members of the Management Group, the Board or other elected corporate bodies with the exception of the loans to the CEO and the Head of the Brazilian operations mentioned above.

Pension plan
Norse Energy does not have any pension plans in place for employees in Brazil and the US.

The parent company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("Lov om obligatorisk tjenestepensjon"). The company established a pension scheme in 2006 that meets the requirements of this law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. The total expense booked under the pension scheme was USD 67,000 and USD 30,000 for 2008 and 2007 respectively.

Auditor's remuneration
Sales, administrative and general expenses also include audit costs, tax services and advisory services. The company's General Meeting adopted Deloitte as Group Auditors from the financial year 2008. Thus the 2008 figures includes audit, tax and advisory services from both Deloitte and the predecessor Group Auditor Ernst & Young as set out in the table below:

(Amounts in USD 1,000) **Expensed costs (excl. VAT)**	**2008**	**2007**	**2006**
<u>Ernst & Young</u>			
Statutory audit and audit related services	1,081	1,056	811
Tax services	205	83	112
Consulting, other services	13	8	47
<u>Deloitte</u>			
Statutory audit and audit related services	245	-	-
Tax services	10	36	-
Consulting, other services	2	-	-
Total	**1,556**	**1,184**	**970**

NOTE 6

Income tax

(Amounts in USD 1,000)

Income tax expense for the year	**2008**	**2007**	**2006**
Norway			
Tax Payable	-	-	-
Change in deferred tax	-	-	-
Brazil			
Tax Payable	3,888	6,270	231
Change in deferred tax	-14,562	-15,423	-1,734
USA			
Tax Payable	-	732	157
Change in deferred tax	9,584	-204	470
Canada			
Tax Payable	-	888	-
Change in deferred tax	-	-	-
Net income tax expense	**-1,090**	**-7,737**	**-876**

Deferred tax

Below is a country-by-country deferred tax analysis.

December 31, 2008	**Norway**	**Brazil**	**US**	**Total**
Losses to carry forward	29,754	1,970	14,623	46,347
Current Assets	-	-	-826	-826
Current Liabilities	-	-	1,527	1,527
Non-Current Assets	-1,230	31,760	-25,615	4,915
Non-Current liabilities	-31	-17,774	3,460	-14,345
Deferred tax assets not recognized	-28,493	-5,851	-4,956	-39,300
Net deferred tax assets/(liabilities)	**-**	**10,105**	**-11,787**	**-1,682**

December 31, 2007	**Norway**	**Brazil**	**US**	**Total**
Losses to carry forward	48,607	3,059	22,008	73,674
Current Assets	-	-	27	27
Current Liabilities	-	-3,727	804	-2,923
Non-Current Assets	2,916	-12,969	-21,400	-31,453
Non-Current liabilities	-38	-504	568	26
Deferred tax assets not recognized	-51,485	-	-2,326	-53,811
Net deferred tax assets/(liabilities)	**-**	**-14,141**	**-319**	**-14,460**

The net tax loss carry forwards in Norway have unlimited duration. These tax loss carry forwards are related to the parent company Norse Energy Corp. ASA. The company is not recognizing any deferred tax asset due to uncertainty of whether any of the tax loss carry forwards can be utilized.

The tax loss carry forwards in Brazil have unlimited duration, however the amount that can be off-set towards the taxable gain for the year is limited to 30% of the tax gain for the year. This is causing the operations in Brazil to have payable taxes even though the Brazilian companies have net tax loss carry forwards.

Tax losses to carry forward in the US have a limited duration of 20 years, and future utilization of the net operating loss carry forward can be restricted as a result of changes in control. An allowance has been made in the US, as indicated in the table above, due to the uncertainty of future utilization of these losses. The tax liability recognized relates to state taxes in individual subsidiaries, which cannot be offset against tax assets in other subsidiaries.

Tax	**2008**
Profit before tax	-11,630
Income tax at nominal income tax rate of 34%	-3,954
Non-deductable expenses	1,366
Non-taxable income	-1,043
Tax included in impairment of asset calculation	9,410
Use of previously unrecognised loss carried forward	-4,907
Tax expense impact of nominal tax rate other than 34%[1]	1,131
Tax losses for which no deferred tax asset was recognized	1,313
Other effects [2]	-4,406
Income tax expense – charged to P/L	**-1,090**

1 Taxes with nominal tax rates other than 34% relates to corporate tax rate in Norway and federal taxes in the US with tax rate different from state taxes.
2 Amount by which non-monetary items assets reported at historical rates and re-converted to local currency at balance sheet rates (exceeds)/are lower than their tax base equivalents reported in local currency.

Losses to carry forward	**2008**
2009	-
2010	-
2011	-
2012	-
2013	2,038
2014	419
2015	403
After 2015	34,634
No expiration date	112,059
Total tax loss carried forward	**149,553**

NOTE 7

Earnings per share and diluted earnings per share

Earnings per share

Earnings per share is calculated as the net profit for the year divided by the weighted average number of shares outstanding.

(In USD)	**2008**	**2007**	**2006**
Net profit	-10,540,000	-28,705,000	-12,377,000
Weighted average numbers of shares for the purpose of basic earnings per share	352,805,925	352,555,925	350,472,749
Earnings per share	**-0.03**	**-0.08**	**-0.04**
Weighted average numbers of shares for the purpose of diluted earnings per share	352,805,925	352,555,925	350,472,749
Diluted earnings per share	**-0.03**	**-0.08**	**-0.04**

Weighted average numbers of shares outstanding has been reduced with 108,605 treasury shares.

Diluted earnings per share

When calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted for all the dilution effects relating to the company's employee stock options and warrants. As the warrants were out-of-the money compared to the average stock price in 2008, the warrants were not considered to have a dilutive effect.

As of December 31, 2008, there are 9,940,000 stock options granted of which 5,840,000 have vested 500,000 are exercised and 100,000 are terminated. A total of 75 million warrants are outstanding at December 31, 2008. Since the company presented a net loss for 2008, 2007 and 2006, the calculations of the diluted earnings per share will not take into account the effect of the employee share options and warrants as these will give an anti-dilutive effect.

For details on the employee stock options, refer to note 11. For details on the bond loans with detachable warrants, refer to note 15.

NOTE 8

Exploration assets and property plant & equipment

(Amounts in USD 1,000)

Licenses and exploration assets

Fiscal year 2008	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost January 1, 2008	**19,568**	**55,940**	**18,999**	**15,926**	**3,519**	**-**	**753**	**114,705**	**4,412**	**119,117**
Investments	246	1,337	6,100	19,645	105	8,232	3,190	38,855	14,636	53,491
Reclassification of assets	-	-	-	-	-	-	-	-	13,579	13,579
Foreign currency translation	-	-	-9,400	-7,075	-	-	-	-16,475	-	-16,475
Acquisition cost December 31, 2008	**19,814**	**57,277**	**15,699**	**28,496**	**3,624**	**8,232**	**3,943**	**137,085**	**32,627**	**169,712**
Accumulated Impairment/Exploration costs charged to profit	-	-	-8,229	-32,602	-	-	-3,862	-44,693	-	-44,693
Foreign currency translation	-	-	3,261	4,106	-	-	-	7,368	-	7,368
Net book value December 31, 2008	**19,814**	**57,277**	**10,731**	**-**	**3,624**	**8,232**	**81**	**99,759**	**32,627**	**132,386**
Current year impairment and exploration cost previously capitalized charged to profit current year	-	-	-8,229	-32,602	-	-	-3,862	-44,693	-	-44,693

Fiscal year 2007	Estrela-Do-Mar	Cavalo Marinho	BCAM-40	BM-CAL 5&6	Sardinha	9th Bid-Blocks	Other	Total Brazil	US	Total
Acquisition cost January 1, 2007	**17,971**	**57,810**	**23,693**	**11,994**	**11,389**	**3,519**	**686**	**127,062**	**2,069**	**129,131**
Transfer to field investments and equipment	-	-	-23,693	-	-	-	-	-23,693	-	-23,693
Reversal of abandonment costs	-	-5,807	-	-	-	-	-	-5,807	-	-5,807
Investments	382	463	-	2,636	2,655	-	-	6,136	2,603	8,739
Reclassified as Assets held for sale	-	-	-	-	-	-	-	-	-260	-260
Capitalized borrowing costs	1,215	3,474	-	938	977	-	67	6,671	-	6,671
Foreign currency translation	-	-	-	3,431	905	-	-	4,336	-	4,336
Acquisition cost December 31, 2007	**19,568**	**55,940**	**-**	**18,999**	**15,926**	**3,519**	**753**	**114,705**	**4,412**	**119,117**
Accumulated Impairment	-	-	-	-	-	-	-	-	-	-
Net book value December 31, 2007	**19,568**	**55,940**	**-**	**18,999**	**15,926**	**3,519**	**753**	**114,705**	**4,412**	**119,117**
Current year impairment	-	-	-	-	-	-	-	-	-	-

Production assets

Fiscal year 2008	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2008	32,536	28,860	117,665	65,564	244,625
Abandonment cost incurred	-	-	-	5,676	5,676
Investments	29,548	9,500	5,282	-	44,330
Transfers from Licenses	-	-	-	-	-
Reclassification of assets	-14,532	-44	-	-	-14,576
Assets held for sale	-	-	-	-	-
Foreign currency translation	-	-	-28,031	-	-28,031
Acquisition cost December 31, 2008	**47,552**	**38,316**	**94,916**	**71,240**	**252,024**

Fiscal year 2008	US Natural gas properties	US pipelines	Manati	Coral	Total
Accumulated depreciation and impairment	-7,075	-10,215	-17,211	-71,240	-105,741
Accumulated depreciation and impairment associated with assets held for sale	-	-	-	-	-
Foreign currency translation	-	-	3,935	-	3,935
Net book value December 31, 2008	**40,477**	**28,101**	**81,640**	**-**	**150,218**
Depreciation and impairment 2008	-3,435	-1,125	-11,191	-5,676	-21,427

Fiscal year 2007	US Natural gas properties	US pipelines	Manati	Coral	Total
Acquisition cost January 1, 2007	54,814	28,447	59,325	61,572	204,158
Abandonment cost incurred	605	-	4,423	3,992	9,020
Investments	25,010	413	17,340	-	42,763
Transfers from Licenses	-	-	23,696	-	23,696
Assets held for sale	-47,893	-	-	-	-47,893
Foreign currency translation impact on acquisition cost	-	-	12,881	-	12,881
Acquisition cost December 31,2007	**32,536**	**28,860**	**117,665**	**65,564**	**244,625**
Accumulated depreciation and impairment	-15,242	-9,090	-6,090	-65,564	-95,986
Accumulated depreciation and impairment associated with assets held for sale	11,602	-	-	-	11,602
Foreign currency translation on Depr. And amortization	-	-	-1,078	-	-1,078
Net book value December 31, 2007	**28,896**	**19,770**	**110,496**	**-**	**159,160**
Depreciation and impairment 2007	-3,090	-875	-6,090	-44,209	-54,264

Fiscal year 2008	Furniture fixture and Equipment
Acquisition cost January 1, 2008	5,257
Investments	2,995
Disposals	-
Foreign currency translation impact on acquisition cost	-57
Acquisition cost December 31,2008	**8,195**
Accumulated depreciation and impairment	-1,950
Accumulated depreciation and impairment associated with assets held for sale	-
Foreign currency translation on Depr. And amortization	7
Net book value December 31, 2008	**6,252**
Depreciation and Impairment 2008	-1,152

Fiscal year 2007	Furniture fixture and Equipment
Acquisition cost January 1, 2007	3,726
Investments	1,531
Disposals	-
Foreign currency translation impact on acquisition cost	-
Acquisition cost December 31,2007	**5,257**
Accumulated depreciation and impairment	-798
Accumulated depreciation and impairment associated with assets held for sale	-
Foreign currency translation on Depr. And amortization	-
Net book value December 31, 2007	**4,459**
Depreciation and Impairment 2007	-308

No borrowing costs were capitalized during 2008. In 2007 borrowing costs of USD 6.6 million was capitalized.

Depreciation method/rates
Capitalized costs for field investments and natural gas properties are depreciated in accordance with the unit-of-production method.

Depreciation for the gathering systems and the transmission lines are computed using the straight-line method over a period of twenty and thirty-year useful life, respectively.

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

Impairment
The recoverability of amounts capitalized in connection with field investments depends on the existence of viable reserves, the company's ability to finance the necessary investments and future cash flows from production. Per year-end 2008, the company has obtained annual reserve reports from Gaffney Cline & Associates for the Brazilian assets and from Schlumberger for the US assets. Based on these reserve reports, as well as the progress on the exploration efforts in fields where the certifying agents have not currently certified reserves, the company has carried out an impairment assessment in line with prior year's methodology.

When estimating the net present value, the company has utilized a discount rate of 12.75%. This is a pre-tax discount rate and is calculated based on the company's pre-tax weighted average cost of capital (WACC). In Brazil, utilized oil prices are based on a forward curve for Brent blend and were derived from the independent third party certifying agent, yielding USD 55.55/BOE in 2009, USD 65.30/BOE in 2010, USD 70.33/BOE in 2011, USD 73.37/BOE in 2012, USD 75.77/BOE in 2013, USD 77.29 in 2014 and inflated with 2% thereafter. Pricing in the US is based on future NYMEX Strip Pricing of; USD 6.63/MMBtu in 2009, USD 7.7370/MMBtu in 2010, USD 7.470/MMBtu in 2011, USD 7.360/MMBtu in 2012 and USD 7.440/MMBtu for the remaining life of the wells. Operating expenses are based on expenses from the filed development plan or more updated estimates if such estimates exist.

After the close of the year, the company farmed-out its interest in BM-CAL 5, receiving no compensation. As a result, the company has recognized an impairment charge of USD 18.3 million, net of related tax effects and commitments paid and anticipated in 2009 related to the BM-CAL 5 field. In the BM-CAL 6 field, an impairment charge of USD 2.0 million was booked as the Peroba prospect was deemed a dry hole.

NOTE 9

Goodwill and other intangible assets

(Amounts in USD 1,000) **Fiscal year 2008**	**Goodwill**	**Other intangible assets**	**Total**
Acquisition cost January 1, 2008	5,643	238	5,881
Investments	-	-	-
Disposals	-	-	-
Foreign currency translation impact on acquisition cost	-	-	-
Acquisition cost December 31,2008	**5,643**	**238**	**5,881**
Accumulated depreciation and impairment	-	-127	-127
Accumulated depreciation and impairment associated with assets held for sale	-	-	-
Foreign currency translation on Depr. And amortization	-	-	-
Net book value December 31, 2008	**5,643**	**111**	**5,755**
Depreciation and Impairment 2008	-	-36	-36

Fiscal year 2007	**Goodwill**	**Other intangible assets**	**Total**
Acquisition cost January 1, 2007	5,643	238	5,881
Investments	-	-	-
Disposals	-	-	-
Foreign currency translation impact on acquisition cost	-	-	-
Acquisition cost December 31,2007	**5,643**	**238**	**5,881**
Accumulated depreciation and impairment	-	-91	-91
Accumulated depreciation and impairment associated with assets held for sale	-	-	-
Foreign currency translation on Depr. And amortization	-	-	-
Net book value December 31, 2007	**5,643**	**147**	**5,790**
Depreciation and Impairment 2007	-	-36	-36

The company booked goodwill of USD 5.6 million and other intangible asset of USD 0.2 million in 2006 after finalizing the purchase analyzes of the acquisition of Mid American June 30, 2005. The goodwill is assumed to have duration for as long as the Mid American operations are profitable.

Each year the company performs an assessment of whether or not impairment indicators exists for the intangible assets. If such indicators are deemed present, the company performs an impairment test of the assets. For 2008, no such impairment indicators were identified as the financial results of Mid American´s operations are satisfactory and justify the net book value of the intangible assets.

NOTE 10

Financial instruments

Overview

The company's policy is to constantly monitor the risk associated with its floating interest loans, currency loans and the price for oil and gas, to assess the necessity to enter into financial instruments to limit the risk to the company and maximize income. As such, Norse Energy has entered into various hedging transactions. Refer to note 20 for details on the company's financial risk management policy.

The table below sets forth a comparison of carrying amounts and fair values of all of the company's financial instruments by category, including the fixed price contracts (derivatives) in the energy marketing division.

(Amounts in USD 1,000)	Carrying amount		Fair value	
Financial Assets	**2008**	**2007**	**2008**	**2007**
Cash	32,207	43,747	32,207	43,747
Receivables				
Trade accounts receivable (loans and receivables)	31,602	37,094	31,602	37,094
Other derivatives (fair value through P/L)	10,643	3,781	10,643	3,781
Othert short term receivables (loans and receivables)	3,527	2,648	3,527	2,648
Other non-current assets				
Oil put options (fair value through P/L)	-	1	-	1
Shares in Biofuel Energy ASA (fair value through P/L)	-	1,478	-	1,478
Other non-current assets	517	-	517	-
Total	**78,496**	**88,749**	**78,496**	**88,749**
Financial Liabilities				
Trade accounts payable (other liabilities)	-26,445	-47,234	-26,445	-47,234
Interest bearing loans and borrowings (other liabilities)				
NEC01 unsecured bond loan (other liabilities)	-40,527	-54,689	-28,605	-54,689
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-64,796	-61,783	-64,125	-61,783
NEC03 unsecured bond loan (other liabilities)	-71	-36,575	-71	-36,575
NEC03Pro unsecured bond fixed rate (Other liab.)	-8,734	-	-6,600	-
NEC 04 unsecured bond loan loan (floating rate) (Other liab.)	-3,822	-	-3,086	-
NEC04Pro unsecured bond issue (Other liab.)	-17,677	-	-14,240	-
Floating rate borrowings (other liabilities)	-47,548	-84,208	-47,548	-84,208
Other fixed rate borrowings (other liabilities)	-41,480	-16,299	-39,754	-18,261
NECJ warrants (other liabilities)	-12,002	-20,098	-12,002	-20,098
Own bonds in NEC02 (fair value through P/L)	1,138	1,136	1,138	1,136
Currency swap (fair value through P/L)	-4,711	8,993	-4,711	8,993
Other derivatives (fair value through P/L)	-3,724	-1,922	-3,724	-1,922
Total	**-270,399**	**-312,679**	**-249,751**	**-318,057**

	P&L Impact	
Financial Assets	**2008**	**2007**
Other derivatives (Natural gas forward contracts mostly)	4,488	-2,045
Oil put options	357	-1,138
Shares in Biofuel Energy ASA	-1,069	1,469
Currency Swaps	1,150	7,232
Own bonds	-	65
Financial Liabilities		
NEC J – Warrants	8,096	-3,235
Forward contract Revus Energy ASA	-	7,049

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

The fair value of currency swaps is determined by the present value of future cash flows. For all the abovementioned derivatives, the fair value is confirmed by the financial institution with which the Group has entered into the contracts.

The the NEC-J warrants are measured at fair value with reference to the quoted price of the warrants. For further description of accounting treatment of the warrants, refer to summary of accounting principles.

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

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

The fair value of un-qouted loan notes has been calculated using market interest rates.

Credit risk
The carrying amount of the Company's financial assets presented above represents the maximum credit risk exposure.

Accounts receviables in MANR are secured by guarantees of USD 10 million for several large customers in the wholesale market. The amounts secured through these guarantees are not deducted in the analysis below.

Maximum exposure to credit risk for trade accounts receviables at the reporting date by geographic are and type of custmer was:

	Carrying amount	
(Amounts in USD 1,000)	**2008**	**2007**
Norway	-	-
Brazil		
Petrobras	5,498	8,550
Others	7,727	9,041
USA		
E&P	1,391	549
Pipeline	232	413
MANR Wholesale	12,113	13,784
MANR retail	4,641	4,757
Total	**31,602**	**37,094**

The aging of trade receivables at the reporting date was;

	2008		2007	
(Amounts in USD 1,000)	**Carrying value**	**Impairment**	**Carrying value**	**Impairment**
Current receivables	31,218	100	36,914	-
Past due 0–30 days	10	-	3	-
Past due 31–120 days	284	44	77	-
Older than 120 days	90	-	100	51
Total	**31,602**	**144**	**37,094**	**51**

The movement in allowance for doubtful accounts in respect of trade receivables during the year, was as follows:

(Amounts in USD 1,000)	**2008**	**2007**
Provisions as of January 1	51	51
Provision for bad debt during the period	144	-
Realized losses for the year	-51	-
Reversed provision during the period	-	-
Changes due to business combinations	-	-
December 31	**144**	**51**

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

December 31, 2008

(Amounts in USD 1,000) **Non-derivative financial liabilities**	**Total**	**0–1 month**	**1–3 months**	**3–12 months**	**1–3 years**	**3–5 years**	**> 5 years**
NEC01 unsecured bond loan (other liabilities)	-53,439	-	-	-4,152	-49,287	-	-
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-89,625	-	-	-4,875	-84,750	-	-
NEC03 Pro unsecured bond fixed rate (other liabilities)	-10,109	-	-	-457	-9,652	-	-
NEC 04 Unsecured bond loan loan (floating rate) (Other liab.)	-25,443	-	-977	-953	-3,811	-19,702	-
NEC04Pro unsecured bond issue (Other liab.)	-5,633	-	-222	-222	-887	-4,302	-
US loans	-11,216	-13	-289	-5,230	-1,977	-1,977	-1,730
Brazil loans	-104,815	-1,414	-2,850	-22,670	-54,857	-16,139	-6,885
Accounts payable and other payments	-26,563	-15,559	-9,444	-1,104	-456	-	-
Total Non-derivative financial liabilities	**-326,843**	**-16,986**	**-13,782**	**-39,663**	**-205,677**	**-42,120**	**-8,615**

(Amounts in USD 1,000) **Derivative financial liabilities**	**Total**	**0–1 month**	**1–3 months**	**3–12 months**	**1–3 years**	**3–5 years**	**> 5 years**
Currency swap Norway							
NEC pay to bank	-28,286	-	-	-2,074	-26,212	-	-
Bank pay to NEC	23,827	-	-	1,981	21,846	-	-
MANR Financial contracts							
Long contracts	3,394	998	1,138	1,038	220	-	-
Short contracts	-2,934	-1,018	-1,027	-607	-282	-	-
Total Derivative financial liabilities	**-3,999**	**-20**	**111**	**338**	**-4,428**	**-**	**-**

December 31, 2007

(Amounts in USD 1,000) **Non-derivative financial liabilities**	**Total**	**0–1 month**	**1–3 months**	**3–12 months**	**1–3 years**	**3–5 years**	**> 5 years**
NEC01 unsecured bond loan (other liabilities)	-72,075	-	-	-5,544	-66,531	-	-
NEC02 unsecured bond loan (fixed rate) (other liabilities)	-94,500	-	-	-4,875	-9,750	-79,875	-
NEC03 unsecured bond loan (other liabilities)	-47,055	-918	-	-2,753	-43,385	-	-
Brazil loans	-86,118	-1,179	-2,188	-15,178	-40,676	-22,482	-4,415
US loans	-28,523	-	-14,152	-1,103	-7,464	-1,882	-3,922
AP and other payments	-40,990	-24,351	-8,911	-7,728	-	-	-
Total Non-derivative financial liabilities	**-369,261**	**-26,448**	**-25,251**	**-37,181**	**-167,806**	**-104,239**	**-8,337**

(Amounts in USD 1,000) **Derivative financial liabilities**	**Total**	**0–1 month**	**1–3 months**	**3–12 months**	**1–3 years**	**3–5 years**	**> 5 years**
Currency swap related to NEC01/NEC 03							
NEC to pay Bank	-105,828	-3,389	-	-4,981	-97,458	-	-
Bank to pay NEC	119,440	856	-	8,456	110,128	-	-
MANR financial contracts							
Long contracts	-518	-307	-199	-12	-	-	-
Short contracts	1,222	574	563	174	-88	-	-
Nornew financial contracts	-466	58	62	-18	-569	-	-
Total Derivative financial liabilities	**13,850**	**-2,208**	**426**	**3,620**	**12,013**	**-**	**-**

In determining the maturity analysis above, the company has utilized the current spot rates at year-end 2008 and 2007 respectively. For the MANR and Nornew financial contracts, the cash flows projected from the long and short positions are calculated as the difference between the terms of each financial contract and the forward settlement prices at year-end 2007 and 2006.

Market risk

Currency risk

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

	December 31, 2008		**December 31, 2007**	
(Amounts in USD 1,000)	**NOK**	**BRL**	**NOK**	**BRL**
Cash and cash equivalents	461	10,891	3,834	4,777
Trade receivables	-	13,225	-	6,698
Bank loans	-44,793	-28,429	-92,404	-
Trade payables	-191	-10,147	-6	-8,317
Net balance sheet exposure	**-44,523**	**-14,460**	**-88,576**	**3,159**

A 20% strengthening or weakening of the USD against the following currencies at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. The company has used a sensitivity rate of 10% as this reflects the change in the USD/NOK and USD/BRL during 2007. This hypothetical analysis assumes that all other variables, including interest rates and commodity prices, remain constant.

(Amounts in USD 1,000)	**2008**		**2007**	
USD vs NOK	**+ 20%**	**- 20%**	**+ 10%**	**- 10%**
Cash	-77	115	-349	426
Loans	7,465	-11,198	8,400	-10,267
Currency swap	-3,847	5,771	-9,567	11,693
Net P&L effect	**3,541**	**-5,312**	**-1,515**	**1,852**
USD vs BRL				
Cash	-2,178	2,178	-478	478
Receivables	-2,710	2,710	-670	670
Payables	2,029	-2,029	832	-832
Loans	5,686	-5,686	-	-
Net P&L effect	**2,827**	**-2,827**	**-316**	**316**

This sensitivity analysis is presented on a pre-tax basis. For a description of the currency swaps in place, refer to note 15.

Interest rate risk

Norse Energy is exposed to interest rate risk as entities in the group borrow money at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by using interest rate currency swap contracts.

A change in 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss before tax by the amounts shown in the table below. This analysis assumes foreign currency rates and other variables to be constant.

	2008		**2007**	
(Amounts in USD 1,000)	**+ 100 bp**	**- 100 bp**	**+ 100 bp**	**- 100 bp**
Cash	327	-293	460	-460
Floating interest loans	-473	473	-1,208	1,208
Currency swaps	-	-	166	-165
Net P&L effect	**-146**	**180**	**-583**	**584**

Commodity price risk

The company is exposed to fluctuations in the prices for oil and natural gas. To mitigate this risk, the company has entered into a long-term take-or-pay contract with Petrobras for the sale of natural gas from the Manati field.

In the US, the company has taken various steps to mitigate the commodity price risk. Norse Energy has entered into fixed price contracts for physical delivery of gas, as well forward contracts for a part of our production in Appalachia.

1. Fixed price contracts with physical delivery

Norse Energy has entered into a fixed price contract for the physical delivery of 1,500 Mcf/day from November 2006 to October 31, 2008 (USD 6.35 per MMBtu). While this amount was sold forward and hedged at a fixed price, it relates to physical deliveries and is consequently not subject to IAS 39, and no fair value has been recognized on these transactions.

2. Forward contracts

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

- 2009 An average of 70,000/Mcf per month at USD 8.45 per Mcf
- 2010 An average of 60,000/Mcf per month at USD 8.06 per Mcf

After the sale of the Medina properties in March 2008, it was deemed that Norse Energy does no longer qualify for hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement for the remaining open forward contracts. When qualifying for hedge accounting, the change in fair value of the forward contracts was charged directly to equity. When not qualifying for hedge accounting, the fair value on these contracts is charged to the income statement.

Marketing activity risk

The Energy Marketing division generates a margin via sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical. Consistent with corporate policy the only price exposure the company has on fixed price contracts to the NYMEX is restricted to less than 50,000 Dth at any time.

All open positions (financial hedging transactions as well as physical fixed price contracts) are recognized at fair value through profit and loss at year-end. The fair value of these transactions is calculated based on NYMEX futures and forward basis. The company recorded an unrealized gain for the 12 months ended December 31, 2008 of USD 2.2 million.

The following shows the mark-to-market value of outstanding contracts for future purchase and sale of gas and unrealized gain as of December 31, 2008:

December 31, 2008	**Dth**	**Market value in USD 1,000**
Future purchases	11,868,695	-380
Future sales	-11,626,495	5,208
Basis reserve		-174
Fair value December 31, 2008		4,654
Fair value December 31, 2007		2,430
Net unrealized gain/(loss) 2008		**2,224**

The company had as of December 31, 2008, open contracts totaling 241,000 Dth (sale-contracts in excess of purchase-contracts), of which about 51,000 Dth have NYMEX risk. These open contracts are priced at NYMEX plus a basis differential. the existing efficient financial OTC and NYMEX based markets, mitigate the risk for price variations attributable to the NYMEX price. Accordingly the only price risk related to these open contracts is the risk for fluctuation of the basis differential. In the Energy Marketing Division's core market area, the basis differential varies between USD 0.10 and USD 0.40 depending on which pipeline the gas is traded on and the time of the year. Historically, this differential has varied very little between periods.

NOTE 11 Share-based payment plans

Norse Energy has an option program amounting to 18 million shares. At the beginning of 2008, 9.9 million of these options were granted to key employees. No options have been granted during 2008. The 9.9 million options are granted as follows:

Name	# of shares	Option price in NOK	Exercising period	Estimated value (USD 1 000)
Øivind Risberg	4,000,000	4,04	June 1, 2007–May 31, 2012	954
Anders Kapstad	1,000,000	3,82	August 1, 2007–June 29, 2012	186
Kjetil Solbrække	-	-	-	-
Other Employees	4,940,000	3,84	June 1, 2007–June 29, 2012	977
Total	**9,940,000**			**2,117**

A total of 5,840,000 options were vested as of December 31, 2008. All options under the plan will be settled in shares.

The fair value of the options is estimated at grant date by an independent third party expert using the Black & Scholes – Merton option pricing model. The exercise price of the options is equal to the market price of the shares at the grant date plus 8 percent, and the volatility is based on a calculated implied volatility of the warrants that the company issued and listed on OSE in July 2006. The expected exercise date is set to the contractual vesting period (ranging from 1.5 years to 2 years) plus two years for the CEO and one year for all other employees. Risk free rate used is 4.07% calculated by using rates from Norges Bank at grant date (bonds and certificates) based on the expected term of the option being valued. Implied volatility used in the calculation is 35.74%, and no dividends are incorporated.

The options are expensed over the vesting period, about USD 0.6 million in 2008, and the option price stated is a weighted average exercise price. The stock options outstanding at the end of the financial year had an exercise price between NOK 3.50 and NOK 4.75 (equivalent for 2007), and a weighted average remaining contractual life of 912 days and 1,278 days in 2008 and 2007, respectively.

500,000 options were exercised in 2008. Should the employee decide to terminate the employment prior to the start of the exercising period, the options would expire without any further compensation. 100,000 options were terminated in 2008. A total of 23 persons were granted options as of December 31, 2008. Refer to note 5 for further details on this program

NOTE 12 Inventory

As of year-end, inventories consist of the following:

(Amounts in USD 1,000)	December 31,	
Inventory	**2008**	**2007**
Crude oil, Brazil	290	3,051

NOTE 13

Cash and cash equivalents

Restricted cash

Restricted cash in Norway consists of margin call for currency swap USD 6.9 million and USD 3.9 million for 2008 and 2007 respectively. In addition USD 0.08 million and 0.11 million were restricted as employee withholding tax for 2008 and 2007 respectively.

In Brazil cash of USD 8.2 million and USD 5.7 million are restricted for installment of long term debt to Unibanco for 2008 and 2007 respectively. Included in other non-current assets are restricted cash of USD 8.0 million and 5.8 million in 2008 and 2007 respectively, to cover asset retirement obligations on the Coral and Manati field. In addition, USD 2.5 million classified as other current assets are investment account cash deposits.

Restricted cash in the US consists of USD 4.3 million and USD 1.4 million to back letters of credit in the energy marketing division for 2008 and 2007 respectively. In addition USD 0.9 million and 0.8 million for 2008 and 2007 respectively included in other non-current assets were restricted cash for margin calls in the energy division.

Overdraft facilities

Coplex has a BRL denominated bank overdraft facility of USD 0.7 million as of December 31, 2008, and USD 1.4 million as of December 31, 2007, with USD 0 million drawn down as of December 31, 2008 and 2007. Norse Energy do Brasil has a BRL denominated bank overdraft facility of USD 2.1 million as of December 31, 2008 and USD 1.1 million as of December 31, 2007 with USD 0 million and USD 0.5 million drawn down as of December 31, 2008 and December 31, 2007 respectively. Rio das Contas has a bank overdraft facility of approximately USD 1.3 million as of December 31, with USD 0 drawn down.

Norse Energy USA has a bank overdraft facility of USD 15 million as of December 31, 2008 and 30 million as of December 31, 2007 whereof USD 4.3 million and USD 19.2 million was drawn down as of December 31, 2008 and 2007, respectively.

NOTE 14

Issued capital and reserves

Outstanding shares

As of year-end 2008 a total of 353,164,530 shares were outstanding, with a nominal value of NOK 0.88 per share.

	Ordinary shares	
	2008	**2007**
On issue January 1	352,664,530	352,664,530
Issued for cash	-	-
Exercise of share options	500,000	-
On issue December 31	**353,164,530**	**352,664,530**

Norse Energy has issued a bond loan of USD 75 million with 75 million associated warrants giving the right to new ordinary shares at NOK 6.10 per share. For details on the bond loan, refer to note 15. For details on how the warrants impact the diluted earning per share, refer to note 7.

Dividends

No dividends (equity dividends and dividends of subsidiary) were paid in 2008.

Treasury shares and share based payments

The company currently owns 108 605 treasury shares. The Annual General Meeting has authorized management to purchase up to 35,266,453 treasury shares.

For details on the company's share based payments, refer to note 11.

Share Premium Reserve reduction

At the Annual General Meeting in May 2008 it was decided to do a share premium reserve reduction. The purpose of the reduction was allocation to reserves to be used in accordance with the General Meeting´s resolution.

NOTE 15

Interest bearing debt

Below is a summary of the company's interest bearing debt as of December 31, 2008;

Loan description:	Interest rate	Repayment date	Amount due in USD 1,000 Within 1 year	After 1 year	Total
Norway					
NEC 01 – NOK 286 million bond loan	10% fixed	07/13/2010	-	45,238	45,238
NEC 02 – USD 75 million bond loan	6.5% fixed	07/14/2011	-	64,796	64,796
NEC 03PRO – NOK 0.5 million bond loan	3-mo NIBOR + 4.25%	07/06/2010	-	71	71
NEC 03 – USD 8.8 million bond loan	9.5% fixed	07/06/2010	-	8,734	8,734
NEC 04PRO – NOK 27 callable bond loan	11.5% fixed	09/25/2012	-	3,822	3,822
NEC 04 – USD 17.8 million bond loan	10.707%	09/25/2012	-	17,677	17,677
Brazil					
Coplex – USD loan	Libor + 5.5%	10/15/2010	4,522	-	4,522
Coplex – USD loan	Libor + 4.75%	10/15/2010	4,516	-	4,516
NEdB – USD loan	9.55% fixed	10/13/2012	11,433	-	11,433
NEdB – USD loan	6.60% fixed	07/05/2009	2,092	-	2,092
RdC – BRL loan	5.3%–6.8% + TJLP	10/15/2013	28,430	-	28,430
RdC – USD loan	Libor + 4.65	12/05/2011	2,816	-	2,816
RdC – USD loan	Libor + 4.65%	12/28/2011	2,964	-	2,964
RdC – USD loan	12% fixed	03/17/2009	22,179	-	22,179
USA					
Norse Pipeline	4.250%	09/30/2015	755	5 022	5,777
Nornew	prime + margin	01/01/2010	4,300	-	4,300
Total Loans			**84,007**	**145,360**	**229,367**

The effective interest rate presented in the table for the NOK 286 million bond loan and the USD 75 million bond loan are the contractual rates, not the calculated interest rate under IFRS which is based on amortized cost.

Certain loans are classified as short-term debt as of December 31, 2008, as the company was not in compliance with all financial covenants and the waivers obtained do not meet the IFRS requirements in order to keep the loans classified as long-term debt. These loans are grouped as due within one year in the above table. See further details below.

Norway financing
During 2008, bondholders in NEC01 representing NOK 14 million and bondholders in NEC03 representing NOK 139 million exchanged the existing bonds for bonds in a new issue; NEC04. The purpose of this was to extend the maturity date from July 2010 to September 2012 and to change from floating to fixed interest rate. The new callable bond issue was issued on September 25, 2008 for a total of NOK 153 million with a fixed interest rate of 11.5% and maturity date September 25, 2012.

Subsequent to this, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue and in NEC03 to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers was to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5% and 10.707%, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer. As a result of these exchanges in bonds, the company formally held own bonds of NOK 339.5 million by the end of the year. After the close of the year, these own bonds were terminated. This had no cash effect for the company.

NOK 286 million bond loan ("NEC01")
The company issued a 5-year senior unsecured bond loan in 2005, with a total borrowing limit of NOK 300 million. NOK 200 million was issued in July 2005, while the final tranche of NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". The bond is a fixed 5-year bullet loan, is unsecured and has an annual coupon of 10%. The company is not holding any own bonds per year-end 2008.

During 2008, bondholders representing NOK 14 million exchanged bonds in NEC01 for a new bond issue called "NEC04" (see text below) thereby extending the maturity date of the loan and leaving the balance for NEC01 at NOK 286 million per year-end.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89%. Norse Energy will receive 10% on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89% on USD 37.5 million biannually until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 11.9 million. The accumulated profit and loss effect of the swap was recognized in 2008. The effective interest on the bond loan is slightly higher than the coupon of 10% as the related transaction costs are amortized over the life of the bonds.

Upon issuance of NEC04 in September 2008, the company entered into a new currency swap in order to reduce the NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders later in the year exchanged their bonds into a new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01 and the currency swap will last until July 2010. This transaction required an initial USD 1.7 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in NOK/USD and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2008, the deposit totaled USD 6.9 million. Per year-end, the fair value of this currency swap was negative USD 4.7 million.

The main covenants for the bond loan are as follows:
- Maintain book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse Energy cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of "Capital employed" in the parent company. "Capital employed" is defined as Norse Energy's total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The company was in compliance with the covenants of the financing agreement.

USD 75 million bond loan ("NEC02")
On July 13, 2006 the company issued 50,000 bonds at a nominal value of USD 1,000 per bond for a total of USD 50 million and on November 30, 2006 another 25,000 bonds was issued at a nominal value of USD 1,000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code "NEC02". The bond loan is unsecured and carries a fixed interest rate of 6.5%. Effective interest is about 12% as the value of the warrants and the transaction costs is amortized over the life of the bonds.

Each bond subscriber was allotted 1,000 warrants per bond free of charge. Each warrant gives the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code "NECJ".

IAS 39 requires that the proceeds from the issue of the bond loans are split between the long term loan element and the embedded derivative – in this case the fair value of the option to convert to shares (the warrant). The long term loan element is amortized to the full value of the loan (USD 75 million) over the life of the loan, based on the effective interest method. As USD is the functional currency of Norse Energy Corp. ASA and the warrants are denominated in NOK, IFRS requires that the warrants are recorded as a liability – not as a component of equity.

At each reporting date, any change in the fair value of the warrants is recorded in the income statement based on the price of the NECJ warrants. An increase in the fair value of the warrant will cause a charge to the income statement and a corresponding increase in the liability. A drop in the warrant price will lead to the opposite. In 2008, the company recorded a fair value adjustment of USD 8.1 million in the profit and loss statement due to the decrease in the warrant price. However, it is important to notice that this income statement impact in no instance will affect the total loan to be paid to the loan holders at the maturity date.

At December 31, 2008, no warrants were converted to shares. The company holds own bonds totaling USD 1.1 million per year-end 2008.

NOK 0.5 million and USD 8.8 million bond loan ("NEC03PRO" and "NEC03")
In June 2007, the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25%. In August 2007, the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as "FRN Norse Energy Corp. 07/10 CALL".

During 2008, bondholders representing NOK 139 million exchanged their bonds for bonds in NEC04, thereby reducing the loan balance to NOK 61 million. Towards the end of the year, bondholders representing NOK 60.5 million converted their bonds into USD, accepting the company's offer and a new bond issue named NEC03 of USD 8.8 million was established using an exchange rate USD/NOK of 6.92. NOK 0.5 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40%. Norse Energy will receive 3 months NIBOR + 4.25% quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40% quarterly until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 3.0 million. The accumulated profit and loss effect of the swap was recognized in 2008.

The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The company was in compliance with the covenants of the financing agreement.

NOK 27 million and USD 17.8 million bond loan ("NEC04PRO" and "NEC04")
The new NEC04 bond loan was established during the year upon the exchange of bonds from NEC01 and NEC03 for a total of NOK 153 million. This is a 4-year bond issue yielding fixed interest of 11.5% with semi-annual payments. Next, bondholders representing NOK 126 million converted their bonds into USD, accepting the company's offer and a new bond issue NEC04 of USD 17.8 million was established using an exchange rate of USD/NOK 7.08. NOK 27 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders. The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The company was in compliance with the covenants of the financing agreement.

Brazil financing
In January 2006, Coplex entered into two financing agreements through an on-lending transaction in U.S. Dollars for the development and production of natural gas in the Manati field in the amount of USD 20.0 million. The loans are payable over 72 months, and mature on October 15, 2010. The interest rates are LIBOR plus 5.5% and LIBOR plus 4.75% respectively. On December 31, 2008, the total balance of these two obligations was USD 9.0 million. The main loan conditions include pledging of the shares in Coplex, oil production in Estrela do Mar as well as pledge in the gas production in B-CAM 40. The financial covenants require the Company to keep an equity ratio at a minimum of 30%, and maintaining a debt service coverage ratio in excess of 1.4. Further, it is a condition that Coplex maintains its license rights in Brazil. The agreements also have a cross default convenants, meaning that any default of other material agreements for Coplex will lead to a default under these loan agreements.

In April 2007, Norse Energy do Brasil entered into a loan agreement through an on-lending transaction of USD 9.8 million, for the acquisition of interests in the Cavalo Marinho and Estrela do Mar fields. The loan is payable over 66 months, and matures in October 2012. The interest is fixed at 9.55%. On December 31, 2008, the balance of this obligation was USd 11.4 million. The main loan condition is pledging the oil production from Cavalo Marinho. The financial covenants require the company to keep an equity ratio at a minimum of 30 %, and maintaining a debt service ratio in excess of 1.3. Further, it is a condition that Norse Energy do Brasil maintains its license rights in Brazil. The agreements also have cross default covenants, meaning that any defaults of other material agreements for Norse Energy do Brasil will lead to default under these loan agreements

In November 2006, Rio das Contas entered into a credit agreement for investment in production and transport of natural gas and condensate from the Manati field in the amount of BRL 82.7 million. The amount was divided into four tranches; (i) BRL 6.7 million; (ii) BRL 60.2 million; (iii) BRL 1.6 million; and (iv) BRL 14.2 million. Tranches (i) and (ii) are amortized over 72 months, and carry an interest rate of currency basket or TJLP plus a fixed rate. Tranches (iii) and (iv) are amortized over 51 months, and also carry an interest rate of either a currency basket or TJLP plus a fixed rate. On December 31, 2008, the balance of this obligation was USD 28.4 million.

In July 2007, Rio das Contas entered into loan agreements through an on-lending transaction in USD at the amount of USD 7.7 million, for the development of natural gas and condensate in the Manati field. The loans are payable over 53 months, and mature in December of 2011. On December 31, 2008, the total balance of these two agreements was USD 5.8 million.

In September 2008, Rio das Contas entered into a loan agreement for a USD 21.4 (BRL 40 million) bridge-loan facility. The loan is part of a BRL 100 million exploration and development facility to be supported by BNDES (Brazilian State Development Bank). The bridge loan is expected to be replaced with BNDES Reais financing during 2009. The company is working to secure the remaining balance of the loan, and the financing will primarily be used to fund Manati development activities.

Final approval of this loan is still pending credit committee approval of the lenders as well as BNDES, and best estimate is for the first half of 2009.

The credit agreements described above require pledging of the shares in Rio das Contas, and the gas revenues from BCAM-40. The financial covenants require the Company to keep an equity ratio at a minimum of 30%, and maintain a debt service ratio in excess of 1.3. Further, the agreement requires Rio das Contas to maintain its license rights in Brazil. The agreements also have cross default covenants, similar to those described above.

The company was not in compliance with the loan covenants as of year-end. As a consequence USD 34.7 million was re-classified from long term to short term interest bearing debt in line with IFRS requirements.

The company has entered into negotiations with the banks in Brazil regarding a rescheduling of the debt portfolio. The bridge loan of USD 21.4 million has been rolled forward and a wider agreement with the banks will likely include rescheduling of the amortization of the debt and is expected to be reached during the second quarter 2009. The company is still awaiting waivers on the current situation. This is likely to be concuded as part of the debt restructuring described above.

USA financing

<u>Revolving credit line</u>

Nornew Inc. has a revolving credit line initially agreed in 1999 with a borrowing base of USD 15 million. The borrowing base is based on net proven production and reserves. As reserves and production increase, fund are made available for lending purposes.

The credit agreement carries an interest ranging from prime to prime plus 0.375% depending on the utilization of the credit line.

The credit agreement requires the company to maintain certain financial covenants. As of December 31, 2008, the company was not in compliance with certain of these covenants. A waiver for this was obtained; however, as the grace period did not extend beyond 12 months after the balance sheet date, the loan has been reclassified to short-term debt. The credit agreement also includes restrictions as to payment of dividend, or other kind of distribution for payment of inter-company debt, further indebtedness or contingent liabilities, further encumbrances, sales of assets, investments, corporate restructuring, transactions with affiliates, engagement in other parts of business, change of ownership of the borrowers as well as further lending from the borrowers. The credit agreement includes normal default provisions, including a cross-default provision related to other defaulted agreements in excess of USD 50,000.

The credit available under the agreement was USD 10.4 million per December 31, 2008.

<u>Norse Pipeline Note</u>

In conjunction with the acquisition of the Norse Pipeline system in June 1999, the company entered into a financing agreement with Colombia Gas Transmission Corporation for USD 18.8 million. This financing agreement was restructured in December 2002. The face amount of the restructured financing agreement was USD 11 million with a stated interest rate of 5% on USD 6.3 million of the balance and 0% on USD 4.7 million of the balance. The effective interest rate on the USD 11 million face value was approximately 1%. As the restructured debt was issued at a below-market interest rate, the company determined the fair value of the debt to be USD 9.6 million per December 31, 2002 by imputing interest at 4.25%. The loan is subject to quarterly repayments and matures September 30, 2015.

The financing agreement is secured by the physical pipeline assets of Norse Pipeline. In addition, Norse Energy Corp. USA has entered into a Limited Guaranty and Surety Agreement with the seller for the first payments due in the amount of USD 6.3 million. After this amount has been repaid, no obligations by Norse Energy Corp. USA are due to seller.

As of December 31, 2008, USD 5.8 million was booked as outstanding under the note, of which USD 0.8 million is due in 2009 and therefore classified as short-term.

The company was in compliance with the covenants of the financing agreement.

NOTE 16

Asset retirement obligations

In accordance with agreements and legislation, the wellheads, production assets, pipelines and other installations may have to be dismantled and removed from oil and natural gas fields when the production ceases.

The following table presents a reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

(Amounts in USD 1,000)

Asset Retirement Obligation	2008	2007
At January 1,	12,632	10,640
Liabilities incurred during the year	238	5,028
Reversal of liabilities during the year	-	-5,807
Incurred removal expenditures Coral	-2,261	-
Liabilities associated with assets held for sale	-	-1,287
Changes in estimates of obligations (Coral)	5,182	3,993
Accretion expense	32	65
At December 31,	**15,823**	**12,632**
Short term Asset Retirement Obligations	10,950	-
Long term Asset Retirement Obligations	4,874	12,632

The value of the asset retirement obligations booked in Brazil of USD 15.3 million is based on an appraisal report prepared by Petrobras' (the operator of the Coral field) engineers according to Agencia Nacional de Petroleo / Petroleum National Agency's regulations. Asset retirement obligations for US gas fields amounted to USD 0.5 million per year-end.

Beginning early 2006, the partners in the Coral Consortium agreed to deposit funds monthly to a restricted bank account, to cover the expected decommissioning costs for the Coral field. The amount required to be deposited is calculated quarterly based on the proportion of produced reserves compared to remaining proven plus probable reserves. As of December 31, 2008, the company has deposit USD 7.5 million to cover the abandonment liability.

NOTE 17

Guarantees and pledges

Brazil
The parent Company, Norse Energy ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela-do-Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 30 and Sardinha licenses in accordance with the given concessions for the licenses.

Norse Energy ASA is liable for any default by the other partners in the consortiums, via the participation in the joint operating agreements.

All shares in Coplex and Rio das Contas have been pledged to two banks as collateral for the engagement in Brazil. In reality this means that most of the company's Brazilian assets are pledged to the lenders.

In accordance with the loan agreements with one of the lenders, the oil and gas production and the associated cash flow are pledged as collateral for the loan engagements. The oil production from Cavalo Marinho field is pledged to one of the company's lenders.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 8.8 million.

USA
Nornew Inc., the main E&P entity in Norse Energy US has pledged all its assets for the revolving credit line. The net book value of assets pledged under this agreement is USD 55.3 million. In addition, Mid American Natural Resources has pledged cash accounts as security for letters of credit, refer to note 13 for details on the restrictions on cash accounts.

NOTE 18 Other commitments and contingent liabilities

Brazil
In Brazil, the company has certain commitments related to its various licenses. In the BCAM-40 license, drilling of the Dendê prospect is currently estimated to cost about USD 5 million, while the budgeted drilling commitment for the Canela prospect is about USD 8 million and is under assessment by the partners. Following the farm-out of the BM-CAL 5 block in April 2009, the company does not have any further drilling commitments related to this block. In the BM-CAL 6 license, there are no further commitments. In the Round 9 exploration blocks (S-M-1035, S-M-1036 and S-M-1100), the work program commitment is related to seismic study and is part of the ANP requirement to be completed three years after the licenses have been awarded. The cost is estimated to be around USD 8 million.

The company has booked contingent liabilities related to various acquisitions that occurred in 2005 and 2006. These liabilities are contingent upon certain milestones and consist of USD 1.5 million related Cavalo Marinho, USD 4.0 million related to Sardinha and USD 3.0 million related to Estrela-do-Mar.

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

NOTE 19 Related parties transactions

Norse Energy has certain transaction with related parties. See note 10 in the parent company's notes for shares owned by Officers and Board directors in Norse Energy.

Norway
The company leases a parking space in Oslo from the CEO for NOK 1,500 per month, equalling approximately USD 3,200 and USD 3,000 in 2008 and 2007, respectively.

In early 2007, the company received 200,000 shares in Biofuel Energy ASA as payment for services rendered. During 2008, the company purchased another 300,000 shares in Biofuel and subsequently sold all shares. The shares were sold at the current fair market value of NOK 11 to Øivind Risberg, the CEO of Norse Energy Corp ASA. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, is also the former CEO of Biofuel Energy ASA.

Brazil
Jose Almeida dos Santos, Director of Norse Energy do Brazil owns 0.9% of Starfish Oil and Gas SA (Starfish). Norse Energy acquired in 2006 a 7.5% interest in Coral, Estrela-do-Mar and Cavalo Marinho fields from Starfish for USD 17.5 million, of which payment of USD 3 million is conditional to performance of the fields. In addition, the company owns interests in two onshore blocks in BT-REC-22 and BT-REC-30 where Starfish is the operator.

Norse Energy do Brasil has a long term note receivable to Kjetil Solbrække – Head of Brazilian operations. Refer to note 5 for details on the terms of this loan

USA
Norse Energy Corp USA, through its subsidiary Nornew Inc. performs well tending services and provides technical support and other expertise to Somerset Production LLC of which Norse Energy Corp US holds 18.08% of the shares. For 2008, Norse Energy has billed approximately USD 4.0 million for services and expense reimbursement. As of December 31, 2008 Norse Energy has a net receivable of USD 0.4 million.

Norse Energy Corp USA has a long term note receivable on Øivind Risberg – CEO and Head of US operations. Refer to note 5 for details on the terms of this loan.

NOTE 20

Financial risk management

Overview

The activities of the company are exposed to various financial risks; liquidity risk, credit risk and market risk. The latter includes foreign exchange risk, interest rate risk, price risk and energy marketing activity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance – more specifically the risk associated with our floating interest loans, currency loans and the price for oil and gas. Derivative financial instruments are used to hedge such risk exposures.

Financial risk management is carried out by employees in the parent company Norse Energy Corp. ASA in Oslo under policies approved by the Board of Directors. Management of Norse Energy Corp. ASA identifies, evaluates and hedges financial risks in close cooperation with the operating units in Brazil and USA. The Board of Directors reviews these written principles for overall risk management and the policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, as well as investment of excess liquidity.

This note presents information about the company's exposure to the risks mentioned above and the objectives and policies for measuring and managing such risks.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of our underlying business, parent company management maintains flexibility in funding by maintaining availability under committed credit lines and through the bond market. In addition, management obtains funding through reserve based lending in the US and assets based lending in both the US and Brazil.

Note 10 sets out the maturity profile of the financial liabilities of the Group based on contractual undiscounted payments.

Credit risk

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

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

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

The credit risk of the buyer of the oil (Petrobras) to default on the payment is considered to be very low. The credit risks for the sale of natural gas, and sale and purchase of natural gas via the subsidiary Mid American Natural Resources ("MANR") and from the US G&T Division is similarly considered to be low as historically the amount of default of receivables has been very low and the company has implemented routines to screen the customers. The company has secured significant guarantees from customers of MANR.

Note 10 sets out the Group's maximum risk exposure.

Market risk

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Norwegian Kroner (NOK), the US dollar (USD) and the Brazilian Reais (BRL). Management has set up a policy where group companies are required to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The company has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, the company has obtained loans in BRL to mitigate the currency risk arising from the subsidiaries net assets.

The company uses cross currency interest rate swaps to hedge the forward foreign currency risk associated with certain foreign currency denominated bond loans, all in NOK. The company's policy is to hedge all loans denominated in NOK except working capital for the headquarters in Norway. During late 2008 the Company renegotiated a substantial part of its interest bearing debt denominated in NOK to USD denominated loans, reducing the need for hedging derivatives. Currently, all remaining NOK-denominated liabilities are hedged with currency interest rate swaps

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

To manage interest rate risk, management retains a proportion of fixed to floating rate borrowings within limits approved by the Board of Directors. We will achieve this through obtaining a mix of fixed and floating rate term debt, and by entering into interest rate swaps.

Commodity price risk
The nature of the company's industry is subject to considerable price volatility, over which we hold little control, and a material decline in commodity prices could result in a decrease in our production revenue. To manage this risk, we strive to keep a balance between fixed and floating price contracts.

OIL
The company currently only has oil production in Brazil. Due to the volatility in the oil production volumes in recent periods, it is the company's policy not to sell any oil forward. Instead, oil put options that provide a floor for the price of oil sold in Brazil is deemed an appropriate risk management tool. It is company policy that oil put options are considered for a part of the expected production volumes.

As the production from the only oil producing field of the Company, the Coral field, declined rapidly in 4th quarter and is currently in entering into the abandonment phase, the exposure to oil price volatility is limited.

NATURAL GAS
The Group has natural gas production both in Brazil and in the US.

In Brazil, a fixed price contract, which is adjusted annually for inflation and with price renegotiation in three years, has been established with Petrobras. This take-or-pay contract has a term related to minimum and a maximum volume produced. As Petrobras is deemed as a higher creditworthy customer, no further risk management measures are deemed necessary for the natural gas production in Brazil.

In the US, the company's natural gas production is subject to market price fluctuations. As operator for most all of the US gas production, the company is also the seller of most all our production. The company's gas production is not exposed to significant production interruptions outside of the potential freeze ups wintertime or when interstate pipelines, which we transport most all our production, are down for maintenance or we have compression downtime as most of the gas production requires compression for sale.

Due to historical limited downtime, almost all our US gas production is therefore deemed acceptable to use fixed price forward sales contracts to secure certain profits level. These forward contracts can be either physical or financial derivative based. Historically the company has been using both the physical and financial markets to secure some of its future production. In general the Company has a policy to hedge not more than 60% of proven production, which could be increased to 80% in more special circumstances. Currently any hedging is subject to Board of Directors approval.

Marketing activity risk
Our Energy Marketing division generates a margin through sales and purchases of physical volumes of natural gas. The majority of the fixed price purchase-contracts, both financial and physical, are balanced with fixed price sales-contracts, financial or physical.

NOTE 21

Legal proceedings

Legal proceedings as of year-end 2008

Brazil

Norse Energy do Brasil is a party in a lawsuit filed by the Municipality of Cairu- Bahia, against ANP – Brazilian Petroleum Agency, Petrobras, Queiroz Galvão Oleo & Gas and Brasoil Manati Exploração Petrolífera, June 12th, 2008. The Municipality of Cairu is demanding that the concession agreement is declared invalid and that the royalty is increased from the current level of 7.5% to 10%. In addition the municipality claims that the difference of 2.5% is paid with retroactive effect from the startup date. Our legal advisors in the process evaluate the risk of financial liabilities associated with this lawsuit as remote. No accrual has been made related to this issue.

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

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

We are under an administrative proceeding with the tax authorities regarding PIS (Social Integration Program) and COFINS (Social Securities on Revenues) levied on financial revenues, which on December 31, 2008, totaled approximately USD 1 million. Based on the opinion of our legal advisors, we believe the risk of loss is considered remote. Accordingly, no accrual has been made in the financial statement related to this administrative proceeding.

USA

Two separate lawsuits on the docket involve injury to an employee of a drilling services company who was purported injured during drilling operations. In each respective case, the drilling company was under contract to Nornew, Inc, a subsidiary of Norse Energy Corp. ASA. In each lawsuit, Nornew, Inc. is contractually indemnified by the drilling company from liability for any damages awarded pursuant to these causes of action, thus Nornew does not anticipate any liability resulting from these causes of action.

In May 2008, a lawsuit was brought against Nornew, Inc. related to damages suffered to certain real property. The owner of the property contends that Nornew, Inc. trespassed onto her property and harvested and removed timber from it. She seeks damages of USD85,000 for the timber and USD255,000 for a treble damage award. The case is in the early stages and it is too difficult to determine the likelihood of an unfavorable outcome. We have not accrued any liabilities related to this claim.

One of the legal advisers of Norse Pipeline has advised the Company of the substantial likelihood that the parcels of real property comprising the "penny pipeline" will be assessed at amounts substantially in excess of the previous assessments for property tax purposes. This will require a legal challenge to maintain current assessment levels. The magnitude of the anticipated assessments cannot be determined at this time. The Company has not accrued for any amounts relating to this potential assessment.

NOTE 22

Company structure

The table below sets out Norse Energy's company structure as of December 31, 2008.

Company	Subsidiaries	Ownership (in %)	Nationality of subsidiary
Norse Energy Corp. ASA	Norse Energy AS	100	Norway
	Norse Energy Corp. USA	100	USA
	Naftex Energy Corporation	100	Canada
	Norse Energy do Brasil S.A.	99.99	Brazil
	Coplex Petroleo do Brasil Ltda.	0.01	Brazil
Naftex Energy Corporation	Naftex Energy (Whitehorse) Limited	100	Canada
	Naftex Energy (Yukon) Limited	100	Canada
Norse Energy do Brasil S.A.	Coplex Petroleo do Brasil Ltda.	99.99	Brazil
	Rio das Contas Produtora de Petroleo Ltda	57	Brazil
Coplex Petroleo do Brasil Ltda.	Rio das Contas Produtora de Petroleo Ltda	43	Brazil
Norse Energy Corp. USA	Nornew, Inc.	100	USA
	Nornew Energy Supply, Inc.	100	USA
	Norse Pipeline, LLC	100	USA
	Mid American Natural Resources, LLC	100	USA
	NEC Drilling, LLC	100	USA
	Strategic Energy Corporation	50	USA
Strategic Energy Corporation	MariCo Oil and Gas Corporation	100	USA
Nornew, Inc.	Vandermark Exploration, Inc.	100	USA
NEC Drilling LLC	Drillco Inc.	100	USA

NOTE 23 Subsequent events

Norway
In January 2009, the company terminated own bonds in the bond issues NEC01, NEC03 and NEC04. The company terminated MNOK 13.5 in NEC01, MNOK 200.0 in NEC03 and MNOK 126.0 in NEC04. The NEC03 bond issue was fully terminated and subsequently deleted, whereas the remaining loans in NEC01 and NEC04 after this termination were MNOK 286.5 and MNOK 27, respectively.

Brazil
In April 2009, the company accepted an offer from Petrobras and Queiroz Galvao to take over the company's 18.3% participating interest in block BM-CAL 5 offshore Brazil (the Copaiba discovery and Jequitiba prospect). Norse Energy will not receive any compensation, but the transfer of ownership implies that the company will not carry any further drilling costs in BM-CAL 5. As a result, an impairment charge related to the license and the capitalized exploration costs has been made per year-end 2008.

In April 2009, the company announced that the drilling of the Cravo prospect in BCAM-40 has been completed. The well was logged and showed that the main target in the Sergi sandstone was water bearing. The well will be plugged and abandoned. As a result, capitalized exploration costs per year-end 2008 have been charged to the income statement.

Refer to note 8 for further details on the related impairment charges.

USA
In March 2009, the company experienced a well fire while removing drill pipe in connection with drilling an onshore gas well in New York State. Property damage appears to be minimal, and no material accounting impact is expected.

NOTE 24 Reserves (unaudited)

The company has adopted a policy of regional Reserve Reporting using external third party companies to audit its work and certify reserves and resources according to the guidelines established by the Oslo Stock Exchange (OSE). Reserve and Contingent Resource estimates comply with the definitions set by the Petroleum Resources Management System (PRMS) issued by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE) in March 2007.

Each region (division) has a long standing relation with its certification agents; Gaffney, Cline & Associates in Brazil and Schlumberger Technology Corporation in the US.

The following is a summary of key results from the reserve reports (net to the company's share):

Norse segment	1P reserves (MMBOE)	2P reserves (MMBOE)	3P reserves (MMBOE)
Total US	4.35	7.25	8.32
Estrela-do-Mar	-	5.70	6.80
Cavalo Marinho	5.66	14.17	20.29
Manati	12.80	16.65	18.64
Total Brazil	18.46	36.52	45.73
NEC TOTAL	**22.81**	**43.77**	**54.05**

During 2008, the company has had the following reserves development:

Reserves Development	2P reserves (MMBOE)
Balance (previous ASR) as of December 31, 2007	48.12
Production 2008	-1.85[1]
Acquisitions/disposals since previous ASR	-9.72
Extensions and discoveries since previous ASR	-
New developments since previous ASR	3.88
Revisions of previous estimates	3.34
Balance (current ASR) as of December 31, 2008	**43.77**

1 Brazil 1.69 MMBOE, US 0.16 MMBOE

PARENT COMPANY FINANCIAL STATEMENTS

Parent Company Income Statement

(Amounts in NOK 1,000) **For the years ended December 31,**	**Note**	**2008**	**2007**	**2006**
Operating income				
Operating revenues		5,789	572	626
Total operating income	2	**5,789**	**572**	**626**
Operating expenses				
Sales, administrative and general expenses	3	30,966	16,235	14,763
Depletion and depreciation	4	140	77	44
Total operating expenses		**31,105**	**16,312**	**14,807**
Operating profit (loss)		**-25,317**	**-15,740**	**-14,182**
Financial items				
Interest received from subsidiaries	2	50,838	30,546	24,369
Other interest income		2,793	7,314	5,299
Other financial income	6	4,726	44,971	34
Currency gain/loss	6	169,632	-38,813	-28,377
Interest costs	5	-71,996	-69,635	-46,003
Loss on derivatives	6	-	-7,114	-24,110
Impairment of subsidiary	6	-4,325	-198,398	-
Other financial costs		-9,370	-5,859	-3,317
Net financial items		**142,299**	**-236,987**	**-72,105**
Results from continued operations		**116,982**	**-252,727**	**-86,286**
Taxes	7	-	-	-
Net profit (loss) from ordinary activities		**116,982**	**-252,727**	**-86,286**
Net profit (loss) for the year		**116,982**	**-252,727**	**-86,286**

The Board of Directors

Lysaker, April 20, 2009
Norse Energy Corp. ASA

Petter Mannsverk Andresen
Chairman of the Board

Bjarte Bruheim
Director

Kathleen Arthur
Director

Jon-Aksel Torgersen
Director

Lise Heien Langaard
Director

Øivind Risberg
Chief Executive Officer

Parent Company Balance Sheet

(Amounts in NOK 1,000)

As of December 31,	**Note**	**2008**	**2007**
ASSETS			
Non-current assets			
Furniture, fixtures and office equipment	4	487	258
Investment in subsidiaries	8	521,029	521,029
Loan to subsidiaries	2	710,000	435,541
Financial derivatives		-	-
Other non-current assets		-	60
Total non-current assets		**1,231,516**	**956,888**
Current assets			
Loan to subsidiaries	2	508,162	362,520
Other current assets		1,896	766
Cash and cash equivalents	9	62,627	156,354
Total current assets		**572,685**	**519,641**
TOTAL ASSETS		**1,804,202**	**1,476,529**

Parent Company Balance Sheet

(Amounts in NOK 1,000)

As of December 31,	Note	2008	2007
EQUITY AND LIABILITIES			
EQUITY			
Paid-in capital			
Share capital		310,785	310,345
Share premium reserve		1,310	295,605
Other paid-in capital		295,605	-
Treasury shares		-92	-92
Total paid-in capital		**607,607**	**605,858**
Retained earnings			
Other equity		118,496	-
Total retained earnings		**118,496**	**-**
TOTAL EQUITY	**10**	**726,104**	**605,857**
LIABILITIES			
Long term liabilities			
Provision for accruals		713	713
Pension liability	3	-	-
Bond loan	5	1,033,924	832,456
Total long term liabilities		**1,034,637**	**833,169**
Current liabilities			
Accounts payable		1,338	31
Other current liabilities		42,123	37,472
Total current liabilities		**43,461**	**37,503**
TOTAL LIABILITIES		**1,078,098**	**870,671**
TOTAL EQUITY AND LIABILITIES		**1,804,202**	**1,476,529**

Parent Company Statement of Cash Flow

(Amounts in NOK 1,000) **For the years ended December 31,**	**2008**	**2007**
Cash Flow from operating activities		
Net profit/(loss) for the year	116,982	-252,727
Depreciation	140	77
Employee options expensed	1,515	589
Impairment on investment in subsidiary	-	198,398
Change in other assets and liabilities	-152,887	43,670
Net cash flows from operating activities	**-34,250**	**-9,993**
Cash flows from investing activities		
Change in investments in subsidiaries	-	-97,158
Increase in loans to subsidiaries	-164,815	-138,220
Investments in office Equipment	-369	-64
Investment in Biofuel Energy ASA	-3,300	-60
Proceeds from sale shares in Biofuel Energy ASA	5,500	-
Net cash flows from investing activities	**-162,984**	**-235,502**
Cash flows from financing activities		
Proceed from issuance of long-term debt	211,599	197,500
Repayment of long-term debt	-213,500	-
Termination of currency swaps	74,901	-
Proceeds from sale of oil put options	2,524	-
Net proceeds from issuance of shares	1,750	-
Net cash flows from financing activities	**77,274**	**197,500**
Net increase in cash and cash equivalents	**-119,960**	**-47,995**
Cash and cash equivalents at the beginning of the year	156,354	218,457
Effects of exchange rate changes on the balance of cash held in foreign currencies	26,233	-14,108
Cash and cash equivalents at the end of the financial year	**62,627**	**156,354**

NOTES to Parent Company Financial Statements

NOTE 1

Accounting principles

The annual accounts for the parent company Norse Energy Corp. ASA have been prepared in accordance with the provisions of the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP). The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS) and are presented separately from the parent company.

The accounting policies under IFRS are described in note 1 to the consolidated financial statements. The accounting principles applied under NGAAP are in conformity with IFRS unless otherwise stated in the notes below.

The parent company's annual financial statements are presented in Norwegian Kroner (NOK) which is the currency used for accounting purposes. Shares in subsidiaries and other shares are recorded in Norse Energy Corp. ASA's accounts using the cost method of accounting. Bond loans are booked net of the amortized transaction costs, and the transaction costs are amortized over the loan period.

NOTE 2

Transactions and balances with subsidiaries

Operating revenues relate exclusively to the provision of administrative services to subsidiaries.

Outstanding loans and balances with subsidiaries (denominated in USD) amount to NOK 1.218 million, including accrued interest, per exchange rate at year-end 2008. Per year-end 2007, outstanding loans amounted to NOK 798 million.

The parent company's loan to the Brazilian subsidiaries Coplex, Rio das Contas and Norse Energy do Brasil, as well as the Norwegian subsidiary Norse Energy AS are considered to be short term, and amounts per year-end 2008 to USD 101 million (NOK 710 million) compared to USD 80 million (NOK 436 million) in 2007. Loan to Naftex at year-end 2008 and 2007 was written off to NOK 0 as recoverability was uncertain.

Loans to Norse Energy Corp. USA amounts to USD 73 million (NOK 508 million) per year-end 2008, and are considered to be long term loans. Per year-end 2007, these loans amounted to USD 67 million (NOK 363 million).

NOTE 3

Sales, administrative and general expenses

Salaries

The parent company had 6 employees at December 31, 2008, and an average of 5.5 employees during the year, compared to 5 employees at December 31, 2007 and an average of 5 during 2007. Wages and salaries for these employees are included in Sales, administrative and general expenses.

For details on both CEO Mr. Øivind Risberg and CFO Mr. Anders Kapstad remuneration for 2007 and 2008, refer to note 5 in the consolidated financial statements.

Norse Energy has two option programs amounting to a total of 18 million shares, approved by the Annual General Meetings held on May 23, 2006 and May 20, 2008. At the beginning of the year, 9.9 million of these options were granted to key employees, and no additional grants were made during 2008. For further details on this program, see note 11 in the consolidated financial statements.

Breakdown on wages and other compensation to the employees:

(Amounts in NOK 1,000)	**2008**	**2007**	**2006**
Wages	6,559	4,843	2,949
Employer's contribution	1,340	1,105	563
Pension costs	391	327	550
Other compensation	1582	848	586
Total wage expenses and other compensation	**9,872**	**7,123**	**4,648**

Board of Directors remuneration
Remuneration of members of the Board and committees of the Board is summarized below:

(Amounts in NOK 1,000)	**2008**	**2007**	**2006**
Petter Mannsverk Andresen, Chairman (former Board member)	350	375	150
Bjarte Bruheim, Board member	-	-	-
Joey S. Horn, former Board member	300	375	150
Jon-Aksel Torgersen, Board member	300	375	150
Kathleen Arthur, Board member	-	-	-
Lise Heien Langaard, Board member	300	-	-
Øivind Risberg, CEO (former Board member)	-	-	-
Axel C. Eitzen, former Chairman	-	425	200
Total	**1,250**	**1,550**	**650**

NOK 1,250,000 was paid in June 2008, of which NOK 625,000 related to 2007. Per year-end, NOK 625,000 is accrued for the second half of 2008.

NOK 1,550,000 was paid in June 2007, of which NOK 925,000 related to 2006. Per year-end 2007, NOK 625,000 was accrued for the second half of 2007. NOK 650,000 was paid in June 2006, of which NOK 325,000 related to 2005.

Pension
The company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("Lov om obligatorisk tjenestepensjon"). The company established a pension scheme in 2006 that meet the requirements of that law. In June 2007, the company changed the pension scheme to a defined contribution scheme. Subsequent to this change, no pension liability is recognized in the balance sheet. Expenses related to the new scheme of NOK 390,930 was incurred during 2008, and NOK 154,392 was incurred from June to December 2007.

Auditor
The company´s Annual General Meeting elected Deloitte as group auditors from the financial year 2008. Thus the 2008 figures include audit, tax and advisory services from both Deloitte and the predecessor group auditor Ernst & Young. The company expensed the following amounts (exclusive VAT) for services provided by the company's auditors:

(Amounts in NOK 1,000)	**2008**	**2007**	**2006**
Ernst & Young			
Statutory audit and audit related services	839	1,030	874
Tax services	-	-	95
Consulting, other services	-	44	163
Deloitte			
Statutory audit and audit related services	400	-	-
Tax services	58	-	-
Consulting, other services	11	-	-
Total expensed costs	**1,308**	**1,074**	**1,132**

NOTE 4 Furniture, fixtures and office equipment

The company has the following office equipment:

(Amounts in NOK 1,000)	Furniture and fixtures	IT and office equipment	Total
Acquisition cost at January 1, 2008	212	200	412
Investments	98	271	369
Disposals	-	-	-
Acquisition cost at December 31, 2008	310	471	781
Accumulated depreciation	99	195	294
Net Book Value at December 31, 2008	**211**	**276**	**487**
Depreciation for the year	27	113	140

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

NOTE 5 Bond loans

During 2008, bondholders in NEC01 representing NOK 14 million and bondholders in NEC03 representing NOK 139 million exchanged the existing bonds for bonds in a new issue; NEC04. The purpose of this was to extend the maturity date from July 2010 to September 2012 and to change from floating to fixed interest rate. The new callable bond issue was issued on September 25, 2008 for a total of NOK 153 million with a fixed interest rate of 11.5% and maturity date September 25, 2012.

Subsequent to this, the company extended a voluntary offer to the bondholders in this new NOK 153 million bond issue and in NEC03 to exchange the existing bonds at par value for bonds in two new issues. The purpose of these offers was to exchange existing bonds denominated in NOK for new bonds with USD currency and fixed interest of 9.5% and 10.707%, respectively. Bond holders representing NOK 126 million and NOK 60.5 million, respectively, accepted this offer. As a result of these exchanges in bonds, the company formally held own bonds of NOK 339.5 million by the end of the year. After the close of the year, these own bonds were terminated. This had no cash effect for the company.

NOK 286 million bond loan ("NEC01")
The company issued a 5-year senior unsecured bond loan in 2005, with a total borrowing limit of NOK 300 million. NOK 200 million was issued in July 2005, while the final tranche of NOK 100 million was issued in November 2005. The loan will mature on July 13, 2010, and is listed on the Oslo Stock Exchange (OSE) under the ticker "NEC01". The bond is a fixed 5-year bullet loan, is unsecured and has an annual coupon of 10%. The company is not holding any own bonds per year-end 2008.

During 2008, bondholders representing NOK 14 million exchanged bonds in NEC01 for a new bond issue called "NEC04" (see text below) thereby extending the maturity date of the loan and leaving the balance for NEC01 at NOK 286 million per year-end.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders.

Late November 2005 Norse Energy swapped NOK 250 million into USD 37.5 million at exchange rate NOK/USD 6.665 at a 5-year fixed rate of 10.89%. Norse Energy will receive 10% on NOK 250 million annually from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 10.89% on USD 37.5 million biannually until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 8.8 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 11.9 million. The accumulated profit and loss effect of the swap was recognized in 2008.

Upon issuance of NEC04 in September 2008, the company entered into a new currency swap in order to reduce the NOK exposure. A total of NOK 139 million was swapped into USD 24.1 million. Any upward/downward movement in the NOK/USD exchange rate will result in a loss/gain on the currency swap and a corresponding margin call/release. As the majority of the NEC04 bondholders later in the year exchanged their bonds into a new USD denominated bond loan, the currency swap was instead tailored to match the cash flows of NEC01 and the currency swap will last until July 2010. This transaction required an initial USD 1.7 million deposit (fixed until maturity) and any upward movement NOK/USD and/or LIBOR rates will trigger extra margin calls. A fall in NOK/USD and/or LIBOR rates will relieve the company of less margin calls. Per December 31, 2008, the deposit totaled USD 6.9 million. Per year-end, the fair value of this currency swap was negative USD 4.7 million. The value of the currency swap increased the carrying value of the bond loan.

The main covenants for the bond loan are as follows:
- Book equity of minimum USD 50 million in the parent company.
- Within a calendar year from when the loan was issued, Norse cannot make any dividend payments; shares repurchases, or make any other distributions that constitutes more than 50% of net profits after taxes.
- Total equity shall constitute at least 30% of “Capital employed” in the parent company. “Capital employed” is defined as Norse Energy’s total equity plus interest bearing debt, including financial instruments that have the commercial effect of borrowing, including guarantees and leasing commitments.

The interest from this loan amounted to approximately NOK 25 million in 2008.

USD 75 million bond loan (“NEC02”)
In July 2006, the company issued 50,000 bonds at a nominal value of USD 1,000 per bond for a total of USD 50 million and in November 2006 another 25,000 bonds was issued at a nominal value of USD 1,000 per bond, bringing the total bond loan to USD 75 million. The bonds mature on July 14, 2011, and are listed on OSE under the ticker code “NEC02”. The bond loan is unsecured and carries a fixed interest rate of 6.5% p.a.

Each bond subscriber was allotted 1,000 warrants per bond free of charge. The warrants give the holder the right to subscribe for one new share in the company at an exercise price of NOK 6.10 per share. The warrants are listed separately on OSE under the ticker code “NECJ”.

In accordance with NGAAP, the bond loan is booked net of the amortized transaction costs. These transaction costs will be amortized over the loan period. As of December 31, 2008, the loan amounted to NOK 525 million.

The interest from this loan amounted to approximately NOK 28 million in 2008.

NOK 0.5 million and USD 8.8 million bond loan (“NEC03PRO” and “NEC03”)
In June 2007, the company raised NOK 100 million in a 3-year bond issue yielding 3 months NIBOR plus a margin of 4.25%. In August 2007, the company raised another NOK 100 million under this facility at the same terms. The bond issue is unsecured and it is listed on the Alternative Bond Market (ABM) as “FRN Norse Energy Corp. 07/10 CALL”.

During 2008, bondholders representing NOK 139 million exchanged their bonds for bonds in NEC04, thereby reducing the loan balance to NOK 61 million. Towards the end of the year, bondholders representing NOK 60.5 million converted their bonds into USD, accepting the company’s offer and a new bond issue named NEC03 of USD 8.8 million was established using an exchange rate USD/NOK of 6.92. NOK 0.5 million remained under the original loan facility.

Norsk Tillitsmann ASA (“Norwegian Trustee”) is representing the various bond holders.

During November 2007, Norse Energy swapped the NOK 200 million into USD 36.7 million at average exchange rate NOK/USD 5.450 at a floating interest rate of 3 months LIBOR + a margin of 4.40%. Norse Energy will receive 3 months NIBOR + 4.25% quarterly from Nordea until maturity in July 2010. Norse Energy is obliged to pay Nordea 3 months LIBOR + 4.40% quarterly until maturity in July 2010. The swap transaction is fair value adjusted each quarter, and any fair value adjustment is booked towards profit and loss. Per year-end 2007 the fair value of the currency swap was USD 0.2 million. In July 2008, the company terminated the currency swap at USD/NOK rate of 5.03, realizing a gain of USD 3.0 million. The accumulated profit and loss effect of the swap was recognized in 2008.

The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The interest from these loans amounted to approximately NOK 14 million in 2008.

NOK 27 million and USD 17.8 million bond loan ("NEC04PRO" and "NEC04")
The new NEC04 bond loan was established during the year upon the exchange of bonds from NEC01 and NEC03 for a total of NOK 153 million. This is a 4-year bond issue yielding fixed interest of 11.5% with semi-annual payments. Next, bondholders representing NOK 126 million converted their bonds into USD, accepting the company's offer and a new bond issue NEC04 of USD 17.8 million was established using an exchange rate of USD/NOK 7.08. NOK 27 million remained under the original loan facility.

Norsk Tillitsmann ASA ("Norwegian Trustee") is representing the various bond holders. The main covenants for the bond loan are the same as the NOK 286 million bond loan.

The interest from these loans amounted to approximately NOK 5 million in 2008.

NOTE 6

Derivatives and impairment of subsidiary

The company is utilizing various financial instruments to hedge against financial market risks. For a discussion on financial market and business risks, refer to note 20 in the consolidated financial statements.

In addition to these derivatives, the company has also entered into a new currency swap in 2008 related to NEC01, swapping parts of the loan from NOK to USD. However, the effect of the currency swap has been presented as part of the currency gain/loss for the year as it is directly linked to the gain or loss that derives from the bond loan.

(Amounts in NOK 1,000)	2008	2007	2006
Oil put option	-	7,114	11,265
Revus forward contract	-	-	12,845
Total loss on derivatives	**-**	**7,114**	**24,110**
Oil put option	2,524	-	-
Revus forward contract	-	44,100	-
Sale of Biofuel shares	2,140	-	-
Other items	62	871	34
Total gain on derivatives	**4,726**	**44,971**	**34**

The shares in Biofuel Energy were sold during 2008, resulting in a gain of NOK 2.1 million. See further details under note 12 Related parties. The remaining oil put options were settled in late 2008, and resulted in a total gain of NOK 2.5 million. Following this sale, the company does not hold any oil put options.

The Revus forward contract was settled in the beginning of 2007 and resulted in a net gain for the year of NOK 44.1 million.

The impairment of subsidiary in 2007 of NOK 198 million is related to Norse Energy's investment in Naftex (NOK 189 million) and receivable on Naftex (NOK 9 million). Following this impairment charge, the investment in and receivable on Naftex was booked at NOK 0. For 2008, an impairment charge related to a receivable on Naftex of NOK 4 million was charged to the income statement.

Refer to note 10 in the consolidated financial statements for details on the derivatives above.

The company's foreign exchange gain in 2008 of NOK 169 million is mainly a result of gain on USD denominated intercompany receivables as the USD strengthened through 2008. This gain is only partially offset by the foreign exchange loss on the company's USD denominated external loans and currency swaps.

NOTE 7

Tax

Specification of the year's income tax expense:

(Amounts in NOK 1,000)	2008	2007	2006
Tax payable	-	-	-
Change in deferred tax	-	-	-
Total Income tax	-	-	-

Specification of the basis for tax payable:

	2008	2007	2006
Net profit/(-) loss for the year before tax	**116,982**	**-252,727**	**-86,287**
+ Effect of permanent differences	753	145,643	7,965
+ Effect of temporary differences	-117,735	107,084	78,322
Basis for tax payable	-	-	-

Specification of the deferred tax:

	2008	2007	2006
Furnitures, fixtures and office equipment	121	104	114
Accounts receivable	-13,604	-9,279	-
Financial instruments	-17,268	56,240	25,315
Pensions and other accruals	-775	-726	-516
Loss carried forward	-743,739	-939,339	-810,828
Basis for calculating deferred tax asset	**-775,265**	**-893,000**	**-785,915**
Calculated deferred tax asset (28%)	217,074	250,040	220,056
Deferred tax asset allowance	217,074	250,040	220,056
Deferred tax asset, recognized in Balance Sheet	-	-	-

The tax loss carried forward has an unlimited time limit. The deferred tax asset is not booked in the balance sheet due to uncertainty of future taxable profit. Certain changes have been made to the 2007 figures to conform to the filed 2007 tax returns.

NOTE 8

Investment in subsidiaries

Investments in subsidiaries are booked at the lower of cost and fair market value. Per year-end 2008, the holdings in subsidiaries consist of the following:

(Amounts in NOK 1,000)

Company	Headquarter	Holding and voting rights	Book value
Naftex Energy Corporation	Vancouver, Canada	100%	-
Norse Energy AS	Lysaker, Norway	100%	100
Norse Energy do Brasil S.A.	Rio de Janeiro, Brazil	99%	286,707
Norse Energy Corp. USA	Houston, TX, USA	100%	234,218
Coplex Petroleo do Brasil Ltda.	Rio de Janeiro, Brazil	0.01%	4
Total			**521,029**

Coplex Petroleo do Brasil Ltda is wholly owned by Norse Energy do Brasil S.A.

NOTE 9

Cash and cash equivalents

Per December 31, 2008, NOK 48 million is restricted cash related to the currency swap on the NOK 286 million bond loan, and another NOK 0.6 million of the cash accounted for in the balance sheet is restricted for tax deductions related to wages.

NOTE 10

Shareholders equity and shareholder information

Nominal share capital in the parent company at December 31, 2008 amounted to NOK 310,784,786, consisting of 353,164,530 shares at a par value of NOK 0.88.

The table below shows the changes in equity in the Company during 2007 and 2008:

(Amounts in NOK 1,000)	Share capital	Share premium reserve	Other paid-in capital	Treasury shares	Other equity	TOTAL
Equity at January 1, 2007	310,345	626,987	-	-92	-79,245	857,995
Employee stock option expense	-	-	-	-	589	589
Net profit/(-) loss for the year	-	-252,727	-	-	-	-252,727
Transfer from share premium reserve to cover loss	-	-78,656	-	-	78,656	-
Equity at December 31, 2007	**310,345**	**295,605**	**-**	**-92**	**-**	**605,858**
Equity at January 1, 2008	310,345	295,605	-	-92	-	605,858
Share premium reserve reduction (not formallyregistered)	-	-295,605	295,605	-	-	-
Employee stock option expense	-	-	-	-	1,515	1,515
Stock options exercised	440	1,310	-	-	-	1,750
Net profit/(-) loss for the year	-	-	-	-	116,982	116,982
Equity at December 31, 2008	**310,785**	**1,310**	**295,605**	**-92**	**118,496**	**726,104**

Treasury shares

The company currently holds 104,605 treasury shares as of December 31, 2008, with a nominal value of NOK 92,052.

Ownership structure

The company had 4,729 shareholders per December 31, 2008. The twenty largest shareholders per year-end were:

	Shareholder	Number of shares	Holding in %
1	GOLDMAN SACHS INT. EQUITY	46,660,953	13.2%
2	UBS AG, LONDON BRANCH	32,989,786	9.3%
3	NORDEA BANK NORGE ASA MARKETS	14,000,000	4.0%
4	BJARTE HENRY BRUHEIM	11,300,000	3.2%
5	BANK OF NEW YORK, BRUSSELS BRANCH	10,292,702	2.9%
6	GOLDMAN SACHS INT. EQUITY	9,131,000	2.6%
7	VIKSUND AS	6,993,000	2.0%
8	SOLODDEN AS	6,561,394	1.9%
9	BANK2 ASA	6,257,500	1.8%
10	DANSKE BANK A/S	5,249,583	1.5%
11	NESTOR SHIPPING AS	5,061,000	1.4%
12	ALDEN AS	4,210,000	1.2%
13	JAN HENRY FARSTAD	4,107,616	1.2%
14	KAJUKA AS	3,500,000	1.0%
15	DNB NOR SMB	3,200,000	0.9%
16	WESTCAP A/S	3,000,000	0.8%
17	SAF-INVEST AS	3,000,000	0.8%
18	TYRHOLM & FARSTAD A/S	2,529,616	0.7%
19	NORDEA BANK DENMARK AS	2,428,352	0.7%
20	CSPN HOLDING AS	2,200,000	0.6%
	TOP 20 SHAREHOLDERS	**182,672,502**	**51.7%**
	OTHER SHAREHOLDERS	170,492,028	48.3%
	TOTAL SHARES	**353,164,530**	**100.0%**

Shares owned by the CEO and board members per December 31, 2008:

Shareholder	Position	# of shares	% of total
BJARTE BRUHEIM	DIRECTOR, NORSE ENERGY CORP. ASA	25,300,000	7.16%
ØIVIND RISBERG	CEO, NORSE ENERGY CORP. ASA	19,811,894	5.61%

In addition, Mr. Risberg holds 1,445,218 warrants in the company.

Shareholder distribution per December 31, 2008:

Amount of shares	# of shareholders	% of total	# shares	Holding in %
1–1,000	543	11.5%	318,593	0.1%
1,001–5,000	1,496	31.6%	4,328,486	1.2%
5,001–10,000	908	19.2%	7,564,274	2.1%
10,001–100,000	1,461	30.9%	50,221,539	14.2%
100,001–1,000,000	279	5.9%	77,828,695	22.0%
1,000,001 +	42	0.9%	212,902,943	60.3%
TOTAL	**4,729**	**100.0%**	**353,164,530**	**100.0%**

See note 11 to the consolidated financial statements for the company's option scheme and granted options.

NOTE 11

Guarantee liabilities

Norse Energy Corp. ASA has provided a performance guarantee to the Brazilian petroleum directorate ANP, in terms of which the company is liable for the commitments for Coral, Estrela do Mar, Cavalo Marinho, BCAM-40, BM-CAL 5 & 6, BT-REC 30 and Sardinha licenses in accordance with the given concessions for the licenses. The guarantee is unlimited.

The parent company has provided guarantee letters for certain loans that its subsidiaries have in Brazil, totaling USD 21 million. The parent company has also provided guarantee letters on behalf of the subsidiary Mid American Natural Resources totaling USD 0.6 million.

See also further details about financial and market risk in note 20 to the consolidated financial statements.

NOTE 12

Related parties

The parent company leases offices spaces from Eitzen Holding AS – a company controlled by Axel C. Eitzen, the former chairman of the Board of Norse Energy. For 2008 and 2007 the company was invoiced NOK 679,547 and NOK 510,592 in lease expenses, respectively. No liabilities were outstanding per the end of 2008 or 2007.

In early 2007, the company received 200,000 shares in Biofuel Energy ASA ("Biofuel") as payment for services rendered. The chairman of the Board in Norse Energy, Petter Mannsverk Andresen, was at the time also the CEO of Biofuel Energy ASA. During 2008, the company purchased another 300,000 shares in Biofuel in a public offering for NOK 11 per share. Following the public offering, the company sold all 500,000 shares to Øivind Risberg, the CEO of Norse Energy, at the same price – NOK 11 per share.

NOTE 13

Financial market risk and business risk

See details in note 20 in the consolidated financial statements.

NOTE 14

Subsequent events

Termination of own bonds

In January 2009, the company terminated own bonds in the bond issues NEC01, NEC03 and NEC04. The company terminated MNOK 13.5 in NEC01, MNOK 200.0 in NEC03 and MNOK 126.0 in NEC04. The NEC03 bond issue was fully terminated and subsequently deleted, whereas the remaining loans in NEC01 and NEC04 after this termination were MNOK 286.5 and MNOK 27, respectively.

AUDITOR´S REPORT

Deloitte.

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Translation from the original Norwegian version

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

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Norse Energy Corp. ASA as of 31 December 2008, showing a profit of NOK 116.982.000 for the parent company and a loss of USD 10.540.000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the parent company's financial statements. The group accounts comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the parent company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2008, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the group accounts are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit, is consistent with the financial statements and complies with law and regulations.

Without qualifying our opinion, we draw attention to the information in the Board of Director's report related to the uncertainty concerning the Company's ability to secure funding of its capital expenditure program.

Oslo, 20 April 2009
Deloitte AS

Ingebret G. Hisdal (sign)
State Authorised Public Accountant (Norway)

Audit & Advisory. Tax & Legal. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Medlemmer av Den Norske Revisorforening
org.nr: 980 211 282

STATEMENT ON CORPORATE GOVERNANCE in Norse Energy Corp. ASA

Norwegian listed companies are obliged to follow the principles set forth in The Norwegian Code of Practice for corporate governance. Norse Energy seeks to comply with all the requirements covered in the code. For a more in depth corporate governance report, reference is made to our website www.NorseEnergy.com.

1 Implementation and reporting on corporate governance
Norse Energy acknowledges that successful value-added business is profoundly dependent upon transparency and internal and external confidence and trust. Norse Energy believes that this is achieved by building a solid reputation based on our financial performance, our values and by fulfilling our promises. Thus, good corporate governance combined with Norse Energy's Code of Conduct is an invaluable tool in helping the Board to ensure that we properly discharge our duty.

Corporate Governance in Norse Energy
The Board will strive to work as an active and dynamic forum, acting in the best interest of Norse Energy and its beneficiaries. The Board is headed by the Chairman of the Board. The responsibility of the Chairman is to lead the work of the Board, and to ensure that this is in accordance with Norwegian law and the corporate governance directives. The Norwegian Code of Practice for corporate governance as of December 4, 2007 comprises 15 points as taken into account below.

2 Business Idea and Vision and Articles of Association
Norse Energy is the result of a merger of NaturGass (USA) AS, a Norwegian private company and Northern Oil ASA, a Norwegian publicly traded entity, whose shares were listed on the Oslo Stock Exchange ("OSE"). Norse Energy Corp. was listed on the OSE on July 13, 2005.

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

The company's activities are divided into four segments:

- **Exploration and Production of oil and gas in Brazil**
  Norse Energy participates in multiple oil and gas exploration and production licenses primarily located in the Santos Basin and in the Camamu-Almada Basin offshore Brazil. One of these fields, Coral, has been in production since March 2003 until abandonment in December 2008, while the Manati gas field commenced production in January 2007.

- **Exploration and Production of natural gas in the US**
  The US E&P division is located in northern Appalachian Basin with offices in Buffalo, New York, and Pittsburgh, Pennsylvania.

- **Gathering & Transmission (pipeline system) in the US**
  The company owns and operates approximately 550 miles of gathering and transmission pipelines located in western New York and north-western Pennsylvania. The lines have outlets into major interstate pipelines, as well as to local end users.

- **Energy Marketing Division in the US**
  The EM division is made up of Mid American Natural Resources L.L.C., an established energy marketing and trading firm in the Appalachian region.

3 Equity & Dividend Policy
The group's book equity at December 31, 2008 was USD 67.7 million representing an equity ratio of 17%. The stock price closed at the end of the year at NOK 3.54.

Norse Energy's Board of Directors will assure that the company at all times has an equity capital at a level appropriate to its objectives, strategy and risk profile. The oil and gas E&P business is highly capital dependent, requiring Norse Energy to be sufficiently capitalized.

Norse Energy's objectives are to create lasting values and provide competitive returns to its shareholders through profitability and growth. Dividends should arise in line with the growth in the company's results while at the same time recognizing the need for financial preparedness for cyclical market movements, as well as opportunities for adding value through new profitable investments.

The 2008 General Meeting authorized the Board to increase the share capital with up to NOK 146,372,393.20 and to acquire up to 35,266,453 of the company's own shares. The mandate was not restricted to defined purposes, as recommended by the Code, and is valid until the next Annual General Meeting. None of the mentioned authorizations were exercised during the authorization period.

4 Equal Treatment of Shareholders and Close Associates
Norse Energy has one class of shares representing one vote at the Annual General Meeting (AGM). The Articles of Association contains no restriction regarding the rights to vote. Board members, management and close associates must clear transactions prior to purchase of shares in the company.

As mentioned in chapter 3, the 2008 General Meeting gave the Board authority to increase the company's share capital. According to the resolution, the existing shareholder's preferential rights to subscription of shares will be set aside.

5 Freely Negotiable Shares
The Norse Energy Corp. ASA share is listed on The Oslo Stock Exchange. There are no restrictions on negotiability in Norse Energy's Articles of Association. Hence Norse Energy's shares are freely negotiable, and thus no restrictions on buying or selling the shares in Norway, others than those required by Norwegian legislation.

6 General Meetings
The Annual General Meeting is the company's highest body. Norse Energy's Articles of Association and The Norwegian Public Limited Liability companies Act stipulate the role and mandate of the AGM.

Norse Energy's Annual General Meeting will be held by the end of June each year. An invitation and agenda (including proxy) will be sent out two weeks prior to the meeting to all shareholders in the company. The invitation is also distributed as a stock exchange notification and posted on the company's web site prior to the meeting. Present at the AGM is the Chairman of the Board and the CEO. After the meeting the Minutes are released on our website www.norseenergy.com. Shareholders who are unable to attend in person are encouraged to participate by Power of Attorney. Dividend, remuneration to the Board and the election of the Auditor, will be decided at the AGM. Separate directions for a calling notice for the AGM have been established.

7 Nomination Committee
Norse Energy has for the time being no Nomination Committee. Due to the structure of the company, the company has not found a need to establish an independent nomination committee. The Board will appoint a nomination committee as a sub-committee of the Board on an ad hoc basis if required.

8 Board of Directors: Composition and Independence
The composition of the Board of Directors ensures that the Board can represent the common interests of all shareholders. Norse Energy's Board of Directors has five members; two females and three males as required in Norway.

The Chairman of the Board was unanimously elected by the Board members after the resignation of the former Chairman in 2007. The company has not experienced a need for a permanent deputy Chairman. If the Chairman cannot participate in the BOD meetings, the Board will elect a deputy Chairman on an ad-hoc basis. The Board has established a Compensation Committee and an Audit Committee.

The company's website and annual report provides detailed information about the Board members expertise and capacities.

The Board is aware of the need for diversification of its members, in order to add value and to best serve the common interests of Norse Energy and its shareholders (particularly with respect to expertise, experience, social skills, and independence, flexibility and time capacity).

The Board needs to be able to work as a forum in the best interest of Norse Energy and its shareholders.

The Board has an Audit Committee, comprising Petter Mannsverk Andresen and Lise Heien Langaard. Furthermore the Board has appointed a Compensation Committee, comprising of Bjarte Bruheim and Jon-Aksel Torgersen. The members are independent of the executive management.

9 The Work of the Board of Directors
The Board has ensured that the activities in Norse Energy are soundly organized. This includes drawing up plans and budgets for the activities of the company, keeping itself informed of the company's financial position and ensuring that its activities, accounts and asset management are subject to adequate control.

An annual schedule for Board meetings is prepared and discussed together with a yearly plan for the work of the Board.

The Board of Directors have the overall responsibility for the management and supervision of the activities in general. The Board decides the strategy of the company and has the final say in new projects and/or investments. The Chairman of the Board ensures that the Board's duties are undertaken in efficient and correct manner. The CEO is responsible for the company's daily operations and ensuring that all necessary information is presented to the Board. The Board shall stay informed of the company's financial position and ensure adequate control of activities, accounts and asset management. The Board member's experience and skills are crucial to the company both from a financial as well as an operational perspective.

10 Risk management and internal control
Financial and internal control as well as short- and long-term strategic planning, and business development, all according to the Norse Energy business idea and vision and applicable laws and regulations, are the BOD's responsibilities and the essence of our work. Hence we must focus on ensuring proper financial and internal control, including risk control systems.

The Board approves the company's strategy and level of acceptable risk which is documented in the guiding tool "Financial Risk Management".

The company's primary products, crude oil and natural gas, are exposed to continuous price fluctuations. Furthermore, the development of oil and gas fields in which the company is involved is associated with significant technical risk. Such operations might occasionally lead to cost overruns and production disruptions, as well as delays compared with the plans laid out by the operators of these fields. To mitigate such financial risks, the company has entered into several financial derivative transactions such as hedging of natural gas production, purchase of currency swaps (partially with fixed interest) and purchase of oil put options.

For further details on the use of financial instruments, refer to note 10 in the consolidated financial statements and the company's guiding tool "Financial Risk Management" described in note 20 in the consolidated financial statements.

11 Remuneration of the Board of Directors
The remuneration of the Board of Directors will be decided at the AGM each year. The Board members currently receive remuneration for their work according to the following rates per year:

Board chair:	NOK 350,000
Board member:	NOK 300,000

12 Remuneration of Executives
Norse Energy has appointed a Compensation Committee which meets regularly. The objective of the committee is to determine the compensation structure and levels of the company's CEO.

Wages to and other remuneration of other members of management shall be decided by the administration. The principles of remuneration shall be based on relevant directions approved by the Board. Remuneration to the CEO shall be at market terms and decided by the Board and made official at the AGM every year. Awarded options must be approved at the AGM.

The Annual Report shall state the management's regular wages, payment in kind, bonus schemes, option agreements, pension schemes and redundancy pay.

Detailed information about options and remuneration for executives and Board members is provided in the Annual Report and on the company's web site as well as notifications to the Oslo Stock Exchange.

13 Information and Communication
Norse Energy's information policy is based on transparency and on providing the shareholders, investors and financial market with correct and timely information, in a way that safeguards the principle of equal treatment of all shareholders, and satisfies the regulations and practice applicable to listed companies. Norse Energy's key communication objectives are visibility, transparency and openness, and the company will achieve these objectives through precise, relevant, timely and consistent information. Norse Energy co-ordinates its external and internal communication activities to ensure that the company is presented in a clear and consistent manner, and that the company's brand and reputation is managed properly. All sensitive information will be controlled and disclosed in compliance with statutory laws and the relevant stock exchange rules and regulations. Primary insiders can trade in the company's shares eight weeks after the quarterly results are published.

Norse Energy gives four Quarterly presentations a year to shareholders, potential investors and analysts, in addition to presentations at conferences in and out of Norway.

- Norse Energy's website, www.NorseEnergy.com contains comprehensive information regarding the company, its activity and contact information, and is updated on a regular basis. In addition all presentation materials are available on the website.

- Norse Energy distributes all sensitive press releases as well as all reports through Cision and Oslo Stock Exchange.

- Norse Energy publishes an annual financial calendar which can be consulted on the Oslo Stock Exchange website, through news agencies and on the company's website.

14 Takeovers
As of today the Board of Directors does not hold any authorizations as set forth in Section 4–17 of the Securities Trading Act, to effectuate defence measures of a takeover bid if launched on Norse Energy Corp. ASA.

The Board may be authorized by the General Meeting to acquire its own shares, but will not be able to utilize this in order to obstruct a takeover bid, unless approved by the General Meeting following the announcement for a takeover bid.

15 Auditor
Deloitte AS was appointed as auditors last year.

Norse Energy has appointed an Audit Committee, which will meet with the auditor regularly. The objective of the committee is to focus on internal control, independence of the auditor, risk management and the Company's financial standing, including the quarterly and annual financial statements.

The Auditor will send a complete Management Letter/Report to the Board – which is a summary report with comments from the auditors including suggestions of any improvements if needed. This is an important tool for the Board in order to get a better overview and fulfil the control duties. The Auditor is also present in at least one Board meeting each year.

In addition, the Board should receive an annual written confirmation from the Auditor stating that the Auditor continues to satisfy the requirements for independence. The Auditor should provide the Board with a summary of all services that have been undertaken for the company, in addition to the audit work.

DEFINITIONS

Glossary and definitions

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
Bm^3	Billion cubic meters
BOE	Barrel of oil equivalent
Btu	British Thermal Units, the energy content needed to heat one pint of water by one degree Fahrenheit
Dth	Decatherm, the approximate energy equivalent of burning 100 cubic feet of natural gas
IP	Initial production
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm^3	Million cubic meters
Tcf	Trillion cubic feet

Conversion factors

Natural gas and LNG	To billion cubic metres NG	billion cubic feet NG	million tonnes oil equivalent	million tonnes LNG	trillion British thermal units	million barrels oil equivalent
From			**Multiply by**			
1 billion cubic metres NG	1.00	35.30	0.90	0.73	36.00	6.29
1 billion cubic feet NG	0.028	1.00	0.026	0.021	1.03	0.18
1 million tonnes oil equivalent	1.111	39.20	1.00	0.805	40.40	7.33
1 million tonnes LNG	1.38	48.70	1.23	1.00	52.00	8.68
1 trillion British thermal units	0.028	0.98	0.025	0.02	1.00	0.17
1 million barrels oil equivalent	0.16	5.61	0.14	0.12	5.80	1.00

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