

Annual Report

Norwegian Energy Company AS

2005

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General

Norwegian Energy Company AS (Noreco) was established in January 2005 as an independent Norwegian oil company. The company's headquarter is situated in Stavanger.

Noreco shall be the local energy company that is rooted through the management and employees' ownership.

The ambition is to establish Noreco as a long-term industrial company with strong presence on the Norwegian continental shelf as basis for the international ambition.

Owner share

Noreco got in 2005 following production licenses through awards in predefined areas (APA):

Field	Noreco's share
PL 378	20 %
PL 382	20 %
PL 385	20 %

EHS (environment, health and safety)

Quality control

The company has developed control systems for the company that covers all necessary business aspects of Noreco's work. The control systems are established according to the demands that are expected of qualified licensees on the Norwegian continental shelf. Noreco's control systems includes Noreco's handling of EHS. Noreco wants to continue to develop its systems as a preparation to be able to qualify as an operator on the Norwegian continental shelf.

Health and work environment

Sick leave in 2005 was 0%. Noreco is establishing a company physician system. Analytical studies of the work environment will be implemented as a part of the company's routine and be up and going in 2006.

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Safety management

Internal

There were no accidents in the company in 2005. EHS-work has high priority in Noreco's management strategy. Noreco's own activities hasn't created pollution or other damages on the environment.

Noreco's licenses

Noreco has no shares in producing fields.

Financial statements

Key figures

Noreco had no production in 2005 and therefore no operating revenues.

Income before taxes was NOK -24,75 million in 2005. Net income was -5,49 million.

Net income and the balance sheet give true overview over the development and result of the work that the company does, and over the company's situation per 31.12.2005.

Exploration activities

Noreco got 3 exploration licenses during 2005, each was 20 %.

The company's future

Noreco has still no production. The company's revenues will be depended on future development of fields, new awards of licenses and/or acquisition of production.

Noreco works to expand its portfolio of exploration licenses in Norway in 2006 through the award rounds. This will secure the company's future.

According to Norwegian Accounting Act § 3-3, it is confirmed that the assumption for future business is presence and that the financial statement is done according to this.

Gender equality status

The company follows Norwegian Gender Equality Act when hiring new personnel. Per 31.12.2005 it was 4 men and 2 women in the company.

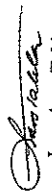
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Proposal for treatment of loss

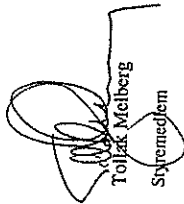
The board proposes that this year's loss at NOK 5,49 million transfers to other equity. Total equity per 31.12.2005 was NOK 49,94 million. This is equal to a 76 % equity ratio.

Stavanger, 31. December 2005

22. March 2006



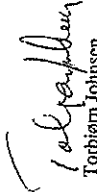
Lars Arne Takla
Styrets leder



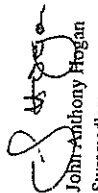
Tolleik Melberg
Styremedlem



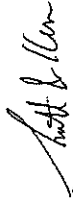
Gunnar Håvørssen
Styremedlem



Torbjørn Johnsen
Styremedlem



John Anthony Hogan
Styremedlem



Scott Irving Kerr
Daglig leder/Adm.direktør

Norwegian Energy Company AS
Balance sheet December 31

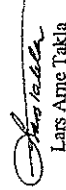
NOTE	EQUITY AND LIABILITIES	2005
	Capital and reserves	
	Paid-in capital	2.135.000
4,5	Share capital (2135 shares at NOK 1000)	<u>51.904.861</u>
4,5	Not registered capital increase	
	Total paid-in capital	<u>54.039.861</u>
	Retained earnings	
5	Other equity	-4.099.900
	Total retained earnings	<u>-4.099.900</u>
	Total equity	<u>49.939.962</u>
	Liabilities	
	Trade creditors	10.420.661
	Other current liabilities	<u>5.283.440</u>
	Total creditors, amounts falling due within one year	<u>15.704.100</u>
	Total liabilities	<u>15.704.100</u>
	TOTAL EQUITY AND LIABILITIES	<u>65.644.062</u>

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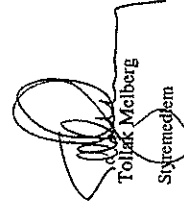
Cash flow statement

	2005
CASH FLOW FROM OPERATING ACTIVITIES	
Profit before taxes	-24 753 130
Depreciation & amortisation	58 422
Change in account payables	10 420 661
Change in other accounts	3 372 240
Net cash flow operations	<u>-10 901 807</u>
CASHFLOW FROM INVESTING ACTIVITIES	
Payments from purchase of plant and equipment	-1 522 157
Net cash flow from investing activities	<u>-1 522 157</u>
CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from equity (net after emission costs)	54 039 861
Net cash flow from financing activities	<u>54 039 861</u>
Net cash flow for the year	41 615 897
Cash and cash equivalents at the beginning of the year	0
Cash and cash equivalents at the end of the year	<u>41 615 897</u>

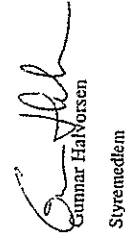
Stavanger, 31. December 2005
22. March 2006


Lars Arne Takla
Styrets leder

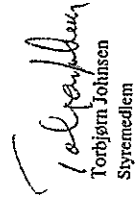
Styrets leder


Tolleak Melberg
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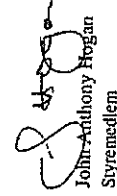
Styremedlem


Gunnar Halvorsen
Styremedlem

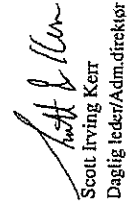
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Norwegian Energy Company AS
Income statement

NOTE	OPERATING REVENUES AND EXPENSES	2005
	Exploration expenses	7.809.495
2	Payroll and related expenses	3.184.527
3	Depreciation, depletion and amortization of fixed assets	58.422
2	Other operating expenses	<u>13.850.801</u>
	Total operating expenses	<u>24.903.244</u>
	Operating income (loss)	<u>-24.903.244</u>
	FINANCIAL INCOME AND EXPENSES	
	Interest income	154.299
	Interest expenses	-1.107
	Other financial expenses	<u>-3.077</u>
	Financial items, net	<u>150.115</u>
	Income (loss) before taxes	<u>-24.753.130</u>
6	Income taxes	19.265.610
	Ordinary income (loss)	<u>-5.487.520</u>
	NET INCOME (LOSS)	<u>-5.487.520</u>
	ALLOCATION OF NET LOSS AND EQUITY TRANSFERS	
	Transferred to other equity	<u>-5.487.520</u>
	Total allocations and equity transfers	<u>-5.487.520</u>

Norwegian Energy Company AS
Balance sheet December 31

NOTE	ASSETS	2005
	Fixed assets	
	Intangible Assets	1.211.652
6	Deferred tax assets	<u>1.211.652</u>
	Total intangible fixed expenses	<u>1.211.652</u>
	Tangible fixed assets	
3	Plant, machinery and other equipment	<u>1.463.735</u>
	Total tangible fixed assets	<u>1.463.735</u>
	Total fixed assets	<u>2.675.387</u>
	Current assets	
	Current receivables	1.911.200
6	Other receivables	<u>19.441.578</u>
	Current tax receivables	<u>21.352.778</u>
	Total current receivables	<u>41.615.897</u>
7	Cash and bank equivalents	<u>62.968.675</u>
	Total current assets	<u>65.644.062</u>
	TOTAL ASSETS	<u>68.319.449</u>

Notes to the financial statements 2005

Note 1 Accounting Principles

The statutory accounts are prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway (N-GAAP).

Use of estimates

The preparation of accounting information, in accordance with prevailing accounting legislation, requires that management applies estimates and assumptions that effect the valuation of assets, liabilities and notes. Such estimates have a significant effect on the revenue and costs in the fiscal year. The actual amounts may differ from the estimates.

Fixed assets

Fixed assets used for production of petroleum, are depreciated according to the Unit of Production method. The reserves applied in this method are proven reserves according to estimates received from the operator on the respective fields, or the company's own estimates of proven reserves if such estimate are not presented from the operator. Other assets subject to decline in value, are depreciated using straight-line depreciation over expected useful life.

Maintenance of fixed assets is classified as operating expense. Additions or improvements are added to initial cost and depreciated in line with the corresponding asset.

Principle rules for assessment and classification of assets and debt

Assets determined for lasting ownership are classified as non-current assets. Other assets are classified as current assets. Receivables due within a year are classified as current. Short term and long term debt are classified applying similar criteria.

Non-current assets are recorded at acquisition cost, reduced with accumulated ordinary depreciation. If fair value of an asset is lower than book value and this is not temporary, the asset is subject to a write-down to fair value. Non-current assets subject to decline in value are depreciated over their economic useful life.

Current assets are recorded at the lower of acquisition cost and fair value.

Other long term debt and short term debt are recorded at face value.

Assets and liabilities in foreign currency

Balance sheet items are translated applying the currency rate at the balance sheet date.

Receivables
Trade receivables and other receivables are recorded at par value, reduced with provision for expected losses. Calculation of expected losses is based on an individual assessment of the various receivables.

Cash and cash equivalents
Cash and cash equivalents includes cash, bank deposits and other cash equivalents due within three months from acquisition.

Exploration expenses

The successful efforts-method is applied on exploration costs. All exploration costs, except costs related to exploration drilling, are expensed. Costs related to exploration drilling are capitalized, pending a discovery of possible oil and gas reserves. If the oil and gas reserves are not commercially recoverable, the capitalized exploration drilling costs are expensed.

Taxes

The income taxes are matched with the income(loss) before taxes in the financial statements. Income taxes related to equity transactions are recorded directly to in the equity. The income taxes comprise taxes payable (tax on current years taxable income) and change in deferred tax asset/liability. The tax expense is split between ordinary income and extraordinary income, based on the corresponding split of taxable income. Deferred tax assets and deferred tax liabilities are presented on a net basis in the balance sheet.

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

	2005
Payroll costs	2 879 620
Salaries	122 874
Social security tax	182 033
Other benefits	3 184 527
Total	1

Average number of employees

Salary to general manager second half-year is 1.000.000 NOK
The company incurred charges of NOK 1.000.000 for consulting services rendered from a company owned by the chairman of the board.

Statutory Auditor

Fees for audit services and related services expensed in 2005 are:

	2005
	13 120
	42 920

Audit

Consultancy services

	Buildings, other real estate	Plant, machinery and other equipment	Totals
Intangible assets and tangible fixed assets			
Acquisition cost 01.01	216 000	1 306 157	1 522 157
Additions	216 000	1 306 157	1 522 157
Acquisition cost 31.12.		58 422	58 422

Accumulated depreciation as per 01.01	-	-	-
Net depreciation current year	-	58 422	58 422
Accumulated depreciation and write-offs as per 31.12	216 000	1 247 735	1 463 735
Book value as per 31.12	-	58 422	58 422

Depreciation for the year

Economic useful life
Depreciation method

5 years
Linear

3/5 years
Linear

Note 4 Share capital and Shareholder information

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

	Number	Face value	Share capital
Ordinary shares	700	1 000	700 000
A-shares	17 269	1 000	17 269 000
B-shares	4 507	1 000	4 507 000
Sum	22 476		22 476 000

Ownership structure

The company's share capital amounted to NOK 22.476.000, comprising 22.476 shares at NOK 1.000, divided in three classes of shares (Common shares, class A and class B). Common shares comprise 700 shares each at NOK 1.000, class A comprises 17.269 shares, each at NOK 1.000 and class B comprises 4.507 shares each at NOK 1.000.

The share owners as per 31.12.06 were:

	Common shares	A - shares	B - shares	Total	Share
Takla Energy AS (Chairman of the board)	193		559	752	3 %
Kerr Energy AS (Managing director)	192		360	552	2 %
TAD Invest AS	105			105	0,5 %
Rumar Holding AS	105			105	0,5 %
Seland Invest AS	105			105	0,5 %
Energivekst		5 233		5 233	23 %
3i Group PLC		2 800		2 800	12 %
3i UK Private Equity		2 290		2 290	10 %
3i Pan European Growth Capital		143		143	1 %
Lyse Energi AS		5 233		5 233	23 %
Norwegian Energy Company		1 570		1 570	7 %
Founders DA			963	963	4 %
Melberg Partners AS			875	875	4 %
Melberg Investment AS			875	875	4 %
IKM Gruppen AS			875	875	4 %
Geo Invest AS			875	875	4 %
Total number of shares	700	17 269	4 507	22 476	100 %

Note 5 Equity

	Share capital	Share premium reserve	Not registered capital increase	Other Equity
Total equity as per 01.01.05				
Changes in the year:				
Incorporation	1 085 000	2 035 001	-	-
Paid-in equity	1 050 000	1 959 678	52 153 355	-
Issue cost	-	-3 984 679	-248 494	1 387 620
Profit/loss for the year				-5 487 570
Total equity as per 31.12.05	2 135 000	-	51 904 861	-4 099 900

Note 6 Income taxes

	2005
Calculation of deferred tax asset/liability	
Fixed assets	-225 600
Loss carry forward as from 2005	1 779 000
Basis for deferred tax calculation	1 553 400
Deferred tax asset	1 211 652

Basis of calculation company tax receivable
Total income tax receivable (ex interest)

	24 925 100
	19 441 578

Income tax calculation

	2005
Income (loss) before taxes	-24 753 000
Permanent differences	53 500
Tax-deductible costs related to share issue - charged directly to equity	-1 779 000
Change in temporary differences	-225 600
Taxable income before loss carryforward	-26 704 100
Basis of calculation company tax	-26 704 100
Basis of calculation petroleum tax	-26 704 100

Company tax 28%	-7 477 148
Special tax 50%	-13 352 050
Sum betalbar skatt/(ordring) i balansen	-20 829 198

Income taxes recognized in the profit and loss statement

Tax related to changes in temporary differences	175 968
Owing taxes	-19 441 578
Tax expense	-19 265 610

Reconciliation of effective tax rate:

Income (loss) before taxes	2 005
Expected tax expense 78%	-24 753 000
Effect from permanent differences	-19 307 340
Income taxes	41 730
Income taxes in the financial statements	-19 265 610
Effective tax rate	78 %

Note 7

Bank deposits, cash etc. include restricted tax deduction by NOK 252.499,-.

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Norwegian Energy Company AS

AUDITOR'S REPORT FOR 2005

We have audited the annual financial statements of the Norwegian Energy Company AS as of 31 December 2005, showing a loss of NOK 5,487,520. 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 coverage of the loss. The 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 good accounting practice in Norway have been applied to produce the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good 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 good 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 financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway
• the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good 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 coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Stavanger, March 22, 2006
Deloitte

Ommund Skatland
State Authorised Public Accountant (Norway)

Audit, Tax & Legal, Consulting, Financial Advisory.

Member of
Deloitte Touche Tohmatsu