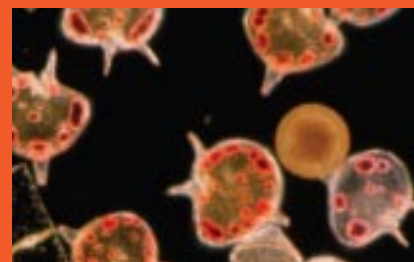


# Corporate Review

Annual Report 2007

Bridge Energy is an upstream oil company with specialist competence in oil and gas exploration. The company operates mainly on the Norwegian Continental Shelf where we have broad experience.



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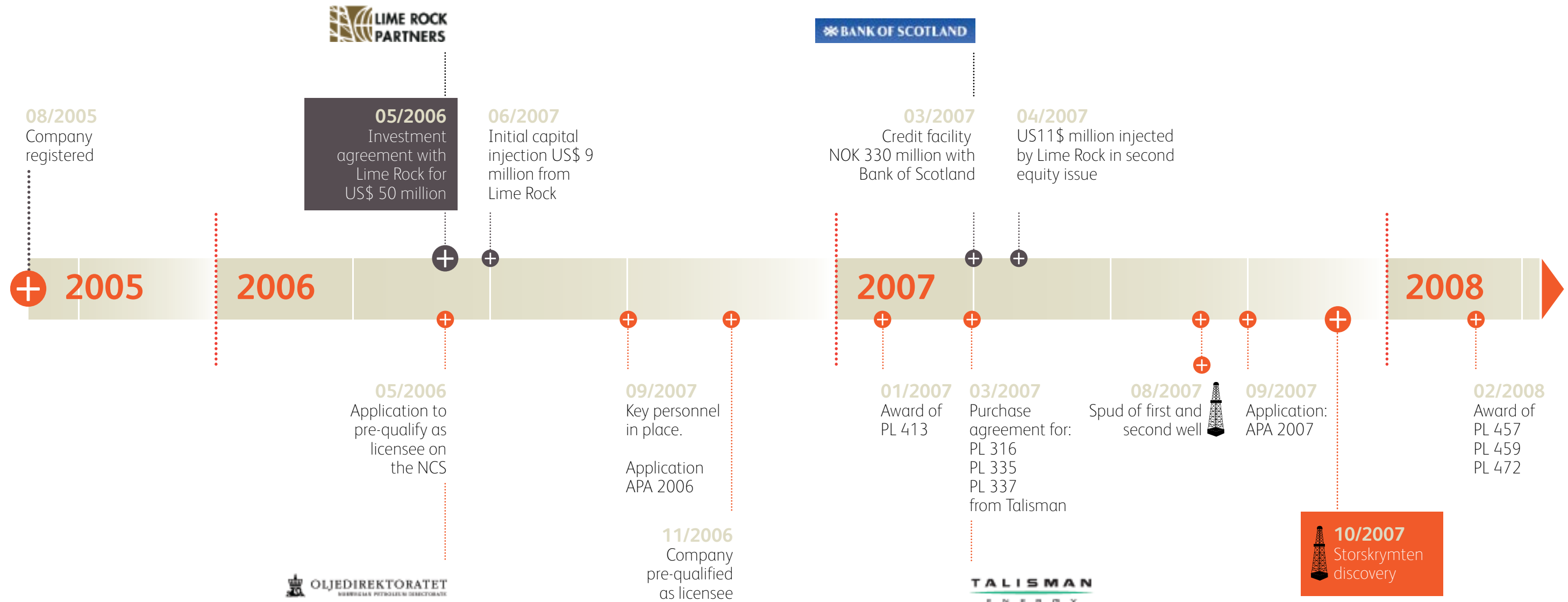
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# The company in brief

## Financial



## Operational





**Einar H. Bandlien**  
CEO

MSc in geology from the University of Trondheim. Petroleum industry experience since 1974 with top management positions in oil and service companies in Norway. Bandlien has worked extensively on petroleum resource management programmes as adviser to companies and governments in developing and transition countries. His broad international experience includes work in Africa, Asia and Eastern Europe/FSU.

CEO Statement:

# Gaining momentum

After less than two years in operation the core exploration business is well established and Bridge Energy looks to accelerate company growth.

We are now in our second year of operation since capitalisation. Our corporate history may be short, but the Bridge team has experience from every single licensing round in Norway. To support our reassessment of prospective areas, we have acquired a comprehensive database focusing on already mature regions of the NCS. Our aim is to contribute to the realisation of the considerable exploration potential which remains in the Norwegian sector. We are off to a good start with four licence awards, three licence acquisitions, two exploration wells and one discovery.

Our key competence is "subsurface" and our ability to develop new exploration targets is well documented. On this basis our company will be an active applicant also in the upcoming licensing rounds and an active buyer in the market for licence interests. The initial licence portfolio has small to medium-sized exploration targets with a relatively high probability of success. Moving forward we shall diversify

the licence portfolio to include targets with higher resource potential and higher risk.

Competition is increasing on the NCS and the two critical factors are quality acreage and rig capacity. We may see quality where others do not, but the operational constraints are real. We are therefore taking steps to secure rig capacity and have started the process to pre-qualify as operator. Norwegian waters are both rough and environmentally sensitive, and HSE is high on our agenda.

The equity capital provided by Lime Rock Partners is sufficient for an initial number of wells and we are now planning beyond that. The basis for successful organic growth is well established and Bridge Energy is in a position to consider larger acquisitions and a broadening of the equity base. Our aim is to give our initial investors a good return and prepare for a market in the Bridge Energy shares.



# NCS

Estimates by the Norwegian Petroleum Directorate put the undiscovered potential at 26% of the total resource base or more than 20 billion boe. Considerable uncertainty attaches to such estimates, but it is a fact that the size distribution of fields and discoveries in Norway lacks the long “tail” of smaller deposits which is typical of truly mature petroleum provinces. We believe the remaining exploration potential is large, and the many smaller fields waiting to be discovered are commercially attractive targets.

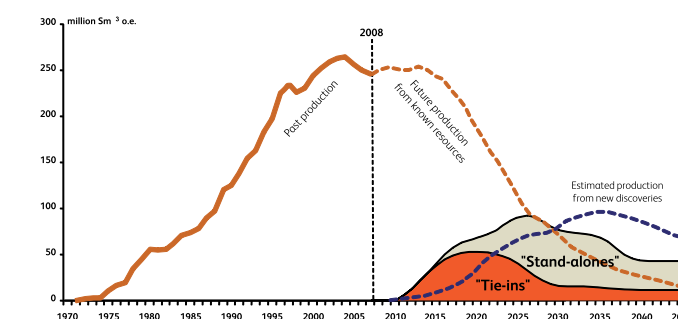
From the beginning in the late 1960s the NCS was a place reserved for the “chosen few”. Despite the formidable exploration success in what turned out to be a prolific petroleum province, the number of companies remained low. Notably only three Norwegian oil companies were allowed to hold significant licence interests. All that has now changed.

When conventional oil production culminated in 2001 the total number of companies holding a licence interest on the NCS was still less than 25. The NCS appeared to be a mature oil province with irreversibly declining production. In reality it is some 15 years behind the UK in exploration maturity, and the decline in output is a result of industry structure in addition to declining exploration potential.

Norwegian authorities reacted constructively to the challenge and altered the frame conditions for exploration investment. The most important elements were annual licensing in mature areas (APA rounds from 2003), active promotion and pre-qualification of new companies and a refund of the tax portion of exploration investment (from 2005).

The resulting changes have been fast and dramatic:

- There are now more than 70 companies, if we include those with current applications for pre-qualification.
- The number of licence applications and awards per year has more than trebled.
- Licence transactions between companies are growing each year.
- The number of wildcat exploration wells is now increasing and so is the rig count.



Exploration lead times are long, but we are now starting to see the fruits of this national strategy in the form of new discoveries. At the same time gas is replacing declining oil production and the total decline has been stalled for some time.

We believe the full impact of the many new companies is underestimated. Companies like Bridge Energy bring technical and financial resources as well as enthusiasm and a certain impatience. Things must happen.

The official estimates of how undiscovered resources will impact future production give a peak around 2035. Of necessity some of the time-critical resources must be developed earlier to make effective use of existing infrastructure. Deposits for “stand alone” development may be addressed later, but new companies and higher oil prices will move also these to the top of the agenda.

Given access to the prospective acreage, the projected peak of new discoveries may possibly be moved forward by some 10 years and effectively delay the production decline (see figure above). Bridge Energy is in position to contribute to this positive development.





**Dr Alfred Kjemperud**  
Chief Operating Officer

Kjemperud has a PhD in geology from the University of Oslo. He has held leading positions in oil and consultancy companies, and has managed large geological, resource assessment and fiscal modelling projects in Norway, NW Europe, Eastern Europe/ FSU, Africa and Asia.



## Hard to find

There are large remaining oil and gas resources on the NCS. At the same time the “easy oil” has already been discovered and the remaining barrels will be hard to find. The competition is fierce and future exploration will require a combination of technology, competence and creativity. We have an excellent team and are well prepared for the challenge.



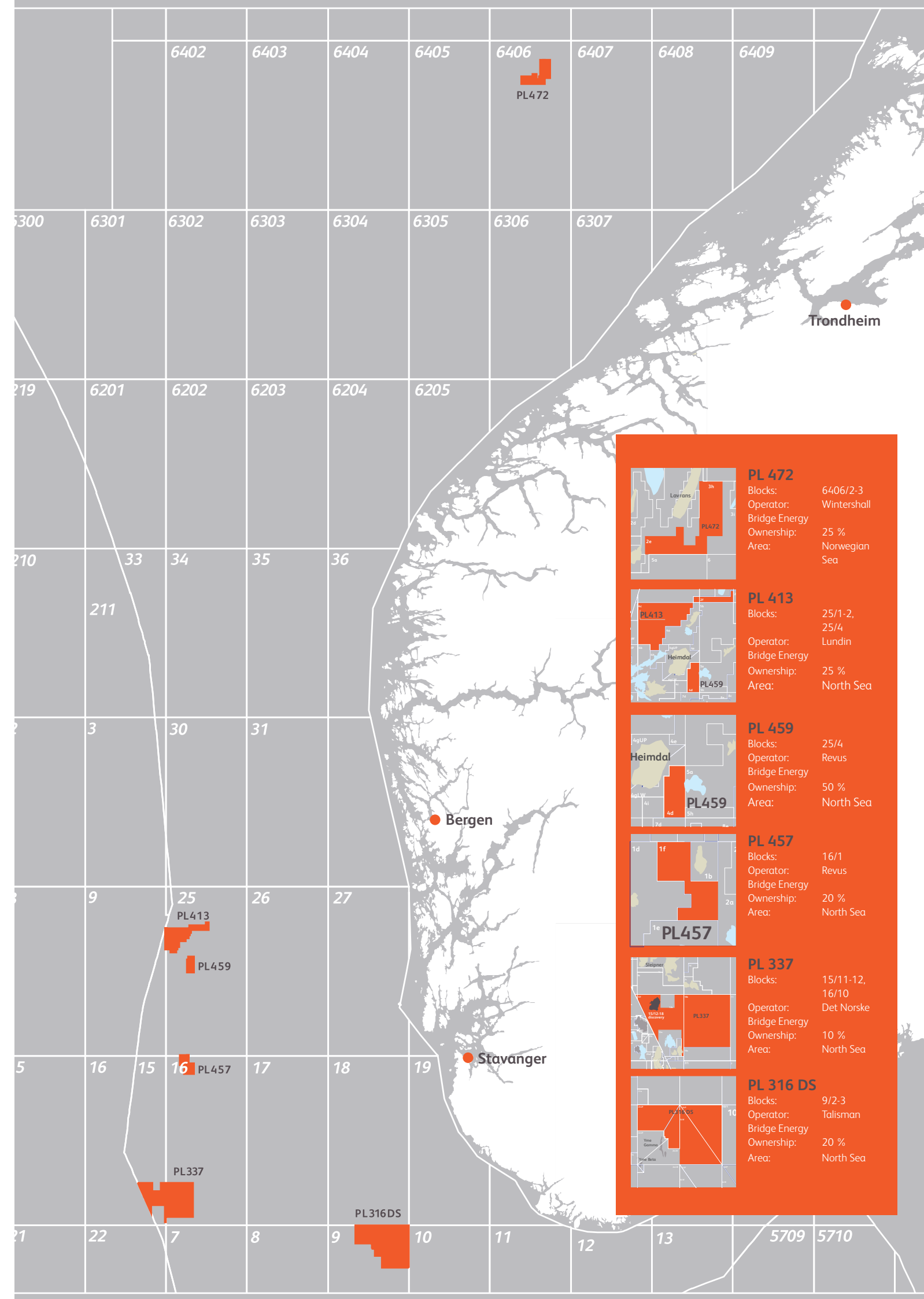
# Current licences and focus areas

Well established in the mature areas, we are moving to include more frontier blocks where both exploration risk and possible rewards are higher.

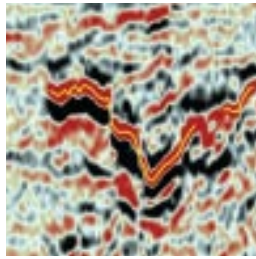
About half of the undiscovered resources on the NCS are in mature areas with many discoveries, producing fields and good infrastructure. NPD estimates that one third of undiscovered resources are still to be found in the North Sea. This is where data control is best and where the commercial threshold is lowest. The possibility of tying into existing infrastructure has made discoveries of less than 15 million bbl of recoverable reserves commercially viable. This scenario is in part supported by a high oil price.

Bridge Energy has acquired continuous 3D seismic coverage in the producing fairways of the North Sea and a comprehensive coverage of mature areas off Mid-Norway. These are the areas of primary focus, which meet our requirement of a more than 25 % probability of success on drilling targets. We are developing a prospect library in our focus areas, and have an active strategy for farm-ins and applications when acreage opportunities arise.

In preparations for APA 2007 Bridge Energy also evaluated certain areas in the Barents Sea. This is part of a strategy of gradually expanding into the more mature parts of these northern waters. In the 20th licensing round we are also considering opportunities in more frontier blocks where both exploration risk and possible rewards are higher.







**Argynnis aglaja**  
is a butterfly of the Nymphalidae family. It is the only large species of the genus Argynnis that is common in large parts of Norway.

# Aglaja – an innovative target

Over a period of several hundred million years, sediments are deposited, eroded, redeposited and compacted; they are faulted and disturbed by tectonic movements, and can be shifted as a result of gravity and pressure differences. The end result can be seen on seismic data. Some features in the sub surface data may represent geological traps where migrating hydrocarbons can accumulate.

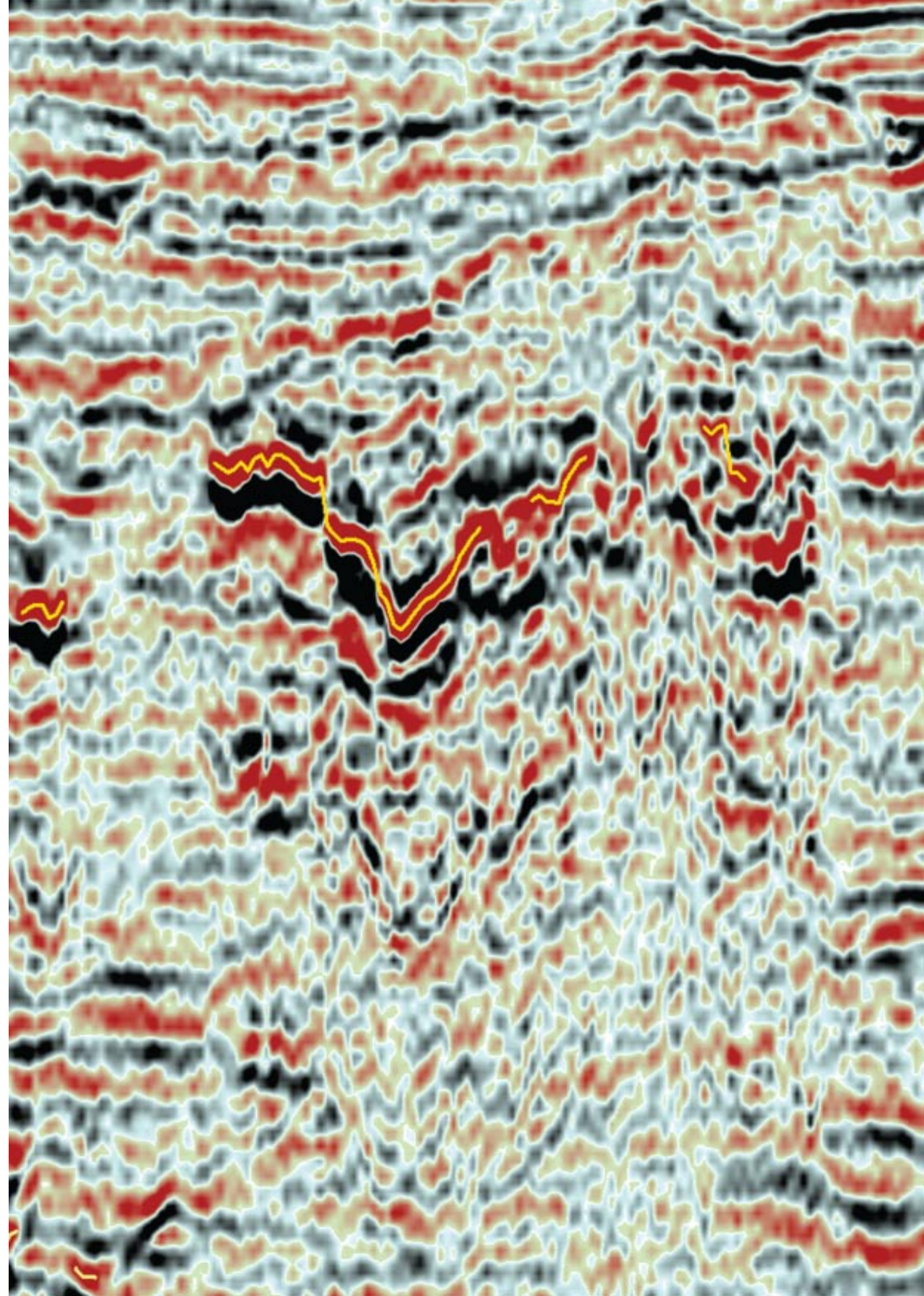
Going through the areas available in the APA 2007 licensing round our geoscientists focused on a prominent feature in the seismic data which had the shape of a butterfly. It is believed to represent a sand injectite, possibly containing oil, and was named Aglaja.

Bridge Energy found partner companies which share the view that Aglaja deserved a licence application and a closer look. Licence PL 457 was awarded in February 2008 and studies are being made to acquire a better understanding of its hydrocarbon potential.

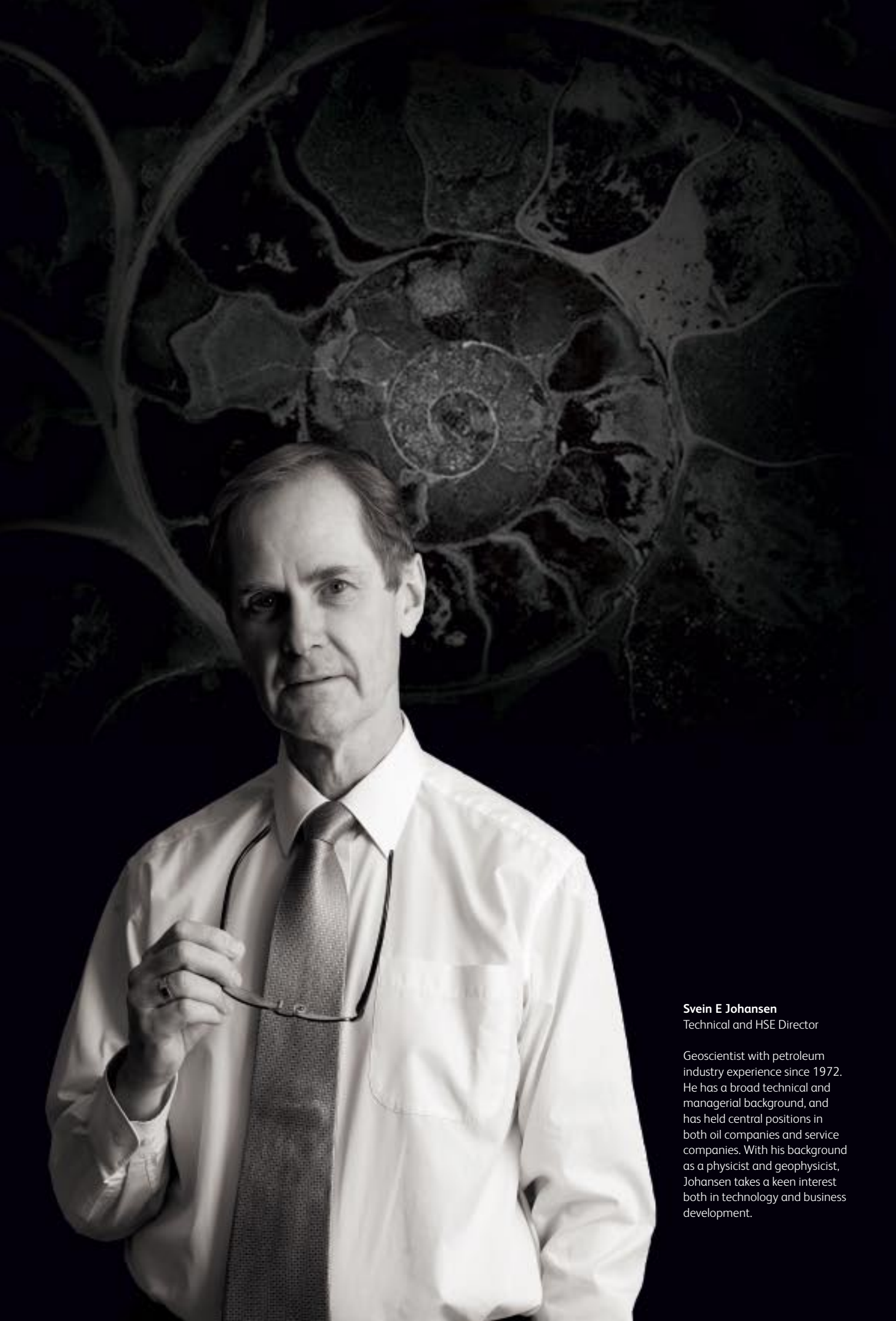
## Sand injectites

Sand injectites represent sudden movements of sand mobilized by the release of overpressure. Sandy sediments in deep-marine settings are a mixture of sand grains and water. If these water-laden deposits are buried relatively quickly by low permeability clays, the fluids may become trapped and over-pressured at depth. An influx of more fluids, or faulting, might trigger movements. Mobile sand injects into zones of weakness or forces its way up, in some cases all the way to the surface, much like the eruption of lava from a volcano.

The recognition of injectites as an important feature of oil and gas reservoirs in several Norwegian fields is quite new. The acknowledgement of sand injectites as independent exploration targets is even more recent. To our knowledge there is only one well that has targeted a sand injectite; ie. the discovery of the Volund field in 2004.







# Deep insight

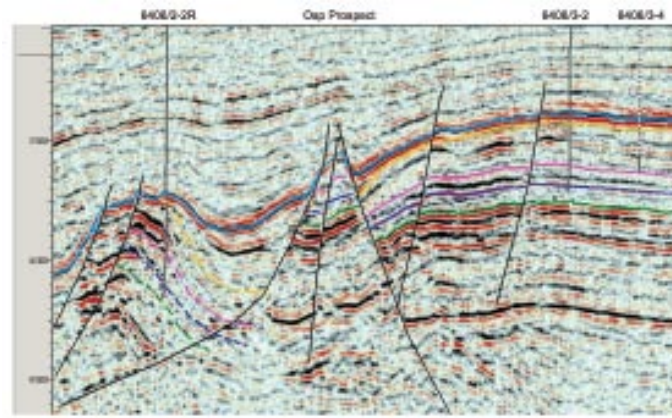
Finding and developing the remaining resources throughout the NCS poses a new challenge both to people and technology. Our management and staff share a background from technology development, with the emphasis on seismic techniques in petroleum exploration. Experience, combined with a keen awareness of technological challenges and innovations, enables us to benefit from modern technology in our exploration effort.

+ Image: Late Jurassic Perisphinctes Species

**Svein E Johansen**  
Technical and HSE Director

Geoscientist with petroleum industry experience since 1972. He has a broad technical and managerial background, and has held central positions in both oil companies and service companies. With his background as a physicist and geophysicist, Johansen takes a keen interest both in technology and business development.





Seismic cross-section showing the Osp Prospect defined by a narrow horst structure, located between the Lavrans Field (well 6406/2-2R) and the Trestakk Field (wells 6406/3-2 and 6406/3-4).

# The Osp prospect

The Osp is located on the Halten Terrace, between the Lavrans and the Trestakk fields. The Halten Terrace is separated from the Trøndelag Platform to the east and northeast by the Bremstein Fault Complex, from the Frøya High in the southeast by the Vingleia Fault Complex and from the Møre and Rås Basins in the west by the Klakk Fault Complex.

The trap is defined by a narrow, elongated horst structure, and the reservoir sequence comprises sediments in the Jurassic Båt Group at approximately 4 km depth. The source rocks are considered to be coaly lithologies of the Lower Jurassic Åre Formation (Fm) and marine shales of the Upper Jurassic Spekk Fm. The Spekk Fm is in the late oil to early gas window, and the Åre Fm is within the gas window. A discovery on this prospect will therefore most likely contain wet gas at near to normal pressure. However, wells to the south and west of the prospect show overpressures of up to 400 Bar, whereas east of the prospect wells are at normal pressure.

Sometimes a subsurface structure has been seen by many and mapped by some, but no wells are drilled and the area is relinquished. There are many factors which together define a drillable target, such as reservoir, trap, migration and retention of hydrocarbons. Moreover, what is not commercially viable at USD 30 per bbl may become interesting at USD 100.

Whatever the reason, the relatively small Osp structure was left untested. We believe the critical factors are volume and effective migration paths from the deep oil "kitchen" to the west. After remapping the Osp in preparation for APA 2007, we think we have deciphered the complex mix of factors and now give Osp a much higher than average probability of success.

We applied for the block as a single company and were awarded PL 472 in February 2008 together with three partner companies. The licence has other targets as well and we are eager to continue evaluation towards possible drilling.



**OSP: Populus tremula - Aspen**  
Fast-growing deciduous tree. Hardy, with yellow autumn colour. One of the first trees to reappear in Norway after the Ice Age



# Well travelled

Current frame conditions in Norway make NCS exploration our core business. To fast track the diversification of our asset portfolio we may also buy into production. Since buying production in Norway offers no particular advantages, we may capitalize on management's broad international experience to locate the best opportunity. We are currently monitoring selected markets overseas.

+ Image: The Earth was formed some 4.5 billion years ago. The outer surface is divided into several rigid segments, or tectonic plates, that gradually migrate across the surface over periods of many millions of years. The Earth's atmosphere is a layer of gases surrounding the planet and retained by the Earth's gravity. The atmosphere contains mainly Nitrogen (78%) and Oxygen (21%).

**Olve Torvanger**  
Director Business Development

Has an MSc in seismology from 1972 and has worked in management positions in oil and service companies both on the NSC and internationally. For many years Torvanger has studied the global changes in the world petroleum market which influence the strategic choices in corporate development.





# Growth strategy

“The NCS market is competitive and Bridge Energy shall maintain its competitive edge through systematic mapping and prospect evaluation based on the best possible data and technology.”

Bridge Energy’s core business is value creation by exploration leading to oil and gas discoveries. It is realistic to achieve an average 25% probability of success for exploration wells in mature areas. Statistically it is highly probable that eight wells give one, most likely two, discoveries. As long as positive frame conditions and access to prospective acreage prevail, the NCS will remain our main area of operation.

Our short term objective is to step up licence acquisition and exploration activity to a sustainable level, ensuring participation in several exploration wells every year. In support of this objective the organisation will be developed to include competence in drilling and operations as well as HSE management. Bridge Energy has started the process to pre-qualify as an operator. Rig capacity will continue to be a challenge and steps have been taken to secure future rig slots to meet our requirements in the years to come.

## Development and production

The challenge in mature areas is to find and commercially develop successively smaller deposits. In a longer term perspective the company will develop competence also in development and production, and move towards becoming a fully integrated E&P company.

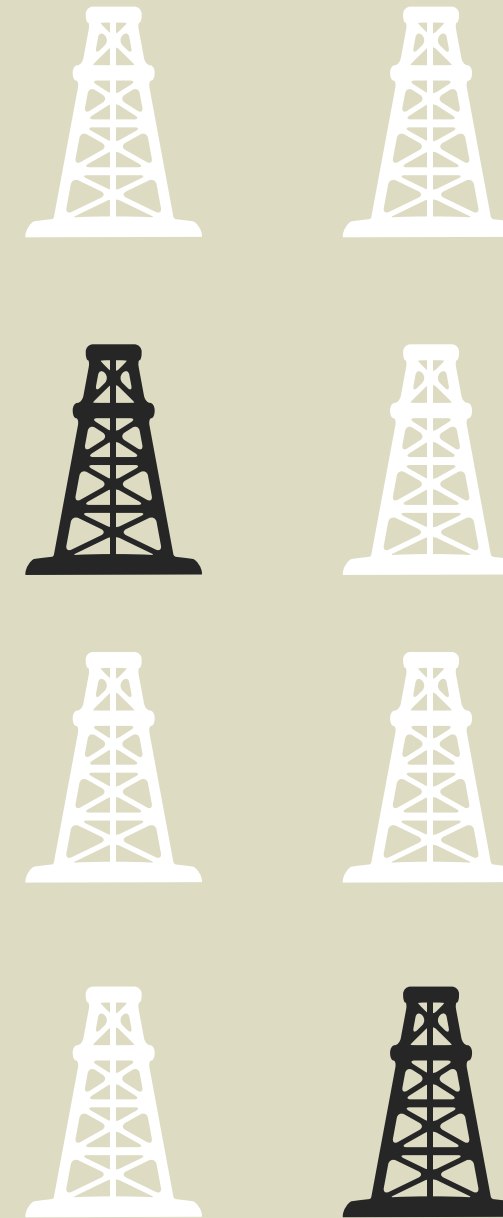
The NCS market is competitive and Bridge Energy shall maintain its competitive edge through systematic mapping and prospect evaluation based on the best possible data and technology. Competitors are also possible partners and we shall optimise the evaluation and application processes through AMI cooperation.

## Sustainable growth

Effective growth in the licence portfolio will be achieved through a combination of licence awards, farm-ins and acquisitions. With an increasing number of companies on the NCS, the “second hand” licence market and M&A opportunities are growing.

The current capital base may be expanded through one or more private placements and in due course a stock market flotation. Such further capitalisation may be made both to expand the core business and to make specific project or corporate acquisitions.

Our aim is to create a basis for sustainable growth and attractive returns to both our current and future investors.





# In our element

We are carefully building value by applying a business model whose core element is the unique exploration opportunity afforded by the NCS. With a sound equity capitalisation provided by our main shareholder, Lime Rock Partners, and a credit facility from the Bank of Scotland we are positioned to build a profitable and sustainable asset portfolio.

+ Image: Spores and pollen are used in geological studies to make correlations and determine the relative age of a sedimentary formation. The picture shows modern pollen grains

**Eystein Westgaard**  
Chief Financial Officer

MSc, Norwegian School of Management. Management responsibility in a large Norwegian oil company listed on the OSE and NYSE. Management experience also from a biotech start-up and from a large pharmaceutical company.



# The bridge team



**Einar H. Bandlien**  
Chief Executive Officer

**Anne - Live Bjørnstad**  
Office Manager

**Aasmund Bruland**  
Exploration Manager

**Tom Egeberg**  
Manager New Ventures

**Eilif T. Ertresvåg**  
Staff Geophysicist

**Stein E. Haugen**  
Advisor Petroleum Technology

**Svein E. Johansen**  
Technical and HSE Director



**Torgeir S. Johansen**  
Staff Engineer

**Dr. Alfred Kjemperud**  
Chief Operating Officer

**Egil Lind**  
G&G Manager

**Marit Mickelson**  
Advisor Geology

**Trude Skari**  
Switchboard/ Canteen

**Olve Torvanger**  
Director Business Development

**Eystein Westgaard**  
Chief Financial Officer

# Board of directors



**William McCall,**  
Chairman

Mr. McCall acts as Chairman of a number of private equity backed companies. He is a former individual member of the London Stock Exchange, and regulated individual by the UK Securities and Futures Authority (SFA). He is a former Director of Charterhouse Tilney, a securities firm, and Singer & Friedlander, a UK merchant bank. McCall has been principal of his own firm, McCall & Partners since 1999.



**Matthew Bristler**

Mr. Bristler is a registered Professional Geologist with 25 years experience in Western Canada, North Africa and the North Sea. Mr. Bristler was the President and CEO of three successful junior oil and gas producers that were profitably grown and sold over the last ten years.



**Per Øystein Grimstad**

MSc Engineering, formerly President in Norconsult AS, the largest Norwegian consulting company, working internationally in Engineering, Architecture and Economics. Deputy Minister in the Royal Norwegian Ministry for Trade and Industry. Head of NORAD; the Norwegian Government Agency for Development Cooperation. Ambassador for Norway to South Africa. Presently corporate adviser.



**Simon Munro**

Mr. Munro has 15 years of experience in private equity, accounting, and corporate finance. He joined Lime Rock in 2002 as a Director after previously having held positions with Rutherford Manson Dowds, Simmons & Company and J.P. Morgan.



**Ingjald Ørbeck Sørheim**

Cand. jur. and formerly political advisor at the Norwegian prime ministers office. Key positions also in the Ministry of Education, Ministry of Trade and Ministry of Environment. Secretary of the Labour party's Parliament Committee. Mr. Sørheim has since 1992 held his own practice as a corporate lawyer.



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Annual  
Report 2007

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# Directors' report for 2007

Licence:	Ownership:	Operator:
PL 316 DS	20 %	Talisman
PL 337	10 %	Det Norske
PL 413	25 %	Lundin
PL 457	20 %	Revus
PL 459	50 %	Revus
PL 472	25 %	Wintershall

The company has currently equity in six licences on the Norwegian continental shelf

The company's business activity is participation as a direct owner in oil- and gas resources, as well as other activities which naturally fall within the company's competence. The company is located in Asker.

During 2007 Bridge Energy was awarded equity interest in one exploration licence and acquired interest through farm-in in three licences, all on the Norwegian continental shelf. The company was awarded another three licences in February 2008 as a result of the licence round "APA 2007". Bridge Energy is building a licence portfolio on the Norwegian continental shelf and expects to make one or more commercial discoveries.

The share capital was increased to NOK 8 947 602 in April 2007 through a share issue to Lime Rock Partners III LP.

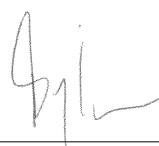
This brought NOK 73 559 850 in new equity capital. This gives a sufficient basis for continued operation. The Board of Directors and the Chief Executive Officer therefore consider that it is correct to present the annual accounts on a going concern basis.

The Board considers that the annual accounts give a true and fair representation of the company's assets and liabilities, financial position and result for the year.

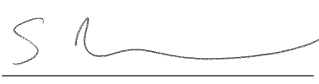
At year end the company had 14 employees. The Board does not see the need for particular actions to improve the working environment at this time. Absence for illness in the company is low and amounted to 0.8 % of total working days in 2007. As far as the Board is aware the Company does not pollute the natural environment.

The company has 14 employees, including 3 women. Based on the size of the company, number of employees and different job categories, the Board of Directors has not found it necessary to take special actions regarding equal opportunities. However, a better gender balance is desirable, and the company will work towards that through future recruitment.

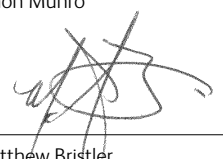
Billingstad, April 4, 2008  
The Board of Directors, Bridge Energy AS

  
Bill McCall

  
Per Øystein Grimstad

  
Simon Munro

  
Ingjald Ørbeck Sørheim

  
Matthew Bristler

  
Einar H. Bandlien

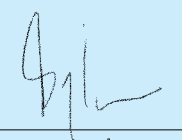
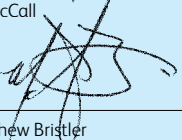
# Income statement

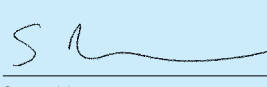

(NOK)	Note	2007	2006
<b>Revenue</b>			
Revenue		0	0
<b>Operating expenses</b>			
Exploration expenses	13	156 748 882	28 561 061
Payroll expenses	3,4	422 422	936 182
Depreciation and amortisation expenses	6	1 067 875	268 255
Other operating expenses	7	640 507	1 994 711
<b>Total operating expenses</b>		<b>158 879 685</b>	<b>31 760 208</b>
<b>Operating income (loss)</b>		<b>-158 879 685</b>	<b>-31 760 208</b>
<b>Financial income and expenses</b>			
Interest income		3 248 920	564 561
Other financial income	11	358 325	8 097
Interest expenses		3 472 095	0
Other financial expenses	11	7 679 739	3 143 846
<b>Net financial items</b>		<b>7 544 589</b>	<b>2 571 188</b>
<b>Income (loss) before tax</b>		<b>-166 424 274</b>	<b>-34 331 396</b>
Income taxes	8	-127 706 189	0
<b>Net income (loss)</b>		<b>-38 718 085</b>	<b>-34 331 396</b>
<b>Transfer:</b>			
Other equity		-38 718 085	-34 331 396



# Balance sheet as of 31 December

(NOK)	Note	2007	2006
<b>Fixed assets</b>			
Capitalised exploration and licence rights	6	86 025 957	0
Fixtures and fittings, software, office machinery etc	6	2 480 171	2 085 162
<b>Total fixed assets</b>		<b>88 506 128</b>	<b>2 085 162</b>
<b>Current assets</b>			
<b>Current receivables</b>			
Other short-term receivables	8,14	113 459 204	1 993 333
<b>Cash and cash equivalents</b>			
Cash and cash equivalents	2,12	34 025 151	26 996 582
<b>Total current assets</b>		<b>147 484 355</b>	<b>28 989 915</b>
<b>Total assets</b>		<b>235 990 483</b>	<b>31 075 077</b>
<b>Equity</b>			
<b>Paid-in capital</b>			
Share capital	9,10	8 947 602	6 910 560
Share premium reserve	9	119 503 248	47 980 440
Other paid-in capital	4,9	1 482 696	0
<b>Total paid-in capital</b>		<b>129 933 546</b>	<b>54 891 000</b>
<b>Retained earnings</b>			
Losses carried forward	9	-73 494 602	-34 776 517
<b>Total equity</b>		<b>56 438 944</b>	<b>20 114 483</b>
<b>Liabilities</b>			
<b>Provisions</b>			
Other provisions	4,5	460 261	59 000
<b>Non-current liabilities</b>			
Interest bearing loans	16	55 899 622	0
<b>Current liabilities</b>			
Trade payables		1 322 676	8 674 610
Public duties payable		1 723 811	391 995
Other current liabilities	15	120 145 169	1 834 989
<b>Total current liabilities</b>		<b>123 191 657</b>	<b>10 901 594</b>
<b>Total liabilities</b>		<b>179 551 539</b>	<b>10 960 594</b>
<b>Total equity and liabilities</b>		<b>235 990 483</b>	<b>31 075 077</b>

Billingstad, April 4, 2008


  
 Bill McCall
   

  
 Matthew Bristler


  
 Simon Munro
   

  
 Ingjald Ørbeck Sørheim


  
 Per Øystein Grimstad
   

  
 Einar H. Bandlien



# Notes

## Note 1 | Accounting policies

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles.

### Income recognition

Revenue concerning sales of petroleum products is booked when the ownership is transferred to the customer at the time of delivery based on the contractually bound conditions in the agreement. Sales of services are recognised as income when delivered. The share of revenue concerning future service agreements is booked in the balance as deferred revenue at the time of sales, and booked as revenue in line with the delivery of the service.

### Exploration costs

The company uses the "successful efforts"-method when booking exploration costs. All exploration costs (including seismic acquisition, seismic studies etc), with the exception of costs regarding acquisition of licences and drilling of wildcat wells, are charged as expense.

Costs regarding drilling of wildcat wells will be booked to the balance sheet while waiting for an evaluation of the potential discovery of oil and gas reserves. If no reserves are found, or if it is concluded that the discovery will not be technically or commercially extractable, the costs regarding the wildcat wells will be charged as expenses. Licences will be capitalised and an assessment regarding impairment will be done at the end of each accounting period.

### Balance sheet classifications

Current assets and short-term liabilities include items that are due within a year after the time of acquisition, as well as items connected with the operating cycle. Remaining items are classified as non-current assets and long-term liabilities. Current assets are valued at the lower of cost and net realisable value. Short-term liabilities are measured at nominal amount. Non-current assets are stated at cost. In the case of impairment the assets are written down to fair value. Long-term liabilities are measured at nominal amount.

### Accounts receivable

Trade and other receivables are carried at original invoice amount less an allowance for any uncollectable amounts. The allowance is based on individual assessments of each major customer at risk. In addition, an unspecified provision is made for any losses anticipated for the remainder of the balances.

### Currency

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

### Leasing/Rental agreement

Lease contracts are classified as finance or operating leases in accordance with the contents of the appropriate agreements. Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as financial leases, and the assets or obligations are recorded in the balance sheet. Other types of lease are classified as operating leases.

### Tangible assets

Tangible assets are capitalised and depreciated over their estimated useful economic life. Direct maintenance costs are expensed as incurred, whereas improvements and upgrading are assigned to the acquisition costs and depreciated along with the asset. If the carrying value of a non current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value.

### Pensions

Pension liabilities financed by the company are estimated and recorded as an operating expense and recognised in the balance sheet as a liability. Pensions financed through insured plans are not recognised in the balance sheet. Plan premiums are recognised as pension expenses and appear alongside salary expenses. Social security tax on future pension payments are from 2007 accrued at nominal value.

### Taxes

Tax expenses in the profit and loss account comprise both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated at 28 % company tax and at 50 % special tax on the basis of existing temporary differences between the carrying amount of assets and liabilities in the financial statement and for tax purposes, including tax losses carried forward. Temporary differences, both positive and negative, are balanced out within the same period. Deferred tax assets are recorded in the balance sheet to the extent it is more likely than not that the tax assets will be utilised.

Oil companies operating on the Norwegian Continental Shelf are subject to the Norwegian oil taxation regime. Under this regime oil companies which are not in a tax paying position may claim a 78 % refund of their exploration costs, limited to the taxable loss for the current year.

## Note 2 | Bank deposit

The item includes restricted bank deposits on the tax withholding account of NOK 980 632 as of 31 Dec 2007.

## Note 3 | Salary expense, allowances etc

	2007	2006
<b>Payroll expense</b>		
Salaries and wages	14 563 242	5 502 204
Payroll tax for social security	2 557 435	773 566
Pension costs	2 265 916	931 168
Other benefits	1 957 360	31 400
Directors' fees	300 000	0
Reclassified to exploration expenses *)	-21 221 532	-6 302 156
<b>Total payroll expense</b>	<b>422 422</b>	<b>936 182</b>
Average number of man-years	12.1	4

\*) Payroll expenses related to exploration are reclassified to exploration expenses

Allowances	Salary	Pension costs	Other allowances
Managing Director	1 482 423	313 371	6 531
Board of Directors			300 000

There are no termination agreements other than ordinary salary during notice period.

### Fees to auditor

Audit services	230 000
Other assurance services	0
Tax advisory	0
Other non-assurance services	63 750
<b>Total</b>	<b>293 750</b>

All amounts are exclusive of VAT.

## Note 4 | Share based payments

The company has an option plan for its senior personnel. As of 31.12.2007 7 employees and 2 board members are included in the option plan. To be a part of the option plan one has to be an employee of the company. The option rights will be terminated when the employee resigns from his/her position.

The option plan concerns the application of 21 000 shares at an exercise price from NOK 200 to NOK 330. The options can be vested in a period of 3 years from the time of exit of Lime Rock Partners.

The intrinsic value of the options from the time of allotment was NOK 0. Expensed payroll costs related to the options in 2007 are NOK 1 482 696. Accrued social security tax amounted to NOK 120 850 in 2007.

## Note 5 | Pension costs and obligations

The company is required to have an occupational pension scheme in accordance with the Norwegian law ("lov om obligatorisk tjenestepensjon"). The company's pension scheme meets the requirements of that law.

In addition, the company's key personnel are entitled to additional pension contributions as a "pensjon over drift" scheme. This results in disbursements to each member of the scheme from the year in which an employee reaches 67 until that employee turns 77 years of age. In accordance with the pension plan an amount of approximately 15% to 20% of fixed salary (less amounts contributed under the company's occupational pension scheme) is contributed by the company until the employee reaches 67 years of age. This arrangement is guaranteed through an annuity insurance where the company is the beneficiary.

The total premium paid in 2007 was NOK 1 988 727. An accrual of NOK 280 411 has been made to cover expected future social security tax which is payable when the pensions are paid out. This accrual is included in the entry "Other provisions".

## Note 6 | Fixed assets

	Capitalised exploration and licence rights	Fixtures and fittings, tools, office machinery etc	Software	Total
Aquisition cost 31 Dec 2006	0	549 172	1 804 245	2 353 417
Additions	118 689 252	298 451	1 164 433	120 152 136
Disposals	0	0	0	0
Aquisition cost 31 Dec 2007	118 689 252	847 623	2 968 678	122 505 553
Acc. depreciations	0	307 160	1 028 970	1 336 130
Acc. write-down	32 663 295	0	0	32 663 295
<b>Book value 31 Dec 2007</b>	<b>86 025 957</b>	<b>540 463</b>	<b>1 939 709</b>	<b>88 506 128</b>
Depreciation for the year	0	238 693	829 182	1 067 875
Write-down for the year	32 663 295	0	0	32 663 295
Reclassified to exploration expenses	-32 663 295	0	0	-32 663 295
<b>Total depreciation and write-down</b>	<b>0</b>	<b>238 693</b>	<b>829 182</b>	<b>1 067 875</b>

Economic useful life	3 year	3 year
Depreciation method	Linear	Linear

## Note 7 | Other operating expenses

	2007	2006
Audit, consultants, lawyers and hired management	2 400 086	4 839 190
Other operating expenses	2 572 353	1 919 739
Reclassified to exploration expenses	-4 331 931	-4 764 218
<b>Total other operating expenses</b>	<b>640 507</b>	<b>1 994 711</b>

## Note 8 | Taxes

	2007	2006
<b>Reconciliation of tax expense</b>		
Profit/loss before taxes	-166 424 275	-34 331 396
Tax under current rate (28 %)	-46 598 797	-9 612 791
Tax under special tax rate (50 %)	-81 907 201	-15 924 010
Tax effect of permanent differences	13 293 062	10 153
Increased deferred tax asset, not recognised	10 386 655	685 193
Tax refund 2006 related to exploration costs, not recognised in 2006	-22 879 908	24 841 455
<b>Tax expense/(income) for the period</b>	<b>-127 706 189</b>	<b>0</b>

	2007	2006
<b>Specification of the basis for deferred tax</b>		
Fixed assets	297 120	434 925
Pension, non tax-deductible	-3 115 406	-846 268
Capitalised exploration and license rights	27 825 957	0
Accruals, non tax-deductible	-37 420 850	0
Net tax loss carried forward	-8 890 009	-2 480 896
<b>Net temporary differences - company tax (28 %)</b>	<b>-21 303 188</b>	<b>-2 892 239</b>
Net differences, onshore	46 653	2 892 239
Net tax loss carried forward, onshore	3 744 821	0
Net tax loss carried forward, offshore only	-135	0
<b>Net temporary differences - special tax (50 %)</b>	<b>-17 511 849</b>	<b>0</b>
Deferred tax asset - 28 % company tax	-5 964 893	-809 827
Deferred tax asset - 50 % special tax	-8 755 925	0
<b>Total deferred tax asset, not recognised</b>	<b>-14 720 817</b>	<b>-809 827</b>

In accordance with generally accepted accounting principles the deferred tax asset is not recorded in the balance sheet because future taxable income is at this development stage not sufficiently certain.

### Tax refund on the Norwegian Continental Shelf

Companies operating on the Norwegian Continental Shelf (NCS) are subject to an additional 50 % special tax in addition to the normal 28 % corporate tax. Companies that are not in a taxable position may claim 78 % refund on exploration costs on the NCS. This refund is payable the following year. This tax asset totals NOK 104 826 281 for 2007 and is included in "Other short-term receivables".



## Note 9 | Equity

	Share capital	Share premium reserve	Other paid-in capital	Uncovered loss	Total
Equity, 01 Jan 2007	6 910 560	47 980 440	0	-34 776 517	20 114 483
Capital increase	2 037 042	71 522 808	0	0	73 559 850
Options awarded to employees	0	0	1 482 696	0	0
Net loss for the year	0	0	0	-38 718 085	-38 718 085
Equity, 31 Dec 2007	8 947 602	119 503 248	1 482 696	-73 494 602	56 438 944

## Note 10 | Share capital and shareholder information

The share capital in Bridge Energy AS as of 31 Dec 2007 consists of the following classes of shares:

	Number of shares	Face value	Book value
A shares	100 000	18	1 800 000
B shares	391 089	18	7 039 602
C shares	6 000	18	108 000
Total	497 089		8 947 602

Ownership structure

Major shareholders in Bridge Energy AS as of 31 dec 2007 :

	A shares	B shares	C shares	Total	Ownership share	Voting rights
Lime Rock Partners		391 089		391 089	78,7 %	78,7 %
Solro AS	25 000			25 000	5,0 %	5,0 %
Torvanger AS	25 000			25 000	5,0 %	5,0 %
Alfred Kjemperud	16 000		1 500	17 500	3,5 %	3,5 %
Svein E. Johansen	15 000		1 500	16 500	3,3 %	3,3 %
Torgeir S. Johansen	5 000			5 000	1,0 %	1,0 %
Steinar S. Johansen	5 000			5 000	1,0 %	1,0 %
Magnus Kjemperud	3 000			3 000	0,6 %	0,6 %
Eskil Kjemperud	3 000			3 000	0,6 %	0,6 %
Audun Kjemperud	3 000			3 000	0,6 %	0,6 %
Einar H. Bandlien			1 500	1 500	0,3 %	0,3 %
Olve Torvanger			1 500	1 500	0,3 %	0,3 %
Total	100 000	391 089	6 000	497 089	100,0 %	100,0 %

Solro AS is owned by Einar Hans Bandlien and family.

Shares and options held by Board members and senior employees:

Name	Position	A shares	B shares	C shares	Options	Total shares /options
Einar H. Bandlien	CEO	25 000	0	1 500	0	26 500
Ingjald Ø. Sørheim	Board Member	0	0	0	750	750
Per Ø. Grimstad	Board Member	0	0	0	750	750

## Note 11 | Currency

Financial income consists of NOK 358 325 in foreign exchange gain, and financial expenses includes of NOK 254 258 in foreign exchange loss.

## Note 12 | Purchase of licences from Talisman Energy Norge AS

The company has in 2007 entered into an agreement with Talisman Energy Norge AS to purchase the following 3 exploration licences on the Norwegian continental shelf:

- PL 316 DS 20%-share
- PL 335 10%-share
- PL 337 18%-share

These licences are booked as fixed assets at cost. A part of the total consideration will be paid as a carry of Talisman's drilling costs on licence PL 316 DS. This liability is booked at net present value as "Other current liabilities". The interest component in the carry is expensed. A portion of the carry of Talisman's costs NOK 24 million are on escrow account.

## Note 13 | Exploration expenses

	2007	2006
Seismic, field studies and G&G *)	24 083 070	17 973 874
Expensed drilling costs	74 449 054	0
Share of payroll expenses and other operating expenses reclassified to exploration expenses	25 553 463	10 587 187
Write-down of capitalised exploration and licence rights	32 663 295	0
<b>Total exploration expenses</b>	<b>156 748 882</b>	<b>28 561 061</b>

\*) The company has received a claim from PGS of USD 2 million for purchased seismic. USD 1 million of this claim is expensed. The remaining USD 1 million is disputed and therefore not expensed according to generally accepted accounting principles

## Note 14 | Other short-term receivables

	2007	2006
Prepaid costs	2 326 623	1 993 333
Accrual of loan facility arrangement fee	3 480 000	0
Overcall licences	467 102	0
Other short-term receivables	2 359 197	0
Tax refund 2007	104 826 281	0
<b>Total other short-term receivables</b>	<b>113 459 204</b>	<b>1 993 333</b>

## Note 15 | Other current liabilities

	2007	2006
Payroll and other liabilities to employees	1 785 705	633 739
Working capital licences	25 850 487	0
Accrued expenses	6 982 500	1 201 250
Talisman liability	85 500 000	0
Other current liabilities	26 478	0
<b>Total other current liabilities</b>	<b>120 145 169</b>	<b>1 834 989</b>

## Note 16 | Long-term debt

The company has in 2007 entered into a NOK 330 million loan facility agreement with Bank of Scotland. The tax refund of 78 % of the company's tax deductible exploration expenses is given as security. The draw down at year-end 2007 was NOK 55 899 622.



Statsautoriserede revisorer  
Ernst & Young AS

Christian Frederiks pl. 6, NO-0154 Oslo  
Oslo Atrium, P.O.Box 20, NO-0051 Oslo  
Foretaksregisteret: NO 976 389 387 MVA  
Tlf.: +47 24 00 24 00  
Fax: +47 24 00 24 01  
www.ey.no

Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of  
Bridge Energy AS

### Auditor's report for 2007

We have audited the annual financial statements of Bridge Energy AS as of 31 December 2007, showing a loss of NOK 38 718 085. We have also audited the information in the Directors' report concerning the financial statements and the going concern assumption. The financial statements comprise the balance sheet, the statement of income and the accompanying notes. The regulations of the Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2007, and the results of its operations for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and comply with law and regulations.

Oslo, 4.4.2008

ERNST & YOUNG AS

Hans Christian Ellefsen

State Authorised Public Accountant (Norway)

(sign.)

Note: The translation to English has been prepared for information purposes only.





## Terms and abbreviations

AMI:	Area of mutual interest	E&P:	Exploration and Production
Awards:	Production licences are awarded through licencing rounds and annual allocations in predefined areas.	Farm-in:	Buying into an existing licence
APA:	Awards in predefined areas	HSE:	Health, Safety and Environment
Bbl :	Barrel = 159 litres.	NCS:	Norwegian Continental Shelf
Boe:	Barrel of oil equivalent	NPD:	Norwegian Petroleum Directorate
Bcf:	Billion cubic feet (10 <sup>9</sup> )	PDO:	Plan for Development and Operation of Petroleum Deposits.
Tcf:	Trillion cubic feet (10 <sup>12</sup> )	PL:	Production Licence
		3D:	Three-dimensional seismic (detailed)

# Contact

## Bridge Energy AS

Org. nr.: 988 682 039  
 Address: Stasjonsveien 18  
 Mail address: P.O. Box 229, N-1377 Billingstad, Norway  
 Telephone: +47 66 77 96 30  
 Telefax: +47 66 77 96 39  
 Web: [www.bridge-energy.no](http://www.bridge-energy.no)

Concept and design: [www.frankdesign.no](http://www.frankdesign.no) | Photography: Jens Haugen, Ole Fredrik Nydal, Getty Images, Corbis, iStock | Print: Ressurs

