

## **Annual Statement of Reserves 2010**

Noreco's classification of reserves follows the SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS) published in 2007. The system is a recognised resource classification system in accordance with the Oslo Stock Exchange Circular 9/2009 "Listing and disclosure requirements for oil and natural gas companies".

The SPE-PRMS uses "reserves", "contingent resources" and "prospective resources" to classify hydrocarbon resource of varying technical maturity. The maturity within each class is also described to help guide classification of a given asset.

Details of SPE-PRMS can be found here: <http://www.spe.org/industry/reserves/prms.php>.

### **RESERVES**

In this document Noreco reports its own estimates of reserves. The estimates are made by senior staff with extensive experience in reserves estimation. Quality control of the methodology and results is part of the company's internal reserves estimation procedures. Economic limit tests have been performed based on a market forward oil price as of end 2010 as well as the company's best assumptions of future operating costs.

In addition Noreco uses an external company (DeGolyer and MacNaughton) to perform an independent reserves analysis. Both the in-house and the independent reserves estimation follow SPE-PRMS.

Noreco has reserves from a total of 10 fields. More general information on the fields is available on Noreco's homepage [www.noreco.com](http://www.noreco.com) and in the company's annual reports.

The Noreco reserves overview is shown in Table 1 and 2. The division is as suggested in Oslo Stock Exchange Circular 9/2009 Annex III, and the SPE-PRMS reserves categories used is shown in brackets.

**Table 1: Noreco reserves by asset**
**Reserves as of 31.12.2010**

	Developed assets (On production)					2P				
	1P					Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe
	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe					
Siri	6.1	-	6.1	50	3.0	11.5	-	11.5	50	5.8
Nini	3.8	-	3.8	30	1.1	5.5	-	5.5	30	1.7
Nini East	8.9	-	8.9	30	2.7	12.7	-	12.7	30	3.8
Cecilie	1.0	-	1.0	61	0.6	2.0	-	2.0	61	1.2
Lulita	1.7	7.1	3.0	28.2	0.8	2.1	8.4	3.6	28.2	1.0
South Arne	54.0	60.3	64.7	6.56	4.2	62.6	66.5	74.5	6.56	4.9
Brage Unit	16.7	14.2	19.3	12.26	2.4	26.7	29.3	31.9	12.26	3.9
Brage Sognefjord	5.0	-	5.0	13.2	0.7	10.1	-	10.1	13.2	1.3
Enoch	5.1	0.2	5.1	4.36	0.2	7.3	0.6	7.4	4.36	0.3
<b>Total</b>					<b>15.8</b>					<b>23.9</b>
<b>Under development (Approved for development)</b>										
	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe
South Arne	22.5	29.6	27.8	6.56	1.8	32.4	40.8	39.7	6.56	2.6
Brage Unit	1.0	1.3	1.2	12.26	0.1	1.8	2.4	2.2	12.26	0.3
Oselvar	17.0	97.9	34.4	15	5.2	25.1	160.8	53.9	15	8.1
Huntington	24.5	10.9	26.4	20	5.3	39.6	20.5	43.3	20	8.7
<b>Total</b>					<b>12.4</b>					<b>19.6</b>
<b>Non-developed assets (Justified for development)</b>										
	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe
Nini East	1.2	-	1.2	30	0.4	1.7	-	1.7	30	0.5
South Arne	12.3	14.7	15.0	6.56	1.0	16.0	18.9	19.3	6.56	1.3
Brage Sognefjord	2.9	-	2.9	13.2	0.4	3.7	-	3.7	13.2	0.5
<b>Total</b>					<b>1.7</b>					<b>2.3</b>
<b>Total reserves</b>										
	1P					2P				
	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe	Liquids (mill bbl)	Gas (bscf)	Gross mill boe	Interest %	Net mill boe
Siri	6.1	-	6.1	50	3.0	11.5	-	11.5	50	5.8
Nini	3.8	-	3.8	30	1.1	5.5	-	5.5	30	1.7
Nini East	10.1	-	10.1	30	3.0	14.4	-	14.4	30	4.3
Cecilie	1.0	-	1.0	61	0.6	2.0	-	2.0	61	1.2
Lulita	1.7	7.1	3.0	28.2	0.8	2.1	8.4	3.6	28.2	1.0
South Arne	88.8	104.6	107.5	6.56	7.1	110.9	126.3	133.4	6.56	8.8
Brage Unit	17.7	15.5	20.5	12.26	2.5	28.4	31.7	34.1	12.26	4.2
Brage Sognefjord	7.9	-	7.9	13.2	1.0	13.8	-	13.8	13.2	1.8
Enoch	5.1	0.2	5.1	4.36	0.2	7.3	0.6	7.4	4.36	0.3
Oselvar	17.0	97.9	34.4	15	5.2	25.1	160.8	53.9	15	8.1
Huntington	24.5	10.9	26.4	20	5.3	39.6	20.5	43.3	20	8.7
<b>Total</b>					<b>30.0</b>					<b>45.8</b>

**Table 2: Noreco reserves development**
**Reserves development - net million boe**

	Developed assets (On production)		Under development (Approved for development)		Non-developed assets (Justified for development)		Total	
	1P	2P	1P	2P	1P	2P	1P	2P
	Balance as of 31.12.2009	17.0	26.5	5.7	8.9	1.1	1.8	23.9
Production	(4.1)	(4.1)					(4.1)	(4.1)
Acquisitions/disposals								
Extensions and discoveries								
New developments			7.3	11.5			7.3	11.5
Revisions of previous estimates	2.9	1.5	(0.6)	(0.8)	0.6	0.5	2.9	1.2
Balance as of 31.12.2010	15.8	23.9	12.4	19.6	1.7	2.3	30.0	45.8

The Siri/Stine, Nini, Nini East and Cecilie reserves are all produced via the Siri platform. The overall 2P reserves are similar to last year's reserves after subtracting for 2010 production.

**Siri/Stine, DCS, operated by Dong, Noreco 50%**

The reserves for the Siri and Stine fields are based on decline analysis of the existing production wells.

**Nini, DCS, operated by Dong, Noreco 30%**

The reserves assessment of the Nini field is based on decline analysis of existing wells.

**Nini East, DCS, operated by Dong, Noreco 30%**

The Nini East field started production in February 2010. The reserves assessment of Nini East is based on detailed reservoir modeling calibrated to the results of the three Nini East wells drilled during 2009 as well as production experience gained during 2010. A new injector is being drilled in 2011 but per 31.12.2010 the reserves associated with this extra well was categorised as "justified for development". The Nini East development is bringing new reserves across the Siri platform, and is extending the field life for the Siri, Stine and Nini fields by sharing of operating cost for the fields.

**Cecilie, DCS, operated by Dong, Noreco 61%**

The reserves for the Cecilie field are based on decline analysis of existing wells.

**Lulita, DCS, operated by Mærsk, Noreco 28.2%**

The 2P reserves for the Lulita field are based on decline analysis. The earlier restriction of producing Lulita across the Harald platform has been removed. Noreco has, in alignment with the Harald operator, increased the reserves for Lulita. The Lulita field is produced with a single well and there is a potential for infill drilling (sidetrack). However, no firm plan exists and consequently there are no undeveloped reserves booked for Lulita.

**South Arne, DCS, operated by Hess, Noreco 6.56%**

The reserves of the South Arne field are based on assessment of the field's production performance and review of reservoir modeling results. The developed reserves include remedial well activity to restore and improve production from existing wells, as well as the two new producers drilled in 2010.

The South Arne Phase III project has been approved in 2010 and is now categorized as reserves. Noreco expects that South Arne will produce oil far beyond 2026. The production after license expiry in 2026 is treated as "justified for development (SPE-PRMS)" as a license extension permit can be expected. This tail production includes reserves from both existing wells and the future wells linked to the Phase III project.

**Brage, NCS, operated by Statoil, Noreco 12.26% in Brage Unit, 13.2% in Sognefjord**

The reserves assessment for the Brage field is based on detailed decline analysis for most wells. Where decline analysis is not possible, reservoir models have been used to estimate reserves. The reserves are based on continued drilling on Brage into 2012, with drilling of one Brent well (approved for development) and one Sognefjord infill producer (justified for development) in 2011. The two Statfjord wells drilled in 2010 have come in below expectations while the last Fensfjord well is above expectations. The 2P reserves are similar to last year's reserves after subtracting for 2010 production.

**Enoch, NCS, operated by Talisman, Noreco 4.36%**

The Enoch field reserves are calculated from the expected production performance for the Enoch development with the existing development and assessment of various production scenarios based on reservoir modeling. The 2P reserves are similar to last year's reserves after subtracting for 2010 production.

**Oselvar, NCS, operated by Dong, Noreco 15%**

The reserves assessment of the Oselvar field is based on detailed reservoir modeling and uncertainty study performed in conjunction with the plan for development and operation (PDO) in 2009. The reserves are virtually unchanged from last year's ASR. During 2010 the Oselvar field development has progressed according to schedule and is aiming for start of production late in 2011.

**Huntington Forties UKCS, operated by E.ON Ruhrgas, Noreco 20%**

The Huntington Forties field development plan (FDP) was approved during 2010 and the project is now in the execution phase. The production and injection wells will be connected to the Sevan Voyageur FPSO, and the contingent resources reported in last year's ASR have now been moved to reserves.

The field is extensively appraised. The main remaining uncertainty in the Huntington Forties reservoir is the oil in place and expected performance of the lower part of the reservoir, the so-called low resistivity zone. Logs across this zones indicates high water saturation, while a test conducted over the interval proved good oil rates with only moderate amounts of water.

Noreco's reserve estimate of the Huntington Forties reservoir is based on the company's own reservoir modeling. In Noreco's interpretation, based on the low resistivity zone well test and field analogue information, the low resistivity zone will contribute significantly to the Huntington Forties reserves. The FDP base case is more conservative on this point and hence carries somewhat lower reserves than Noreco. The 2P reserves are reduced compared to the contingent resources reported in last year's ASR. This is partly due to reservoir model revision and partly due to an updated economic limit test.

The deeper Huntington discoveries are not part of the current FDP and are therefore kept as contingent resources. By linking additional resources to the FPSO, a likely side effect will be extended production life and consequently increased reserves for Huntington Forties.

## **CONTINGENT RESOURCES**

Noreco's contingent resources are from discoveries in various stages of maturation towards development on the Norwegian Continental Shelf, Danish Continental Shelf and UK Continental Shelf.

During 2010, the main changes are the maturation of South Arne Phase III and Huntington Forties into reserves as well as the addition of the Zidane-1 discovery. Portfolio management has resulted in sale of the Grosbeak discovery.

In accordance with guidelines from Oslo Stock Exchange, Noreco does not quantify contingent resources in this year's ASR. The following summary shows the status for contingent resources with high impact for Noreco or which are very close to being reclassified to reserves.

### **9/95 Gita (DCS), operated by Mærsk, Noreco 12%**

The Gita-1X well indicated significant hydrocarbon potential in a Middle Jurassic reservoir and is closely correlated with reservoir proven and tested in the Amalie discovery. The neighboring Amalie discovery (Noreco 29.9%) and Gita may be connected. The license will work with new re-processed seismic data and appraisal planning during 2011.

### **PL348 Gygrid (NCS), operated by Statoil, Noreco 17.5%**

The Gygrid discovery is located in the PL348 license situated approximately 13 km west of the Draugen facilities. The discovery well was drilled in 2009 and encountered light oil in both the Ile and Tilje Formations of the Fangst Group. Statoil as operator is planning a fast-track subsea tieback development of the discovery with possibly two production wells and a water injector. Concept selection and submittal of a Plan for Development and Operation (PDO) is planned in 2011.

### **PL148 Nemo (NCS), operated by Lundin, Noreco 20%**

During 2010 a subsea development and tie-in to the Pierce FPSO (UKCS) was selected as the concept for Nemo. The partnership will work towards submitting a PDO in 2011.

### **PL435 Zidane (NCS), operated by RWE, Noreco 20%**

The 6507/7-14s exploration well drilled during 2010 proved that the Zidane-1 structure contained gas. The license starts in 2011 a feasibility study for the possible development. The neighboring structure Zidane-2 is a natural part of such a development and is the next target in the license, with drilling scheduled for 2011.

### **P1114 Huntington Fulmar UKCS, operated by E.ON Ruhrgas, Noreco 20%**

The Huntington Fulmar discovery is not part of the ongoing Huntington Forties development and is hence kept as contingent resources. A plan for Fulmar will be matured during 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The reported reserves estimates are based on standard industry practices and methodology such as decline analysis, reservoir modelling and geological and geophysical analysis. The evaluations and assessments have been performed by engineers with extensive industry experience, and the methodology and results have been quality controlled as part of the company's internal reserves estimation procedures.

A third party independent assessment has been performed by DeGolyer and MacNaughton on all of Noreco's fields categorised as reserves. The assessment is based on input data provided by Noreco, as well as full access to subsurface data and license documentation. DeGolyer and MacNaughton forms an independent view on reserves on this basis. The independent review concludes with a reserves estimate that is within 2% of Noreco's 2P estimate and hence serves as a verification of the Noreco reserves estimate.

The information included herein may contain certain forward-looking statements that address activities, events or developments that Noreco expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by Noreco, which are beyond its control and are subject to certain additional risks and uncertainties. As a result of these factors, actual events may differ materially from those indicated in or implied by such forward-looking statements.

The 2P reserves estimate represents the expected outcome for the fields based on the performance observed to date, the company's understanding of the fields and the planned activities in the licenses. The 2P reserve estimate for the Noreco portfolio is 45.8 mmboe compared to 37.2 mmboe in the year end 2009 reserves statement. This increase is mainly due to South Arne Phase III and the Huntington Forties developments. Adjusted for 2010 production, this represents an increase in 2P reserves of 12.6 mmboe in 2010, and a 2P reserves replacement ratio above 300%.

Through the reserves and contingent resource basis described above, Noreco is well positioned to grow production and reserves from its own portfolio over the next few years.

Scott Kerr  
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