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**NORECO NORWAY AS**  
FIRST QUARTER  
2015

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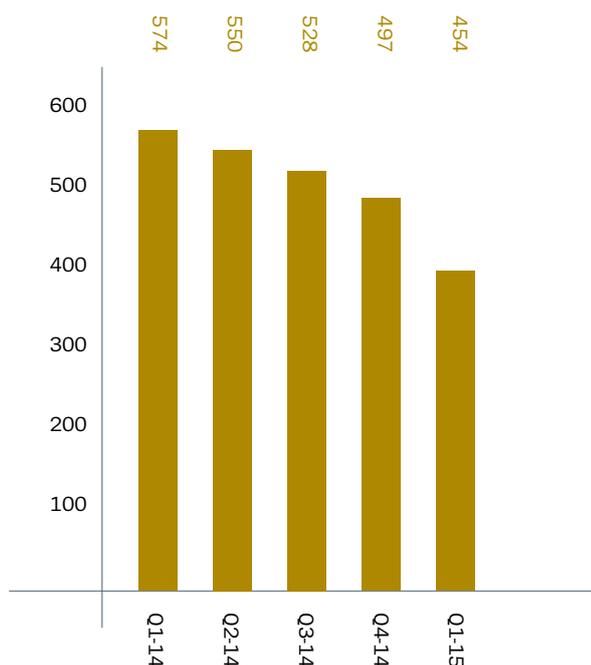
# REPORT FOR THE FIRST QUARTER 2015

NORECO NORWAY AS

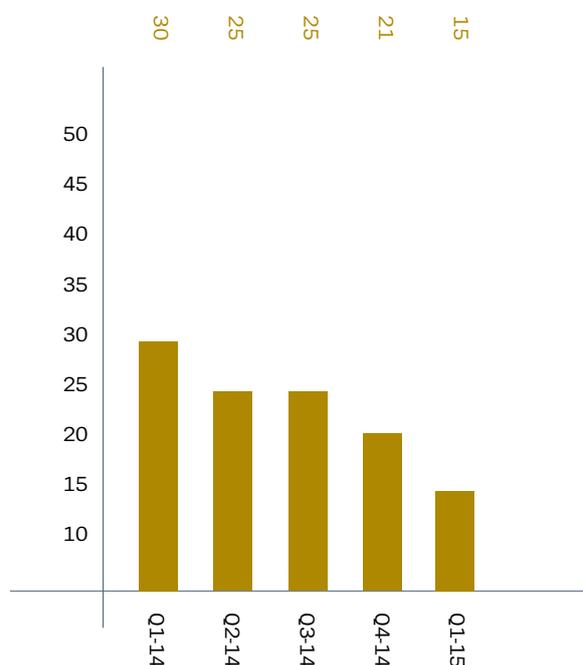
## HIGHLIGHTS

- A financial restructuring of the Noreco group was completed in the first quarter 2015. For Noreco Norway, the restructuring had the following implications:
  - Bond loan NOR6 changed borrower from Norwegian Energy Company ASA to Noreco Norway AS without any recourse to the parent company or other parts of the group.
  - Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.
  - Nordic Trustee, on behalf of the bondholders of NOR06 was given an option to purchase all outstanding shares of, and any intercompany claims on, Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.
  - Certain amendments to the exploration loan facility agreement are currently being finalised and is expected to be executed shortly, upon which availability of the exploration loan facility will be continued. The amended agreement will include a reduction in the borrowing limit from NOK 850 million to NOK 500 million. In addition, the cross default clause will be limited to borrowings within Noreco Norway and the previously issued parent company guarantee issued by Norwegian Energy Company ASA will be cancelled.
- Operating result before depreciation and write-downs (EBITDA) was negative NOK 27 million in the first quarter. The net result after tax was positive at NOK 190 million and was marked by a gain of NOK 278 million, which related to the amended and restated NOR06 bond loan.
- Due to the restructuring of the company's bond loan the recorded equity is highly impacted by IFRS accounting effects. As required by IFRS the bond loan have been measured using the executed trades by the end of the quarter, which was 55% of the principal amount. Changes in the quoted price of the bond will impact the measurement of the bond loan and the equity in future financial reports.
- The Board emphasises that strategic initiatives are underway with the aim to ensure full recovery of the principal amounts. If the debt had been recorded at principal amount the equity would have been reduced by NOK 203 million, to NOK 217 million at the end of the period. This accounting effect is expected to be reversed towards maturity of the bonds.

Production (boepd)



Revenue (NOK million)



## HEALTH, SAFETY, ENVIRONMENT AND QUALITY (HSEQ)

No serious HSE incidents have occurred in the company in the first quarter 2015. Noreco Norway did not operate any drilling operations in the quarter. Ongoing HSEQ activities include follow up of upcoming drilling operations where Noreco Norway is licensee.

## PRODUCING FIELDS

Noreco Norway's average production in the first quarter 2015 was 454 boepd. Realised oil price was USD 41.4 per boe compared to USD 93.5 per boe in the first quarter 2014.

The production from **Oselvar** was fairly stable, and the average production in the first quarter was 454 boepd to Noreco.

The **Enoch** field remained closed during the first quarter. The maintenance work at the field has been completed. Production start has been somewhat further delayed while waiting for hook-up of the production well, and is now expected in the second half of 2015.

## EXPLORATION

Exploration work in the first quarter was primarily directed towards further maturation of a number of key exploration licences. After the conclusion of detailed technical work, the PL646 licence has been relinquished.

Noreco Norway was not awarded any licences in APA 2014.

In the second quarter 2015, the Edison-operated Haribo well on the Norwegian Continental Shelf is expected to be spudded. Noreco Norway has a 20 percent working interest in the PL616 licence.

## COMPANY FINANCIALS

Noreco Norway had **revenues** of NOK 15 million in the first quarter 2015, compared to NOK 30 million in the first quarter 2014. The reduction in revenues in the first quarter compared to the same period last year was primarily due to lower realised oil prices in the period.

**Production expenses** in the first quarter were NOK 7 million compared to NOK 8 million for the same period last year. The production expenses mainly relate to the Oselvar field.

**Exploration and evaluation expenses** amounted to NOK 19 million for the first quarter 2015, compared to NOK 22 million in the first quarter 2014.

**Payroll expenses** were NOK 10 million in the first quarter 2015 compared to NOK 18 million for the first quarter last year. The reduction was mainly related to a lower number of employees.

**Other operating expenses** amounted to NOK 7 million for the first quarter 2015, representing a reduction of NOK 9 million compared to the same period last year. The reduction was mainly due to a one-off expense of NOK 5 million incurred in the first quarter 2014, which were incurred when Noreco decided to cancel its existing office lease agreement and entered into an agreement for a smaller office in Stavanger with better economic terms.

**EBITDA** (operating result before depreciation and write-downs) in the first quarter 2015 was negative by NOK 27 million, compared to a negative EBITDA of NOK 33 million in the first quarter 2014.

There were no **depreciations** or **write-downs** in the first quarter 2015. The book values of Noreco Norway's producing fields Oselvar and Enoch were written down to nil in 2014.

**Financial income** amounted to NOK 280 million for the first quarter 2015, of which NOK 278 million related to the amended and restated NOR06 bond loan being recognised at fair value, as part of the Noreco group's financial restructuring. For accounting purposes, the previous bond loan was derecognised, while the new equity and amended and restated bond loan was recognised at fair values at initial recognition. The difference between the recorded book value of debt and principal amount, totaling NOK 278 million, is expected to reverse through profit or loss in future periods as the renegotiated debt is repaid according to new contractual terms.

See note 17 for further information.

**Financial expenses** for the first quarter 2015 were NOK 19 million compared to NOK 20 million for the same period last year. The interest expenses for the quarter amounted to NOK 18, of which NOK 11 million was related to intercompany debt, NOK 4 million on the exploration loan and NOK 3 million on the NOR06 bond loan.

**Taxes** amounted to an income tax expense of NOK 44 million for the first quarter 2015. The first quarter tax expense corresponds to an average tax rate of 18.7 per cent. Noreco Norway has a marginal tax rate of 78 per cent, of which 27 per cent relates to the ordinary tax rate in Norway and 51 per cent related to the special tax rate related to exploration and production activities in Norway. The particularly low tax rate in the first quarter 2015 was due to recognition of deferred tax on the temporary difference between the principal amount and book value of the amended and restated NOR06 bond loan.

**Net result** for the first quarter amounted to NOK 190 million, compared to a loss of NOK 43 million for the first quarter 2014.

The book value of **licence costs and capitalised exploration expenditures** at the end of the first quarter 2015 amounted to NOK 258 million. This primarily consisted of the Gohta discovery in the Barents Sea on the Norwegian Continental Shelf with a book value of NOK 253 million. Net of deferred tax, the book value for Gohta was NOK 56 million.

At the end of the first quarter 2015 Noreco Norway had a total of **restricted cash, cash and cash equivalents** of NOK 100 million, of which NOK 4 million was restricted. Free cash at the end of the first quarter 2015 amounted to NOK 96 million.

**Equity** amounted to NOK 420 million at the end of the period, compared to NOK 125 million at the end of 2014. The positive impact is due to the financial restructuring of Noreco. The recorded book value of the interest-bearing debt (excluding exploration loans) is NOK 340 million. If the debt had been recorded at principal amount the equity would have been reduced by NOK 203 million, to NOK 217 million at the end of the period. This effect is expected to unwind until maturity of the bonds. See note 17 for further information.

**Interest-bearing debt**, excluding exploration loans, had a book value of NOK 340 million (principal amount NOK 618 million) at the end of the first quarter 2015, compared to NOK 639 million (principal amount) at the end of the fourth quarter 2014. The difference between the book value of the amended and restated bond loans and their principal amounts is due to the bond loans being valued using executed trades. By the end of the quarter these was approximately 55% of the principal amount. However, the board and the company are working towards full recovery of the principal amount. The company's exploration loan amounted to NOK 282 million at the end of the quarter. Total interest-bearing debt at the end of the quarter had a book value of NOK 622 million.

## BUSINESS DEVELOPMENT

On 5 May 2015, Norwegian Energy Company (UK) Ltd ("NEC UK"), a subsidiary of Noreco, issued an option in favour of a third party for a 10 per cent working interest in the Niobe licence as part payment for seismic data previously acquired in another licence operated by NEC UK. This third party may exercise the option upon a discovery, in which case NEC UK will carry the dry well cost. Further, Noreco Norway AS has an option to acquire without consideration all of the shares of NEC UK or NEC UK's interest in the Niobe licence. This option is the result of Noreco Norway AS having provided financing to NEC UK for the mentioned seismic acquisition and a small share of NEC UK's dry well cost on Niobe.

## GOVERNANCE AND ORGANISATION

At the start of 2015 the company had 36 employees, and at the end of the first quarter this number was reduced to 31, not including five employees in resignation period. The company also had four consultants.

Sick leave for the first quarter was 2.13 per cent.

Noreco Norway is focused on maintaining core competence in the company and ensuring that the organisation is tailored to handle the planned operations and activities.

## OUTLOOK

With a completed financial restructuring in place, Noreco Norway and the Noreco group are no longer in distress. The company is in a position to maximize the value of its portfolio of exploration licences, discoveries and producing fields. In light of the current challenging market conditions and the significant future debt servicing requirements, the key focus for Noreco Norway in the short term will be to limit future investment commitments, implement cost saving measures and optimize its assets through either continued operations or through divestment efforts. Surplus cash will be used to strengthen the company's balance sheet through repayment of debt.

# STATEMENT OF COMPREHENSIVE INCOME

NOK million	Note	Q1 2015	Q1 2014	2014
Revenue	5	15	30	101
Production expenses	6	(7)	(8)	(34)
Exploration and evaluation expenses	7	(19)	(22)	(221)
Payroll expenses	8	(10)	(18)	(46)
Other operating expenses	9	(7)	(16)	(50)
Other (losses) / gains	10		1	
<b>Total operating expenses</b>		<b>(43)</b>	<b>(63)</b>	<b>(350)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>		<b>(27)</b>	<b>(33)</b>	<b>(249)</b>
Depreciation	14		(5)	(15)
Write-downs and reversals of write-downs	13,14		(38)	(388)
<b>Net operating result (EBIT)</b>		<b>(27)</b>	<b>(76)</b>	<b>(652)</b>
Financial income	11	280	1	13
Financial expenses	11	(19)	(20)	(89)
<b>Net financial items</b>		<b>262</b>	<b>(19)</b>	<b>(76)</b>
<b>Result before tax (EBT)</b>		<b>234</b>	<b>(94)</b>	<b>(727)</b>
Income tax benefit / (expense)	12	(44)	52	483
<b>Net result for the period</b>		<b>190</b>	<b>(43)</b>	<b>(244)</b>
<b>Total other comprehensive income for the period (net of tax)</b>				
<b>Total comprehensive income for the period (net of tax)</b>		<b>190</b>	<b>(43)</b>	<b>(244)</b>
Earnings per share (NOK 1)				
Basic	21	1 351	(303)	(1 733)
Diluted	21	1 351	(303)	(1 733)

# STATEMENT OF FINANCIAL POSITION

NOK million	Note	31.03.15	31.12.14	01.01.14
<b>Non-current assets</b>				
Licence and capitalised exploration expenditures	13	258	259	148
Deferred tax assets	12	446	513	345
Property, plant and equipment	14			352
Tax refund	12	23		
Restricted cash	16,19	2	2	
<b>Total non-current assets</b>		<b>729</b>	<b>774</b>	<b>845</b>
<b>Current assets</b>				
Tax refund	12	315	315	378
Trade receivables and other current assets	15,19	45	38	45
Restricted cash	16, 19	2	32	4
Bank deposits, cash and cash equivalents	16, 19	96	17	12
<b>Total current assets</b>		<b>458</b>	<b>402</b>	<b>439</b>
<b>Total assets</b>		<b>1 187</b>	<b>1 176</b>	<b>1 284</b>
<b>Equity</b>				
Share capital	21	1 234	1 131	1 131
Other equity		(814)	(1 006)	(767)
<b>Total equity</b>		<b>420</b>	<b>125</b>	<b>364</b>
<b>Non-current liabilities</b>				
Asset retirement obligations	20	74	73	15
Bond loan	17,19	340		
Debt to group companies	17,19			490
<b>Total non-current liabilities</b>		<b>414</b>	<b>73</b>	<b>505</b>
<b>Current liabilities</b>				
Other interest bearing debt	17,19	282	284	333
Debt to group companies	17,19		639	
Trade payables and other current liabilities	18,19	71	55	83
<b>Total current liabilities</b>		<b>353</b>	<b>978</b>	<b>415</b>
<b>Total liabilities</b>		<b>767</b>	<b>1 051</b>	<b>920</b>
<b>Total equity and liabilities</b>		<b>1 187</b>	<b>1 176</b>	<b>1 284</b>

## STATEMENT OF CHANGES IN EQUITY

NOK million	Share capital	Other equity	Total equity
<b>2014</b>			
Equity on 01.01.2014	1 131	(767)	364
Net result for the period		(43)	(43)
Other comprehensive income for the period (net of tax)			
Total comprehensive income for the period (net of tax)		(43)	(43)
<b>Transactions with owners</b>			
Share-based incentive program		1	1
Total transactions with owners for the period		1	1
Equity on 31.03.2014	1 131	(808)	322
<b>2015</b>			
Equity on 01.01.2015	1 131	(1 006)	125
Net result for the period		190	190
Comprehensive income for the period (net of tax)			
Total comprehensive income for the period (net of tax)		190	190
<b>Transactions with owners</b>			
Proceeds from share issued	103		103
Share-based incentive program		1	1
Total transactions with owners for the period	103	1	105
Equity on 31.03.2015	1 234	(814)	420

## STATEMENT OF CASH FLOWS

NOK million	Q1 2015	Q1 2014
Net result for the period	190	(43)
Income tax benefit	44	(52)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>		
Depreciation		5
Write-downs and reversal of write-downs		38
Expensed exploration expenditures previously capitalised	2	
Share-based payments expenses	1	1
Gain on extinguishment of debt	(278)	
Paid/received interests and borrowing cost - net	4	7
Effect of changes in exchange rates	(1)	
Amortisation of borrowing costs incl. impact from change in amortisation plan		1
Accretion expense related to asset retirement obligations	2	
<i>Changes in working capital</i>		
Changes in trade receivable	(3)	(8)
Changes in trade payables	4	8
Changes in other current balance sheet items	48	(20)
<b>Net cash flow from operations</b>	<b>13</b>	<b>(62)</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets		
Purchase of intangible assets	(2)	(5)
<b>Net cash flow used in investing activities</b>	<b>(1)</b>	<b>(5)</b>
<b>Cash flows from financing activities</b>		
Issue of share capital	73	
Proceeds from utilisation of exploration facility	(2)	
Proceeds from utilisation of overdraft facility		77
Interest paid	(4)	(7)
<b>Net cash flow from (used) in financing activities</b>	<b>67</b>	<b>70</b>
<b>Net change in cash and cash equivalents</b>	<b>79</b>	<b>3</b>
Cash and cash equivalents at the beginning of the period	17	12
<b>Cash and cash equivalents at end of the quarter</b>	<b>96</b>	<b>16</b>

# NOTES

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## 1 Accounting principles

### 1.1 Basis for preparation

The annual financial statement for 2015 will be the Company's first annual financial statements prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU (IFRS). The annual financial statements for 2014 were prepared in accordance with Norwegian Generally Accounting Principles (NGAAP). The date of transition to IFRS is 1 January 2014.

The interim financial statements for the first quarter 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and are presented for part of the period covered by its first IFRS financial statements. The financial statements in this report, including comparative information, are prepared based on IFRSs effective for periods ending on 31 December 2014.

The interim financial statements are unaudited. The interim financial statements do not include all information for a complete set of IFRS financial statements with notes, and should be read in conjunction with the Company's annual financial statements for 2014 prepared according to NGAAP. The board of directors confirms that the interim financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these interim financial statements. The cash flow forecasts for Noreco Norway indicate that liquidity will be manageable in the next 12 months without any financial support from the group. The forecasts are based on a number of assumptions pertaining to future operating conditions, market conditions and the timing of certain events. The cash flow forecasts includes exploration loan financing for the company. The exploration loan facility agreement was recently executed at certain amended terms. It is noted that renewal of the existing facility or entering into a new exploration financing agreement will be necessary in order to finance exploration costs incurred in 2016 and beyond. The company expects that such an agreement will be obtained within the end of 2015.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding. Certain amounts in comparable periods have also been revised to conform to current period presentation.

### 1.2 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these interim financial statements, the statement of financial position at the date of transition to IFRS or financial statements for the comparative periods presented. None of these are expected to have a significant effect on the financial statements of the company, except the following set out below:

#### **IFRS 9 Financial instruments**

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to the classification and measurement rules except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, but is not approved by EU yet. The company is yet to assess IFRS 9's full impact.

#### **IFRS 15 Revenue from contracts with customers**

IFRS 15 Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpre-

tations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, but is not approved by EU yet. The company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

## 1.3 Segment reporting

The company's segments were established on the basis of the most appropriate distribution of resource and result measurement. Segment reporting is regularly evaluated by the company management. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO). The company has one reporting segment: Exploration and production. Noreco Norway AS's operations are all conducted in Norway. Information about reserves is given in a separate report.

## 1.4 Foreign currency translation

### a) Functional and presentation currency

The interim financial statements are presented in Norwegian Kroner (NOK), which is the company's presentation currency and functional currency.

### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

## 1.5 Property, plant and equipment

Property, plant and equipment include production facilities, assets under construction and machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation.

For property, plant and equipment where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value will be added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of property, plant and equipment, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of-production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This gives a more correct matching of expenses and revenue than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:

- Office equipment and fixtures: 3-5 years

Assets under construction are not depreciated until the asset is put into operation.

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

## 1.6 Intangible assets

### **Licence and capitalised exploration expenditures**

Exploration costs are accounted for in accordance with the successful effort method. This means that all exploration costs including pre-operating costs (seismic acquisitions, seismic studies, internal man hours, etc.) are expensed as incurred. Exceptions are costs related to acquisition of licences and drilling of exploration wells.

Exploratory wells are accounted for as follows:

- Costs of exploratory wells which result in proven reserves remain capitalised, but reclassified to property, plant and equipment when the development plan is approved and initiated.
- Costs of dry exploratory wells and wells where proven reserves were not found are expensed in the income statement when sufficient information to complete the assessment has been gathered.
- Cost of exploration wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proven reserves are determined and any development begins, the following two conditions must be met:
  - o The well has found a sufficient quantity of reserves to justify its completion as a producing well, if appropriate, assuming that the required capital expenditures are made;
  - o The company is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as:
    - Whether additional exploration works are under way or firmly planned, and/or there is nearby exploration activity which is expected to contribute to development of the company's discoveries (wells, seismic or significant studies),
    - Whether costs are being incurred for development studies,
    - Whether the company is waiting for governmental or other third-party authorisation of a proposed project,
    - Whether the company is waiting for availability of capacity on an existing transport or processing facility to be able to produce the existing discovery, and
    - Whether there is a common understanding among the partners to wait with further progress for a specific discovery until an ongoing development project is on stream.

Costs of exploration wells not meeting these conditions are charged to expense on the line item for exploration expenses.

When acquiring shares in exploration licences ("farm-in" agreements) where the agreement is to cover a share of the sellers ("farmor") cost, these expenses are charged in the same manner as own exploration expenses in the income statement.

For similar sales of assets in exploration licences (farm-out agreements), the company will normally surrender parts of a licence given that the buyer ("farmee") carries some defined cost.

The seller does not recognise any gain/loss but treats the cost as a cost reduction as cost occurs.

In those cases where the carry period starts before the accounting date of the agreement, a profit/loss calculation may be necessary.

## 1.7 Impairment of non-financial assets

### **a) Unit of account**

The company applies each prospect, discovery, or field as unit of account for allocation of profit or loss and balance sheet items.

When performing impairment testing of licence and capitalised exploration expenses and production facilities, each prospect, discovery, or field is tested separately as long as they are not defined to be part of a larger cash generating unit.

To be able to group exploration and evaluation assets into one cash-generating unit, they should normally be planned to be part of a joint development, or it is planned and likely that a new discovery can be tied back to another of the company's fields.

Developed fields producing from the same offshore installation are treated as one joint cash generating unit. The size of a cash-generating unit can not be larger than an operational segment.

### **b) Impairment testing**

Intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying

amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 1.8 Financial assets

### 1.8.1 Classification

The company classifies financial assets in the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of its financial assets at initial recognition.

#### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

#### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables', "restricted cash" and 'cash and cash equivalents' in the balance sheet.

### 1.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains' in the period in which they arise.

## 1.9 Impairment of financial assets

#### **Assets carried at amortised cost**

The company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

## 1.10 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 1.11 Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition.

## 1.12 Over-/under lifting of hydrocarbons

Over lifting of hydrocarbons is presented as current liabilities, under lifting of hydrocarbons is presented as current receivables. The value of over lifting or under lifting is measured at the estimated sales value, less estimated sales costs. Over lifting and under lifting of hydrocarbons are presented at gross value. Over-/under lift positions at the balance sheet date, are expected to be settled within 12 months from the balance sheet date.

For the accounts, the items are treated as financial instruments at fair value through profit or loss. The item is considered to be a financial instrument as the over/under lift position will be settled in cash at the end of the fields' life time or when the licence is sold or returned.

## 1.13 Share capital and share premium

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or option shares are recognised as a deduction from equity, net of any tax effects.

## 1.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are measured at fair value at first time recognition. Subsequent measurements are considered trade payables at amortised cost when using effective interest rate.

## 1.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. The subsequent measurement depends on which category they have been classified into. The categories applicable for company are either financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. The company has designated the amended and restated bond loan at fair value through profit or loss due to several embedded derivatives in the bonds

Borrowings are classified as non-current if contractual maturity is more than 12 months from the balance sheet date. If the company is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12

months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date. If the breach which results in any reclassification is related to a loan with cross-default terms in the loan agreement, all loans with the same cross-default terms are reclassified.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or when the contractual obligation expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income as a gain or loss under financial items. Transaction costs incurred during this process are treated as a cost of the settlement of the old debt and included in the gain or loss calculation.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 1.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they incur.

## 1.17 Current and deferred income tax

The tax expense for the period comprises current tax, tax impact from refund of exploration expenses and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets, and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using nominal tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

Companies engaged in petroleum production and pipeline transportation on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 51 per cent. The special tax is applied to relevant income in addition to the standard 27 per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. The standard income tax rate was changed from 28 per cent from 1 January 2014. The special petroleum tax rate was changed from 50 per cent at the same time. As of 31 December 2013, the deferred tax and deferred tax an asset relating to onshore activity in Norway was calculated with a tax rate of 27 per cent.

The basis for computing the special petroleum tax is the same as for income subject to ordinary income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at 5.5 per cent per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely. In accordance with the Norwegian Petroleum Taxation Act, sale of oil is taxed according to norm price. In the financial statements, the difference between norm price and actual

obtained price are treated as a permanent difference. Losses carry forward are calculated with a fixed interest rate per year. For 2014, this interest rate is 1.3 per cent.

Interest expenses on interest-bearing debts are distributed between onshore and offshore activities. The tax allowance for the offshore debt interests are calculated as interest expense multiplied by 50 per cent of the ratio between the tax value of the offshore asset and average interest-bearing debt. The remaining net financial expenses are allocated to onshore. Net finance costs onshore can be transferred to the continental shelf (27 per cent), ref. the Norwegian Petroleum Taxation Act §3d. If interest expense is to related parties and net interest expense exceeds NOK 5 million, they can not be deducted for the amount that exceeds 30 per cent of ordinary income, adjusted for interest and tax depreciation. This rule applies from 2014, but the companies covered by the Norwegian Petroleum Taxation Act § 3 d are as of today exempt. The interest limitation rule will have limited impact on the company.

The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of losses that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses related to exploration activity on the Norwegian continental shelf, the company applies for a refund of the tax amount for such a loss. The receivable that then occurs is recognised as short term claim for the current assets, under the line "Tax receivable". If a business liable for special tax is discontinued, and a loss has not been covered, the Company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Act §3c. The tax refund will be determined by the authorities, and will be received at the end of the year following the year of discontinuance of petroleum activity in the company.

## 1.18 Pensions

### a) Defined contribution plan

For the defined contribution plan, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### b) Bonus plans

The company recognises a liability and an expense for bonuses based on an estimate that takes into consideration the performance of the company compared to board approved performance objectives for the period. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 1.19 Share-based payments

Noreco Norway's parent company, Norwegian Energy Company ASA, operates a number of equity-settled, share-based compensation plans, under which Noreco Norway receives services from employees as consideration for equity instruments (options) of the parent company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

Fair value:

- including any market performance conditions
- excludes the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied).

At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the parent company issues new shares.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

## 1.20 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) arising from a past event, and it is probable (more likely than not) that it will result in an outflow from the entity of resources embodying economic benefits, and that a reliable estimate can be made of the amount of the obligation.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 1.20.1 Asset retirement obligations

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk-free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense.

## 1.21 Contingent liabilities and assets

Contingent liabilities are defined as:

- possible obligations that arise from past events, whose existence depends on uncertain future events.
- present obligations which have not been recognised because it is not probable that they will result in a payment.
- the amount of the obligation cannot be measured with sufficient reliability.

Specific mention of material contingent liabilities is disclosed, with the exception of contingent liabilities where the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed if there is a certain probability that a benefit will accrue to the company.

## 1.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below.

Revenue from the production of oil, gas and NGL (hydrocarbons) is recognised depending on the company's share of production in the separate licences the company is part of, independently of whether the produced oil and gas has been sold (the entitlement method). Over-/under lifting of hydrocarbons as a consequence of the entitlement method is valued to estimated sale value minus estimated sales costs on the reporting date. Over-/under lifting occurs when the company has lifted and sold more or less hydrocarbons from a producing field than what the company is entitled to at the lift time. See Note 1.12 for description of accounting for over-/under lifting of hydrocarbons in the balance sheet.

## 1.23 Production cost

Production costs are costs that are directly attached to production of hydrocarbons, e.g. cost for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc.

## 1.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

## 1.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 1.26 Statement of cash flow

The statement of cash flow is prepared according to the indirect method. See Note 1.11 for the definition of "Cash and cash equivalents".

# 2 Fair value estimation

The company has certain financial instruments carried at fair value. The different levels have been defined as follows:

### **Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price.

### **Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specified valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

### **Level 3: Inputs for other assets or liabilities that are not based on observable market data**

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level.

See Note 19.1 for fair value hierarchy and further information.

## 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 3.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### a) Estimated recoverable amount on intangible assets

The company's intangible assets with an indefinite lifespan will be subject to annual impairment testing. The company's activities are largely affected by changes in hydrocarbon prices and changes in currency rates for USD. A decline in oil price will affect the company's cash flow significantly. Expectations for future oil price are also an important factor when assessments are made regarding whether discoveries are financially viable. Further, the oil price also affects the company's exploration activity.

#### b) Estimated recoverable amount on property, plant and equipment

The company performs impairment testing on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverable amount from cash generating units are determined through calculations of value-in-use. These calculations require the use of estimates.

#### c) Estimated reserves and resources – accounting impact

Proven and probable reserves are used to calculate production volumes related to amortisation. Reserve estimates are also used for testing of licence-related assets for write down. Changes to reserve estimates can, for instance, be caused by changes to price and cost estimates. Changes in production profile can occur as a result of new information about the reservoir. Future changes in proven and probable oil and gas reserves can have a significant impact on amortisation, timing of decommissioning, including testing licence-related assets for write down. This can have a significant negative or positive impact on the operating result as a consequence of increased or reduced amortisation, or reversal of previously recognised write downs.

#### d) Estimated value of financial assets

For every reporting date, an assessment is made on whether objective evidence is present that financial assets or groups of financial assets should be written down.

#### e) Income tax

All figures reported in the income statement and balance sheet are based on the company's tax calculations, and should be regarded as estimates until the tax for the year has been settled. Norwegian tax authorities can be of a different opinion than the company with regards to what constitutes exploration cost and continental shelf deficiency in accordance with the Petroleum Taxation Act. See also Note 12.

#### f) Asset retirement obligation

Production of oil and gas is subject to statutory requirements relating to decommissioning and removal obligation once production has ceased. Provisions to cover these future decommissioning and removal expenditures must be recognised at the time the statutory requirement arises. The costs will often incur some time in the future, and there is significant uncertainty attached to the scale and complexity of the decommissioning and removal involved. Estimated future costs (estimated based on current costs inflated) are based on known decommissioning and removal technology, expected future price levels, and the expected future decommissioning and removal date, discounted to net present value using a risk-free rate adjusted for credit risk. Changes in one or more of these factors could result in major changes in the decommissioning and removal liabilities.

### 3.2 Critical judgements in applying the entity's accounting policies

#### a) Assessment of progress and possible development alternatives for the company's non-developed assets.

When performing impairment tests of intangible assets, progress is assessed in accordance with the policy stated in Note 1.9. This determination requires judgement. The company's intention and plans are stated as basis, so far as there is no information indicating that the majority of partners in the licences will not be able to support the company's intentions and plans.

#### b) Impairment testing of financial assets

The company follows the guidance of IAS 39 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement.

#### c) Method for valuation of intangible assets

In relation to impairment testing of intangible assets, different valuation methods, adjusted to the available information available for the different assets, are used. A significant degree of judgement is used to determine the appropriate method, which is dependant on maturity,

geographical location, available budgets, taxation regulations etc. Changes in methods will in certain cases have a significant impact on the valuation used as basis for the Company's recorded values.

#### d) Resource and reserve estimates

Estimates of oil and gas reserves are prepared by internal experts in line with industry standards. The estimates are based both on the company's judgement assessments and information from the operators. In addition, the most significant volumes are verified by an independent third party. Proven and probable oil and gas reserves include the estimated amounts of crude oil, natural gas and condensates that geological and technical data reasonably determine to be extractable from known reservoirs and under existing financial and operational conditions per the date the estimate is prepared.

## 4 Implementation effects – first time adoption of IFRS

From 1 January 2015 Noreco Norway AS is applying International Financial Reporting Standards as adopted by the EU (IFRS). Consequently, the opening balance as of 1 January 2014 has been restated to reflect all effects of the IFRS implementation. The effects of the IFRS implementation presented below are prepared based on the standards and interpretations that the management expects will apply for 2015.

Noreco Norway AS has previously applied Norwegian Generally Accepted Accounting Principles (NGAAP). However, the relevant accounting principles, including measurement and recognition, have also been applicable according to IFRS. Thus, no implementation effects have been identified in connection with the first time adoption of IFRS. Neither will the first time adoption of IFRS result in changes to the classification in the income statement and the statement of financial position including key figures.

#### statement of comprehensive income

NOK million	NGAAP	Implementation effects	IFRS
<b>2014</b>			
Revenue	101		101
Production expenses	(34)		(34)
Exploration and evaluation expenses	(221)		(221)
Payroll expenses	(46)		(46)
Other operating expenses	(50)		(50)
Other (losses) / gains			
<b>Total operating expenses</b>	<b>(350)</b>		<b>(350)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	<b>(249)</b>		<b>(249)</b>
Depreciation	(15)		(15)
Write-downs and reversals of write-downs	(388)		(388)
<b>Net operating result (EBIT)</b>	<b>(652)</b>		<b>(652)</b>
Financial income	13		13
Financial expenses	(89)		(89)
<b>Net financial items</b>	<b>(76)</b>		<b>(76)</b>
<b>Result before tax (EBT)</b>	<b>(727)</b>		<b>(727)</b>
Income tax benefit / (expense)	483		483
<b>Net result for the period</b>	<b>(244)</b>		<b>(244)</b>
<b>Total other comprehensive income for the period (net of tax)</b>			
<b>Total comprehensive income for the period (net of tax)</b>	<b>(244)</b>		<b>(244)</b>

## statement of financial position

NOK million	Implementation effects		IFRS
	NGAAP	Measurement Classification	
<b>1 January 2014</b>			
<b>Non-current assets</b>			
Licence and capitalised exploration expenditures	148		148
Deferred tax assets	345		345
Property, plant and equipment	352		352
<b>Total non-current assets</b>	<b>845</b>		<b>845</b>
<b>Current assets</b>			
Tax refund	378		378
Trade receivables and other current assets	45		45
Restricted cash	4		4
Bank deposits, cash and cash equivalents	12		12
<b>Total current assets</b>	<b>439</b>		<b>439</b>
<b>Total assets</b>	<b>1 284</b>		<b>1 284</b>
<b>Equity</b>			
Share capital	1 131		1 131
Other equity	(767)		(767)
<b>Total equity</b>	<b>364</b>		<b>364</b>
<b>Non-current liabilities</b>			
Asset retirement obligations	15		15
Debt to group companies	490		490
<b>Total non-current liabilities</b>	<b>505</b>		<b>505</b>
<b>Current liabilities</b>			
Other interest bearing debt	333		333
Trade payables and other current liabilities	83		83
<b>Total current liabilities</b>	<b>415</b>		<b>415</b>
<b>Total liabilities</b>	<b>920</b>		<b>920</b>
<b>Total equity and liabilities</b>	<b>1 284</b>		<b>1 284</b>

NOK million	Implementation effects		IFRS
	NGAAP	Measurement Classification	
<b>31 December 2014</b>			
<b>Non-current assets</b>			
Licence and capitalised exploration expenditures	259		259
Deferred tax assets	513		513
Property, plant and equipment			
Restricted cash	2		2
<b>Total non-current assets</b>	<b>774</b>		<b>774</b>
<b>Current assets</b>			
Tax refund	315		315
Trade receivables and other current assets	38		38
Restricted cash	32		32
Bank deposits, cash and cash equivalents	17		17
<b>Total current assets</b>	<b>402</b>		<b>402</b>
<b>Total assets</b>	<b>1 176</b>		<b>1 176</b>
<b>Equity</b>			
Share capital	1 131		1 131
Other equity	(1 006)		(1 006)
<b>Total equity</b>	<b>125</b>		<b>125</b>
<b>Non-current liabilities</b>			
Asset retirement obligations	73		73
Debt to group companies	639		639
<b>Total non-current liabilities</b>	<b>712</b>		<b>712</b>
<b>Current liabilities</b>			
Other interest bearing debt	284		284
Trade payables and other current liabilities	55		55
<b>Total current liabilities</b>	<b>339</b>		<b>339</b>
<b>Total liabilities</b>	<b>1 051</b>		<b>1 051</b>
<b>Total equity and liabilities</b>	<b>1 176</b>		<b>1 176</b>

#### statement of changes in equity

NOK million	1 January 2014	31 December 2014
Equity according to NGAAP	364	125
Implementation effects		
Equity according to IFRS	364	125

## 5 Revenue

(NOK million)	Q1 2015	Q1 2014
Sale of oil	10	24
Sale of gas and NGL	5	7
<b>Total revenue</b>	<b>15</b>	<b>30</b>

## 6 Production expenses

(NOK million)	Q1 2015	Q1 2014
Oselvar	(6)	(6)
Enoch	(1)	(2)
<b>Total production expenses</b>	<b>(7)</b>	<b>(8)</b>

## 7 Exploration and evaluation expenses

(NOK million)	Q1 2015	Q1 2014
Acquisition of seismic data, analysis and general G&G costs	(10)	(12)
Exploration wells capitalised in previous years		
Dry exploration wells this period	(2)	1
Other exploration and evaluation costs	(6)	(10)
<b>Total exploration and evaluation costs</b>	<b>(19)</b>	<b>(22)</b>

## 8 Payroll expenses

(NOK million)	Q1 2015	Q1 2014
Salaries	(17)	(25)
Recharges to other group companies	8	7
Social security tax	(2)	(4)
Pensions costs		
Costs relating to share-based payments	(1)	(1)
Other personnel expenses		(1)
Personnel expenses charged to operated licences	3	5
<b>Total personnel expenses</b>	<b>(10)</b>	<b>(18)</b>
Average number of employees	35	42

## 9 Other operating expenses

(NOK million)	Q1 2015	Q1 2014
Lease expenses <sup>(1)</sup>	(2)	(8)
IT expenses	(4)	(4)
Travel expenses		(1)
Office cost	(1)	(1)
Consultant fees	(2)	(4)
Other operating expenses		
Other operating expenses charged to own operated licences	2	2
<b>Total other operating expenses</b>	<b>(7)</b>	<b>(16)</b>

(1) Lease expenses Q1 2014 included NOK 5 million in a non-recurring cost related to scale down of premises in Stavanger.

## 10 Other (losses) / gains

(NOK million)	Q1 2015	Q1 2014
Gain /(loss) on sale of assets		1
<b>Total other (losses) / gains</b>		<b>1</b>

## 11 Financial income and expenses

Financial income (NOK million)	Q1 2015	Q1 2014
Interest income	1	1
Interest income from other group companies	1	
Change in fair value of bond debt	278	
Currency translation income	1	
<b>Total financial income</b>	<b>280</b>	<b>1</b>

Financial expenses (NOK million)	Q1 2015	Q1 2014
Interest expense from bond loans	(3)	
Interest expense from exploration loan	(4)	(7)
Interest expenses on current liabilities		
Interest expense to other group companies	(11)	(12)
Accretion expense related to asset retirement obligations	(2)	
Currency translation expense	(1)	
Other financial expenses		
<b>Total financial expenses</b>	<b>(19)</b>	<b>(20)</b>
<b>Net financial items</b>	<b>262</b>	<b>(19)</b>

## 12 Tax

Income tax (NOK million)	Q1 2015	Q1 2014
Income (loss) before tax	234	(94)
Income tax benefit (expense)	(44)	52
Equivalent to a tax rate of	18.7 %	54.7 %

The tax rate for the first quarter 2015 was 18.7 percent compared to 54.7 percent for the same period last year. Noreco Norway has a marginal tax rate of 78 percent, of which 27 percent relates the ordinary tax rate in Norway and 51 percent relates to the special tax rate related to exploration and production activities in Norway.

The particularly low tax rate in the first quarter 2015 is due to recognition of deferred tax on the temporary difference between the principal amount and book value of the bond loan.

Tax loss carry forward 31.03.15 (NOK million)	Offshore		Onshore	
	Recognised	Un-recognised	Recognised	Un-recognised
Noreco Norway AS	535		494	
<b>Total tax loss carry forward</b>	<b>535</b>		<b>494</b>	

The onshore tax loss carry forwards in Noreco Norway AS is subject to the Norwegian Petroleum Taxation Act §3c.

Tax refund (NOK million)	31.03.15	31.12.14
Tax refund related to Norwegian exploration activity in 2015	23	
Tax refund related to Norwegian exploration activity in 2014	315	315
<b>Total tax refund</b>	<b>338</b>	<b>315</b>

## 13 Intangible non-current assets

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.15	259
Additions	2
Expensed exploration expenditures previously capitalised	(2)
<b>Acquisition costs 31.03.15</b>	<b>258</b>
<b>Book value 31.03.15</b>	<b>258</b>

### Result from impairment test of Licence and capitalised exploration expenditures on 31 March 2015

An impairment test of all intangible assets has been performed this quarter. Based on considerations of progress, new information from evaluation work and other commerciality analysis regarding Noreco's suspended wells, there is no information that requires capitalised exploration costs to be written off. At the end of the first quarter, licence and capitalised exploration expenditures mainly consists of the Gohta discovery.

## 14 Property, plant and equipment

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.15	1 211		1 211
Additions			
<b>Acquisition costs 31.03.15</b>	<b>1 210</b>		<b>1 211</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.15	(1 211)		(1 211)
<b>Accumulated depreciation and write-downs 31.03.15</b>	<b>(1 211)</b>		<b>(1 211)</b>
<b>Book value 31.03.15</b>			

## 15 Trade receivables and other current assets

(NOK million)	31.03.2015	31.12.2014
Trade receivables	19	15
Receivables from operators relating to joint venture licences	10	10
Underlift of oil/NGL	3	2
Prepayments	1	3
Other receivables	2	2
<b>Total trade receivables and other current receivables</b>	<b>45</b>	<b>38</b>

# 16 Restricted cash, bank deposits, cash and cash equivalents

## Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	31.03.2015	31.12.2014
<b>Non-current assets</b>		
Other restricted cash and bank deposits	2	2
<b>Current assets</b>		
Other restricted cash and bank deposits (Withholding tax etc.)	2	32
<b>Total restricted cash</b>	<b>4</b>	<b>35</b>
Unrestricted cash, bank deposits and cash equivalents	96	17
<b>Total bank deposits</b>	<b>100</b>	<b>51</b>

## Overdraft facilities

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Exploration loan facility <sup>(1)</sup>	500	500	282	218	21
<b>Total</b>		<b>500</b>	<b>282</b>	<b>218</b>	<b>21</b>
Unrestricted cash and cash equivalents					96
<b>Accessible liquidity at 31.03.15</b>					<b>117</b>

(1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities.

Certain amendments to the exploration loan facility agreement are currently being finalised and is expected to be executed shortly, upon which availability of the exploration loan facility will be continued. The amended agreement will include a reduction in the borrowing limit from NOK 850 million to NOK 500 million. In addition, the cross default clause will be limited to borrowings within Noreco Norway and the previously issued parent company guarantee issued by Norwegian Energy Company ASA will be cancelled.

# 17 Borrowings

## 17.1 Principal amounts and book values

Non-current debt (NOK million)	31.03.2015		31.12.2014	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	618	340		
<b>Total non-current bonds</b>	<b>618</b>	<b>340</b>		
<b>Current debt</b> (NOK million)				
Exploration loan	282	282	284	284
Debt to group companies			639	639
<b>Total current other interest bearing debt</b>	<b>282</b>	<b>282</b>	<b>923</b>	<b>923</b>
<b>Total borrowings</b>	<b>900</b>	<b>622</b>	<b>923</b>	<b>923</b>

Borrowings are recognised initially at fair value, net of transaction costs incurred. Quoted price of 55% was observed for NOR06 and have been applied as fair value for the amended and restated bond loans at initial recognition.

## 17.2 Financial restructuring

A financial restructuring of the Noreco group was completed in the first quarter 2015. For Noreco Norway, the restructuring had the following implications:

- Bond loan NOR6 changed borrower from Norwegian Energy Company ASA to Noreco Norway AS without any recourse to the parent company or other parts of the group.
- Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity. See note 21.
- Nordic Trustee, on behalf of the bondholders of NOR06 was given an option to purchase all outstanding shares of and any intercompany claims on Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.

In addition, certain amendments to the exploration loan agreement were agreed upon and executed. See note 16.

## 18 Trade payables and other current liabilities

(NOK million)	31.03.15	31.12.14
Trade payable	9	5
Liabilities to operators relating to joint venture licences	16	12
Overlift of oil/NGL	4	4
Accrued interest	5	1
Salary accruals	11	11
Public duties payable	3	5
Other current liabilities	22	16
<b>Total other current liabilities</b>	<b>71</b>	<b>55</b>

## 19 Financial instruments

### 19.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

On 31.03.2015

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		3		3
<b>Total assets</b>		<b>3</b>		<b>3</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Overlift of oil		4		4
- Bond loans			340	340
<b>Total liabilities</b>		<b>4</b>	<b>340</b>	<b>344</b>

On 31.12.2014

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		2		2
<b>Total assets</b>		<b>2</b>		<b>2</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Overlift of oil		4		4
<b>Total liabilities</b>		<b>4</b>		<b>4</b>

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value for a financial instrument are observable, the instrument is included in level 2.

The fair value of over-/underlift of hydrocarbons are based on the spot oil price at closing date.

## 19.2 Financial instruments by category

On 31.03.2015

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	41	3	44
Restricted cash	4		4
Bank deposits, cash and cash equivalents	96		96
<b>Total</b>	<b>141</b>	<b>3</b>	<b>144</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bond loans	340		340
Other interest bearing debt	282		282
Trade payables and other current liabilities	56	4	60
<b>Total</b>	<b>677</b>	<b>4</b>	<b>682</b>

On 31.12.2014

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	33	2	35
Restricted cash	35		35
Bank deposits, cash and cash equivalents	17		17
<b>Total</b>	<b>85</b>	<b>2</b>	<b>86</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Other interest bearing debt	284		284
Debt to group companies	639		639
Trade payables and other current liabilities	40	4	44
<b>Total</b>	<b>963</b>	<b>4</b>	<b>967</b>

## 19.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 March 2015:

(NOK million)	Carrying amount	Fair value
<b>Financial assets:</b>		
Trade receivables and other current assets	44	44
Restricted cash	4	4
Bank deposits, cash and cash equivalents	96	96
<b>Total</b>	<b>144</b>	<b>144</b>
<b>Financial liabilities:</b>		
Bonds	340	340
Other interest bearing debt	282	282
Trade payables and other current liabilities	60	60
<b>Total</b>	<b>682</b>	<b>682</b>

## 20 Asset retirement obligations

(NOK million)	31.03.15	31.12.14
Balance on 1.1.	73	15
Provisions and change of estimates made during the year		55
Accretion expense	2	3
<b>Total provision made for asset retirement obligations</b>	<b>74</b>	<b>73</b>

Provisions made for asset retirement obligations includes the future expected costs (estimated based on current day costs inflated) for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a risk-free rate adjusted for credit risk of 9 percent, which represents the company's expected average alternative borrowing interest, to calculate the net present value of the obligation. Inflation is assumed to be 2 percent.

## 21 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2014	141 001	1 131
Change in share capital in 2015		
Capital increase on 20 March 2015		73
Capital increase through conversion of debt on 20 March 2015		30
31 March 2015	141 001	1 234

## INFORMATION ABOUT NORECO

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Silje Augustson Chair  
Riulf Rustad  
Roar Flom  
Andreas Greve-Isdahl (alternate board member)

### Noreco Norway AS management

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Odd Arne Slettebø CFO  
Øyvind Sørbo VP commercial  
Lars Fosvold VP exploration and operation

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### Financial calendar 2015

31 May	Q1 2015 Presentation
20 August	Q2 2015 Presentation
12 November	Q3 2015 Presentation

### Annual reports

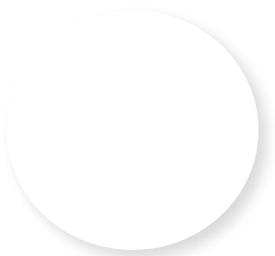
Annual reports for Noreco Norway are available on  
www.noreco.com

### Quarterly publications

Quarterly reports re available on www.noreco.com.  
The publications can be ordered by sending an e-mail to  
investorrelations@noreco.com.

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