







CONTENT

DIRECTORS' REPORT	05
STATEMENT OF DIRECTORS AND RESPONSIBLE PERSONS	09
FINANCIAL STATEMENTS – GROUP	
Consolidated Income Statement	11
Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Financial Position – Assets	13
Consolidated Statement of Financial Position – Equity and Liabilities	14
Consolidated Statement of Changes in Equity	15
Consolidated Statement of Cash Flows	16
Notes to the consolidated financial statements	17
FINANCIAL STATEMENTS – PARENT COMPANY	
Statement of Comprehensive Income	61
Statement of Financial Position	62
Statement of Changes in Equity	63
Statement of Cash Flows	64
Notes to the financial statements	65
AUDITOR'S REPORT	75
CORPORATE GOVERNANCE	79

DIRECTORS



DIRECTORS' REPORT

INTRODUCTION AND STRATEGY

Petrolia SE Group, which comprises Petrolia SE ("Petrolia" or "the Company") and its subsidiaries (together referred to as the "Group") has three business segments: E&P, OilService and Drilling & Well Technology. Petrolia SE is listed on the Oslo Stock Exchange under the ticker code PDR.

The core activities include Petrolia Norway AS, an independent oil & gas company qualified as a licensee on the Norwegian Continental Shelf (NCS). The strategy of Petrolia Norway AS is to maximise field potential in mature areas of the Norwegian Continental Shelf through increased oil recovery technology, leveraging on the extensive technical experience of its team. The company currently holds a 50 per cent interest in PL 674 with E.O.N Norge AS as operator, a 30 per cent interest in four licences in PL 506 with Rocksource ASA as operator, a 20 per cent interest in PL 739S, a 10 per cent interest in PL 546 and PL 628 with Statoil as operator. In addition, Petrolia owns Independent Oil Tools AS, a well-established international equipment rental company for the global oil industry.

The Group also owns two land rigs and employs staff of around 322 highly competent employees worldwide.

IMPORTANT EVENTS 2014

- 15 January: Petrolia Norway AS entered into an agreement with Lundin Norway AS to purchase a 10 per cent interest in PL 546.
- 21 January: Petrolia Norway AS was awarded 20 per cent of PL739S in the 2013 Award in Predefined Areas (APA) round. Statoil, as operator, holds 60 per cent.
- 24 January: Petrolia SE held a Bondholder Meeting in respect of the "12.00% Petrolia Senior Unsecured Bond Issue 2013/2015 with call options" ISIN: 0010683592. The purpose of this meeting was to extend the maturity date of the bond loan by two years from June 2015 to June 2017. The proposed resolution obtained 100% of the votes, and the proposal was adopted.

- 18 February: the Tastaveden well was completed but did not encounter hydrocarbons.

- 6 June: the Annual General Meeting re-elected the Board of Directors.

- 10 June: Petrolia Norway AS entered into an agreement with Det Norske Oljeselskap AS to purchase 10 per cent interest in PL 558.

- 19 June: With reference to the notice of 11 September 2012, Petrolia completed the third and last buyback of bonds in ISIN: NO0010440258.

- 20 June: the Terne well was completed but did not encounter hydrocarbons.

- 12 August: Petrolia Norway AS entered into an agreement with Lundin Norway AS to sell 15 per cent of its interest in PL 674.

- 18 December: Oil Tools Supplier AS won the legal dispute with Petromena bankruptcy estate.

MARKET

Some of the key market drivers for the OilService division are the oil companies' exploration and production investments and global rig activity. The significant fall in the oil price during the fourth quarter has led to a challenging environment for the oil and gas industry. The expected result of this is a decrease in margins and drop in the level of activities of this division. The division is in a good position to retain and expand its customer base in this increasingly competitive environment. Precautionary cost cutting measures and business improvement programmes have been implemented in this division which will continue during 2015. Overall, the Board expects a reduction in revenue for this division during 2015 as levels of activity are reduced and margins are under increased downward pressure.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

Financial information, Group

Total revenue amounted to USD 110.1 million for the fiscal year 2014, mainly related to the OilService segment. Total revenues for the fiscal year 2013 equaled USD 120.1 million.

Operating result for the Group amounted to USD 4.9 million in 2014, after deduction of depreciation of USD 17.2 million and impairment of equipment of USD 8.3 million. Operating result for the Group for 2013 amounted to USD -10.0 million after deduction of USD 16.5 million in depreciation and USD 3.5 million in impairment of equipment. Result after tax for the Group amounted to USD 2.2 million in 2014 compared to USD 10.2 million in 2013.

As at 31 December 2014 the total assets of the Group amounted to USD 171.5 million of which OilService and other equipment was USD 54.2 million. Total equity of the Group amounted to USD 101.5 million as at 31 December 2014, including a minority interest of USD 4.2 million. Total equity as at 31 December 2013 was USD 102.5 million, including a minority interest of USD 4.1 million. As at 31 December 2014, the total number of shares outstanding in Petrolia SE was 27,235,867 with par value USD 1.00 each.

Cash flow from the operations was USD 47.5 million, compared to USD 10.2 million in 2013. Cash flow from investments was USD -19.9 million in 2014. Cash flow from investments in 2013 amounted to USD -4.2 million. Cash flow from financing activities in 2014 was USD -13.5 million mainly related to interest on bond loan and lease instalments. Cash flow from financing activities in 2013 was USD 2.0 million.

Total cash position at 31 December 2014 was USD 34.3 million compared to USD 20.2 million at 31 December 2013.

FINANCIAL AND LIQUIDITY RISK

At the year end the Group had a cash balance of USD 34.3 million. Restricted cash includes USD 1.0 million on a Bond Loan interest security account and USD 2.2 million in escrow connected to sale of disputed equipment.

The Group's long term financing is mainly one bond loan of NOK 288.5 million (USD 38.8 million), of which the Group owns NOK 124.1 million (USD 16.7 million) which falls due in June 2017. According to the bond loan agreement Petrolia SE has to maintain a ratio of total assets to total debt of more than 2.0 on each quarterly reporting date ("financial covenant"). Total assets in the loan agreement are defined as (i) the market value of Petrolia's shares in listed companies (ii) the book value of shares in unlisted companies, goodwill deducted and (iii) free cash. Due to a breach of the above covenant as at 31 December 2014, this bond loan is reported as a current liability. As at 28 April 2015 the bondholders have waived this breach.

BREACH OF FINANCIAL COVENANT OF BOND LOAN

As at 31 December 2014, the Company was in breach of its financial covenant of the bond loans. On 28 April 2015, the bondholders in PDR05 PRO have waived this breach and confirmed that they will not declare the loan to be in default and that they will vote in favour of the proposed new covenant. Refer also to note 20 to the consolidated financial statements. PDR04 PDR will be repaid as scheduled in June 2015.

GOING CONCERN

The Board is of the opinion that the Company's separate and consolidated financial statements be prepared on a going concern basis.

Following (i) the refinancing of the bond loan and the change in the repayment terms as described in note 20 to the financial statements (in January 2014 the maturity of the "new bond" was extended from June 2015 to June 2017), (ii) the increase in free cash held at year end (USD 30.0 million compared to USD 15.8 million as at the end of 2013) and (iii) the positive results and cash flows

reported by / generated from the OilService segment as shown in note 5 to the consolidated financial statements, the Group has secured sufficient cash flows and expects to be in a position to serve its working capital needs and other obligations as and when they fall due.

The Board expects a challenging environment for the OilService segment in 2015, however, it remains confident that the Group will maintain a sufficient financial return to enable it to continue as a going concern for the foreseeable future.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia SE has eleven employees, six men and five women.

In total, the Group has 322 employees. The Group is an equal opportunity employer and will not tolerate discrimination. Recruitment, promotion and reward are entirely based on merit.

There have not been any serious accidents reported in the Group in 2014.

Petrolia's Board of Directors consisted of 3 men and 1 woman at year end.

ENVIRONMENT REPORTING

The Group's objective is that all of its activities are carried out without risk to people or damage to surroundings. The Group's activities this year have not caused any pollution of the environment and have conformed with the demands of the prevailing authorities in its worldwide operations.

CORPORATE GOVERNANCE

The Board believes it is important that the Group is run and managed on sound principles of Corporate Governance. Reference is made to the section on Corporate Governance.

EVENTS AFTER THE REPORTING PERIOD

- 20 January: Petrolia Norway AS, was awarded a 30 per cent interest in licence PL 674 CS, and a 30 per cent interest in

both PL 781 and PL 774 in the APA 2014.

- 6 February: the Zulu well was completed as a gas discovery.
- 26 March: Petrolia purchased bond to the par value of NOK 30,500,000 (USD 4.2 million) at 55 per cent of par value plus accrued interest of ISIN NO 0010683592 ("PDR05 PRO").
- 27 April: Summons to a bondholders' meeting in ISIN NO 0010683592 ("PDR05 PRO") to be held 5 May 2015 was issued. The financial covenant is proposed to be changed to a Group Equity Ratio of 40%.

EXISTENCE OF BRANCHES

To facilitate its operations the Company has established a branch in Norway.

CHANGES IN SHARE CAPITAL

There have been no changes to the share capital during 2014.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2014 and at the date of this report are the following:

Berge Gerdt Larsen
Erwin Joseph Pierre Godec
Sjur Storaas
Judith Parry

The General Meeting on 6 June 2014 re-elected Ms Judith Parry, Mr Berge Gerdt Larsen, Mr Erwin Joseph Pierre Godec and Sjur Storaas as directors of the Board.

In accordance with the Company's Articles of Association all directors who are presently members of the Board will continue in office until the next Annual General Meeting and are eligible for re-election.

The Directors' interests in shares of the Company is disclosed in note 19 of the financial statements.

INDEPENDENT AUDITOR

The independent auditors of the Company, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing their re-appointment and authorising the Directors to set their remuneration will

be proposed at the Annual General Meeting of the Company.

Limassol, 30th of April 2015




Berge Gerdt Larsen
Chairman of the Board



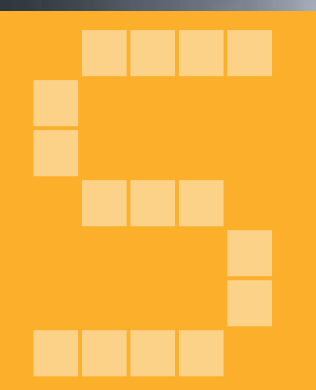
Sjur Storaas
Board member



Erwin Joseph Pierre Godec
Board member, Managing Director



Judith Parry
Board member



START

MEANT

RESPONSIBILITY STATEMENT

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF PETROLIA SE FOR THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 2014

In accordance with Sections 9 (3) (c) and 9 (7) of the Cyprus Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law") and Cyprus Companies Law Cap. 113, we the members of the Board of Directors and the other responsible persons for the consolidated financial statements of Petrolia SE and the other companies included in the consolidated accounts ("the Group") and the financial statements of Petrolia SE, for the year ended 31 December 2014, confirm that, to the best of our knowledge:

(a) the annual consolidated and financial statements that are presented on pages 10 to 59:

- (i) were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Section 9 (4), of the Law; and
- (ii) give a true and fair view of the assets, liabilities, the financial position, and the profit or losses of Petrolia SE and the Group included in the consolidated accounts taken as a whole; and

(b) the Directors' Report gives a fair review of the development and performance of the business and the financial position of Petrolia SE and the consolidated accounts of the Group as a whole, together with a description

of the principal risks and uncertainties that they face.

Limassol, 30th of April 2015

Berge Gerdt Larsen
Chairman of the Board

Judith Parry
Board member

Erwin Joseph Pierre Godec
Board member
Managing director

Sjur Storaas
Board member

Demos Demou
Finance manager



FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE - Group

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)	Note	2014	2013
Continuing operations			
Revenue	5	110,071	120,077
Wage cost	6	-29,661	-29,563
Other operating expenses	7	-42,007	-55,205
EBITDA excluding exploration cost		38,403	35,309
Exploration cost		-8,001	-25,230
EBITDA		30,402	10,079
Depreciation	11	-17,219	-16,544
Impairment charge of fixed assets	11	-8,329	-3,496
Operating result		4,854	-9,961
Impairment of goodwill	13	-1,947	0
Result from associated companies	14	-2,239	-2,662
Impairment of other financial assets	15	-345	-1,387
Interest income	8	485	613
Financial income	8	76	8,936
Interest expenses	8	-5,297	-5,628
Financial expenses	8	-5,511	-5,301
Result before income taxes		-9,924	-15,390
Tax on result	9	12,117	25,607
Result for the year		2,193	10,217
Attributable to:			
Shareholders		1,391	9,409
Minority interests		802	808
		2,193	10,217
Earnings per share attributable to the equity holders (USD per share)			
Basic earnings per share	10	0.05	0.35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in USD 1 000)	Note	2014	2013
Result for the year		2,193	10,217
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation differences of foreign operations		-3,163	1,672
Total comprehensive (loss) / income for the year		-970	11,889
Attributable to:			
Owners of the parent		-1,078	10,901
Minority interest		108	988
Total comprehensive (loss) / income for the year		-970	11,889

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

ASSETS (Amounts in USD 1 000)	Note	2014	2013
Non-current assets			
Goodwill	13	0	1,947
Exploration costs and licences	12	983	0
Land and buildings	11	3,563	2,674
Land rigs	11	8,400	13,048
OilService and other equipment	11	54,221	54,715
Investment in associated companies	14	344	2,334
Other financial assets	15	4,173	4,023
Deferred tax assets	9	10,545	9,214
Restricted cash	18	352	3,664
Total non-current assets		82,581	91,619
Current assets			
Inventory		927	1,741
Tax receivables	9	9,639	21,436
Trade receivables	16	32,047	39,016
Other current receivables	16	5,792	6,736
Financial assets at fair value through profit and loss	17	6,516	15,296
Free cash	18	29,975	15,814
Restricted cash	18	3,990	760
Total current assets		88,886	100,799
TOTAL ASSETS		171,467	192,418

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2014	2013
Equity			
Share capital	19	27,236	27,236
Own shares		0	-47
Other equity		70,081	71,159
Equity attributable to equity holders of the parent		97,317	98,348
Non-controlling interest		4,227	4,119
Total equity		101,544	102,467
Liabilities			
Non-current liabilities			
Bond loans	20	0	30,063
Other non-current liabilities	21	5,422	6,629
Deferred tax liability	9	5,425	6,725
		10,847	43,417
Current liabilities			
Short term portion of non-current liabilities	20,21	29,225	6,715
Trade payables	22	16,684	12,184
Other current liabilities	22	8,777	11,084
Bank loan	23	4,390	3,503
Provisions	24	0	13,048
		59,076	46,534
Total liabilities		69,923	89,951
TOTAL EQUITY AND LIABILITIES		171,467	192,418

Limassol, 30h of April 2015



Erwin Joseph Pierre Godec
Board member
Managing director



Judith Parry
Board member



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the Company's shareholders. Refer also to note 19.

(Amounts in USD 1 000)	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Own shares	Share premium	Reorganisa- tion reserve	Other reserves	Currency translation	Subtotal		
Equity 1st of January 2013	27,236	-47	0	-15,075	69,396	5,937	87,447	3,131	90,578
Profit or loss					9,409		9,409	808	10,217
Other comprehensive income									
Currency translation differences						1,492	1,492	180	1,672
Total comprehensive income					9,409	1,492	10,901	988	11,889
Equity 31st of December 2013	27,236	-47	0	-15,075	78,805	7,429	98,348	4,119	102,467
Profit or loss					1,391		1,391	802	2,193
Other comprehensive income									
Currency translation differences						-2,469	-2,469	-694	-3,163
Total comprehensive income	0	0	0	0	1,391	-2,469	-1,078	108	-970
Sale of treasury shares		47					47		47
Equity 31st of December 2014	27,236	0	0	-15,075	80,196	4,960	97,317	4,227	101,544

On 26 October 2012 the cross-border merger between Petrolia ASA and Petrolia E&P Holdings Plc, resulting in the creation of Petrolia E&P Holdings SE (later renamed Petrolia SE), was completed. Following the merger the total number of shares is 27,235,867 of par value USD 1 each, resulting in a share capital of USD 27.2 million. The merger implies a reverse split of 11.10547 and is done as a continuity both in accounting terms and tax terms.

As at 31 December 2014 the Company did not own any of its own shares. As at 31 December 2013 the Company owned 47,274 (0.17 per cent) of its own shares. The shares had been purchased at an average purchase cost of NOK 245 per share (total NOK 11.6 million).

CONSOLIDATED CASH FLOW STATEMENT - GROUP

YEAR ENDED 31 DECEMBER

(Amounts in USD 1 000)	Note	2014	2013
Cash flows from operating activities			
Result before taxes		-9,924	-15,390
(Profit)/loss from sold equipment		-1,174	26
Depreciation	11	17,219	16,544
Impairment of drilling equipment and land rigs	11	8,329	3,496
Impairment of goodwill	13	1,947	0
Interest income	8	-485	-613
Change in financial assets at fair value through profit or loss	8	5,029	-8,734
Interest expense on financial leasing	8	705	727
Interest expense on bonds	8	3,746	4,482
Other interest expenses	8	846	419
Change in inventory		814	-470
Change in trade receivables		6,969	-48
Change in other current receivables		944	4,718
Change in trade payables		4,500	-9,948
Change in provisions		-10,936	1,200
Change in other current liabilities		-2,307	-2,852
Change in other non-current liabilities		-1,207	0
Result from investment in associated companies	14	2,239	2,662
Impairment of other financial assets	15	345	1,387
Tax received	9	17,801	13,199
Other, incl unrealised foreign currency gain/loss		2,130	-618
Net cash generated from operating activities		47,530	10,187
Cash flows from investing activities			
Exploration licences	12	-983	0
Purchase of fixed assets	11	-24,405	-10,693
Sale of equipment		1,592	1,153
Loan granted		-64	-247
Investment in Associates		-250	-750
Net proceeds from investments in listed shares		3,751	5,893
Interest received		485	400
Net cash used in investing activities		-19,874	-4,244
Cash flows from financing activities			
Repurchase and repayment of bond loan		-6,954	-2,167
Release of restricted cash		82	10,653
Leasing instalments		-3,359	-7,785
New leasing		2,033	6,971
Interest paid on bond loans (net)	8	-3,746	-4,482
Other interests paid	8	-846	-419
Interest paid on financial leasing	8	-705	-727
Net cash generated from/(used in) financing activities		-13,495	2,044
Net cash flow of the period		14,161	7,987
Free cash and cash equivalents at the beginning of the period	18	15,814	7,827
Free cash balance at December 31	18	29,975	15,814

NOTES - GROUP

to the consolidated financial statements

NOTE 1 GENERAL INFORMATION

Petrolia SE (the "Company") is a European public limited company organised under the laws of Cyprus. The Company's registered office is at 205 Christodoulou Chatzipavlou Street, Louloupis Court, 4th floor, office 401, 3036 Limassol, CYPRUS. The Company also has a Norwegian branch with registered office at Haakon VIIs gate 1 (2. etg.), Oslo, Norway.

The main activities of the Company and its subsidiaries (together referred to as the "Group") are within the three business segments: E&P, Drilling & Well Technology and OilService.

The annual financial statements were adopted by the Board of Directors on the 30th of April 2015 and will be passed to the Annual General Meeting for approval.

Petrolia SE was established on the 26th of October 2012 as a result of the merger between Petrolia ASA (established on the 13th of March, 1997) and Petrolia E&P Holdings Plc. The consolidated financial statements for the accounting year 2014 comprise the Company and its subsidiaries and the Group's share of associated companies. The Company is listed on the Oslo Stock Exchange with ticker "PDR" and ISIN "CY 010 263 0916".

NOTE 2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements of Petrolia SE have been prepared in compliance with International Financial Reporting Standards (IFRSs) as endorsed by the EU and the requirements of the Cyprus Companies Law, Cap.113.

The consolidated financial statements have been prepared under the historical cost convention with the following modification: Financial assets recognised at fair value through profit or loss.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction whereby an asset is sold or a liability transferred takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a

higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed below.

The consolidated financial statements are presented in United States Dollars (USD) and all values are rounded to the nearest thousand (USD 1 000), except when otherwise indicated.

The accounting year follows the calendar year.

GOING CONCERN

The Group's management is of the opinion that the consolidated financial statements be prepared on a going concern basis.

Following (i) the refinancing of the bond loan and the change in the repayment terms as described in note 20 to the financial statements (in January 2014 the maturity of the "new bond" was extended from June 2015 to June 2017), (ii) the increase in free cash held at year end (USD 30.0 million compared to USD 15.8 million as at the end of 2013) and (iii) the positive results and cash flows reported by / generated from the OilService segment as shown in note 5 to the consolidated financial statements, the Group has secured sufficient cash flows and expects to be in a position to serve its working capital needs and other obligations as and when they fall due.

The Group's management expects a challenging environment for the OilService segment in 2015, but remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going-concern for the foreseeable future.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group

balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BUSINESS COMBINATIONS AND GOODWILL

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date and fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed

operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Investment in an associate

The Group's investment in associates, entities in which the Group has significant influence, is accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The Group's share of profit or loss of an associate is shown on the face of the income statement and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between

the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD.

The functional and presentation currency of the parent company is USD.

Converting from a functional currency other than USD will normally result in conversion differences in the consolidated financial statements.

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 remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under financial income / financial expenses.

Currency impact on non-monetary items (both assets and liabilities) are included as part of the assessment of fair value. Exchange differences on non-monetary items, such as shares at fair value through profit or loss, are recognized as part of the total gains and losses. Exchange differences on equities classified as available for sale, are recognized directly in enhanced performance.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities in each statement of financial position presented are translated at the closing rate.
- income and expenses in each income statement are translated at the average exchange rates for the period.
- all resulting exchange differences are recognised in the statement of comprehensive income and as a separate item of equity.

Currency translation differences on net investment in foreign operations and financial instruments designated as hedges of such investments are recorded as part of the comprehensive income and as a separate item in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

The major part of Group revenue is income from rental of equipment.

Revenue comprises the fair value of the consideration received for the rental of equipment and sale of goods net of value-added tax. Sales within the Group are eliminated.

Revenue from rental agreements is recognised during the period that the equipment is leased by the customer. Revenue is recognised each month based on the actual rent reported from the leasing agent. Further the Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Other sales of goods and services are recognised as revenue at the time of delivery. For goods that will be the time when the control passes to the purchaser.

Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the Group's share of production are not significant. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

In connection with drilling contracts, the Company may receive lump sum fees for the mobilisation of equipment and personnel. Mobilisation fees received and costs incurred to mobilise a drilling unit are recognised gross over the firm contract term of the related drilling contract. Certain contracts include a contribution or fee from the client payable at the start of the contract. In cases where the contribution covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognised as revenue over the firm contract period whereas the investment is depreciated over the remaining lifetime of the asset.

In cases where the fee covers specific upgrades or equipment specific to the contract, the fee is recognised as revenue over the firm contract period. The related asset is depreciated over the firm contract period. In cases where the fee covers specific operating expenses at the start up of the contract, the fees are recognised in the same period as the expenses.

INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount. The recoverable amount is the estimated future cash flow discounted at the original effective interest rate. Interest income on impaired loans is recognised using the original effective interest rate.

MOBILISATION INCOME AND EXPENSE

Mobilisation income and expense are distributed over the mobilisation period. If the expenses exceed the income in the mobilisation period, expenses corresponding to the income in the mobilisation period are recognised in the income statement. Excess expenses are recognised in the statement of financial position and distributed over the duration of the contract.

CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current 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's subsidiaries and associates operate and generate 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, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a

business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at 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 is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

RIGS AND DRILLING EQUIPMENT

Rigs and drilling equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on rigs and drilling equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on sales and disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'revenue' in the income statement.

LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

OIL AND NATURAL GAS EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets. Licence costs paid in connection with a

right to explore in an existing exploration area are capitalised and amortised over the term of the permit. Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Geological and geophysical costs are recognised in profit or loss as incurred.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through profit or loss as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the

hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through profit or loss.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised.

(iv) Farm-outs/ins at the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

(v) Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Borrowing costs

Success fee related to the establishment of loan commitments is recognised as an asset for the period starting from when the loan commitment is granted until the loan is drawn. When the loan is drawn, the success fees are reflected as an acquisition cost and net against the carrying amount of the loan. Subsequently, this amount is recognised as interest expense using the effective interest rate over the term of the loan.

Carrying amount is subject to an annual impairment test and recognised at acquisition cost.

FINANCIAL ASSETS CLASSIFICATION

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments,

available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to

determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value

through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method. Investment in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, should be measured at cost.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference

between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets

is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in areas or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, 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 expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available for sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount

recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and financial guarantee contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or 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, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: Purchase cost on a first in, first out basis
- Finished goods and work in progress: Cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income, in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are 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 at 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 selling costs 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.

CASH AND SHORT TERM DEPOSITS

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover bond interest payments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

SHARE CAPITAL AND PREMIUM

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

PROVISIONS

The Group recognises provisions when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Contingent liabilities and allocations are reassessed at each balance sheet date and the size of the recognised provision reflects best estimate of the obligation.

PENSION OBLIGATIONS

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group 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. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. 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.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the management. The Company's management, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as General managers and the Board of Directors.

RELATED-PARTY TRANSACTIONS

Agreements, transactions and outstanding accounts with related parties are always at arm's length pricing at market conditions.

CASH FLOW STATEMENT

The cash flow statement has been prepared by the indirect method. The indirect method involves reporting gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash and cash equivalents comprise bank deposits and other current, liquid investments which immediately and at insignificant exchange rate risk can be converted into known cash amounts and with due dates of less than

three months from purchase date.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the result of the Group with the weighed average number of ordinary shares of the period.

EVENTS AFTER THE BALANCE SHEET DATE

New information about the position of the Group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 29.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards

The following new and amended standards are relevant to the Group and have been adopted for the first time in these financial statements, with no material impact:

- Amendments to IAS 32 'Financial Instruments: 'Presentation' provides additional guidance on when financial assets and liabilities can be offset.
- Amendments to IAS 39 'Financial Instruments: 'Recognition and Measurement' provides relief from discontinuing hedge accounting when a hedge derivative is novated.
- Amendment to IFRS 13 'Fair value measurement' clarifies that short term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

Approved IFRSs and IFRICs with future effective dates

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued. The Group is currently assessing the impact of the following new standards that are not yet effective and are yet to quantify the potential impact.

- IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement.

In order to expedite the replacement of IAS 39, the IASB divided the project into phases: classification and measurement, hedge accounting and impairment. New principles for impairment were published in July 2014 and the standard is now completed. The parts of IAS 39 that have not been amended as part of this project have been transferred into IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Standard is not yet approved by the EU. Our preliminary view is that the adoption of IFRS 9 will not materially impact the income statement or financial position of the Group.

- IFRS 15 'Revenue from Contracts with Customers' is applicable to all entities and supersedes all existing revenue recognition requirements under IFRS. It applies to all transactions to provide goods and services except those in the scope of other standards. Either full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Standard is not yet approved by the EU.

The Group does not currently believe adoption of the following new standards would have a material impact on the income statement or financial position of the Group.

- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures

- The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are not yet approved by the EU. Our preliminary view is that the adoption of IFRS 9 will not materially impact the income statement or financial

position of the Group.

- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - The amendments to IFRS 10, IFRS 12 and IAS 28 address three issues arising in practice in the application of the investment entities consolidation exception, and also provide relief in particular circumstances. The amendments are not yet approved by the EU. Our preliminary view is that the adoption of IFRS 10 will not materially impact the income statement or financial position of the Group.

- IAS 1 Presentation of Financial Statements - The amendments to IAS 1, issued as part of IASBs. Disclosure Initiative, further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are not yet approved by the EU. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets- The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendments are not yet approved by the EU. Our preliminary view is that the adoption of IAS 16 will not materially impact the income statement or financial position of the Group.

- IAS 27 Separate Financial Statements - The amendments restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The entity must apply the same accounting

for each category of investments. The amendments are not yet approved by the EU. Our preliminary view is that the adoption of IAS 27 will not materially impact the income statement or financial position of the Group.

Annual Improvements 2010 – 2012

IASBs annual improvements project 2010 – 2012 includes amendments to a number of standards:

IFRS 2 Share-based Payment

Performance condition and service condition are defined in order to clarify various issues, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

IFRS 8 Operating Segments

Operating segments may be combined/aggregated if aggregation is consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

IFRS 13 Fair Value Measurement

The IASB clarified that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

- Adjust the gross carrying amount of the asset to market value, or
- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value

The IASB also clarified that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount of the asset. The amendment to IAS 16.35(b) and IAS 38.80(b) clarifies that the accumulated depreciation/amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value.

IAS 24 Related Party Disclosures

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

Annual Improvements 2011 – 2013

IASBs annual improvements project 2011 – 2013 includes amendments to a number of standards:

IFRS 3 Business Combinations

The amendment clarifies that:

- Joint arrangements are outside the scope of IFRS 3, not just joint ventures.
- The scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts.

Annual Improvements 2012 - 2014

IASBs annual improvements project 2012 – 2014 includes amendments to a number of standards:

IFRS 7 Financial Instruments – Disclosures

Paragraphs 42A - H of IFRS 7 require an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset.

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom 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.

i) Impairment

Refer also to notes 11, 12 and 13.

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

The Group tests annually whether the drilling equipment, land rigs and land and buildings have suffered any impairment. 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 to sell and value in use.

ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

iii) Disputes

Provisions and impairments have been made regarding certain claims made against the

Group. There is a significant difference in opinions regarding the validity of the claims and the final outcome may thus deviate substantially from today's best estimate.

iv) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

v) Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices,

reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

vi) Useful lives for depreciation of fixed assets

Depreciation of rigs and drilling equipment is computed using the straight line method over estimated useful lives. The depreciable amount is determined without taking into account any residual value of the asset. The cost of rigs has been categorised separately by its main components, and useful lives have been determined for each component. The primary portion of the rigs is depreciated over 12 years, while other components are depreciated over their useful lives, ranging from 2.5 to 25 years. Estimates of useful lives and methods of depreciation are reviewed at each financial year end, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. The estimated useful life of drilling equipment and rigs could change, resulting in different depreciation amounts in the future.

vii) Classification of lease agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a "substance over form" approach is used. The value of assets held under finance leases recognised in the statement of financial position is based on the discounted value of the contractual lease payments. No conditional lease payments are included and the value can therefore be determined with relative certainty.

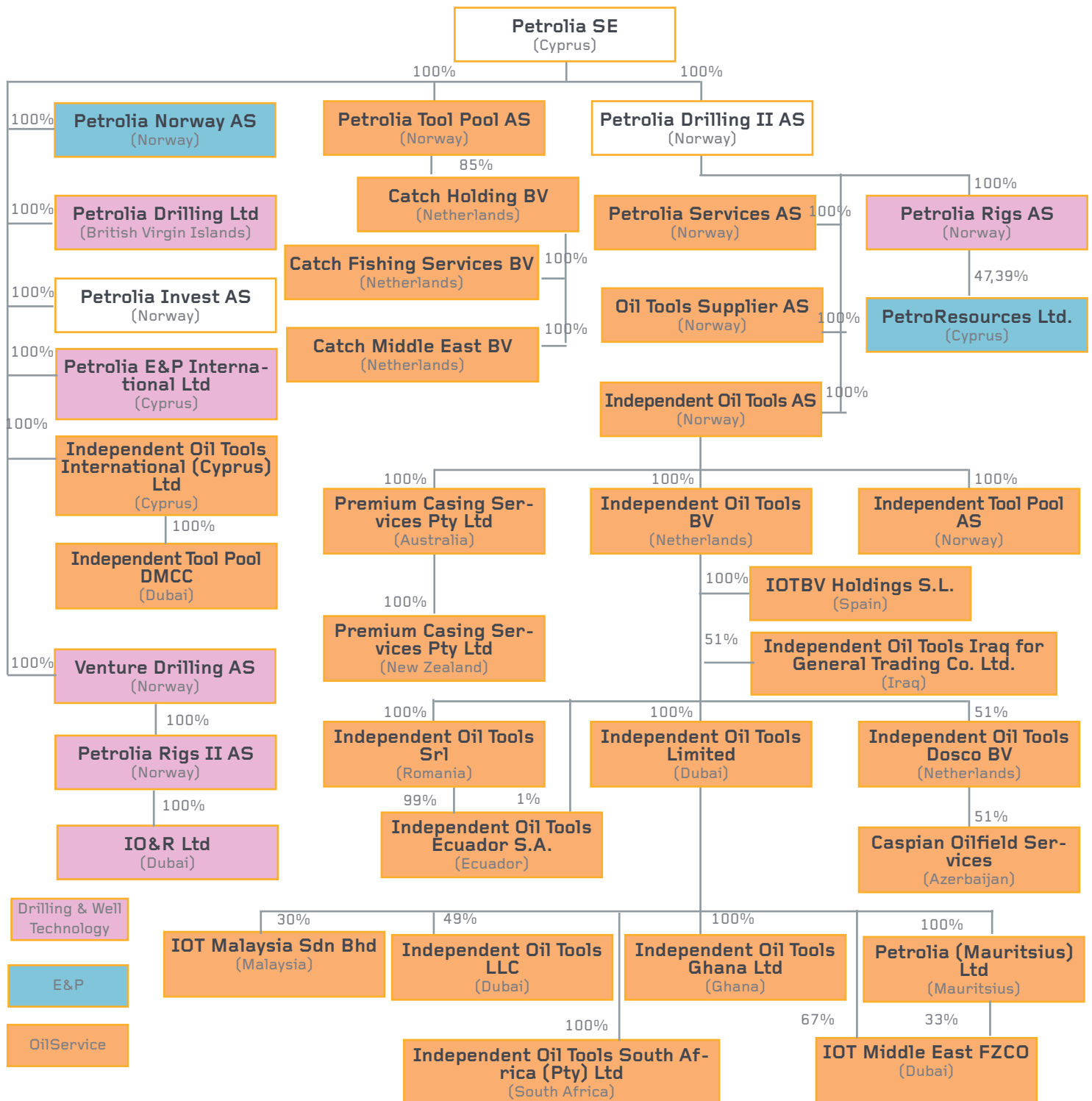


NOTE 4 ORGANISATION

Summary of the companies of the Group:

As at 31.12.2014 the following companies are presented in the balance sheet:

Company	Objective, activity, business office
Subsidiaries (fully consolidated)	
Petrolia Drilling II AS	Norway. Holding company for Petrolia Rigs AS and Petrolia Services AS.
Petrolia Drilling Ltd	Virgin Island. The shares are controlled by a trust in Jersey. Petrolia SE is "beneficial owner" of the trust.
Petrolia Invest AS	Norway. Investment company.
Petrolia Rigs AS	Norway. Investment company.
	Norway. OilServices.
Oil Tools Supplier AS	
Petrolia Services AS	Norway. Empty company.
Independent Oil Tools AS	Norway. OilService.
Independent Tool Pool AS	Norway. OilService.
Premium Casing Services Pty Ltd	Australia. OilService.
Independent Oil Tools BV	Netherlands. OilService.
Independent Oil Tools Dosco BV	Netherlands. OilService.
Independent Oil Tools Srl	Romania. OilService.
Caspian Oilfield Services	British Virgin Islands, Azerbaijan branch. OilService.
Premium Casing Services Pty Ltd	New Zealand. OilService.
Venture Drilling AS	Norway. Drilling & well technology.
Independent Oil Tools Limited Ltd	Jebel Ali Free Zone (Dubai). OilService.
Independent Tool Pool DMCC	Jebel Ali Free Zone (Dubai). OilService.
Independent Oil Tools LLC	Dubai. OilService.
Petrolia (Mauritius) Limited	Mauritius. OilService.
Petrolia Tool Pool AS	Norway. OilService.
Petrolia Norway AS	Norway. Exploring for oil and gas on the NCS.
Petrolia Rigs II AS	Norway. Drilling & well technology.
Catch Holding BV	Netherlands. OilService.
Catch Fishing Services BV	Netherlands. OilService.
Catch Middle East BV	Netherlands. OilService.
IO&R Ltd	Dubai. Drilling & well technology.
Independent Oil Tools South Africa (Pty) Ltd	South Africa. OilService.
Independent Oil Tools (Ghana) Limited	Ghana. OilService.
IOT Middle East FZCO	Jebel Ali Free Zone (Dubai). OilService.
IOTBV Holdings S.L	Spain. Investment company.
Independent Oil Tools Ecuador S.A	Ecuador. OilService.
Petrolia E&P International Ltd	Cyprus, E&P.
Independent Oil Tools International (Cyprus) Ltd	Cyprus, OilService.
Independent Oil Tools Iraq for General Trading Co. Ltd	Iraq, OilService.
Associated companies (equity method)	
Petroresources Ltd	Cyprus. Exploration & Production.
IOT Malaysia Sdn Bhd	Malaysia. OilService.



NOTE 5 SEGMENT INFORMATION

The Group operates in three segments: Exploration & Production (E&P), Drilling & Well Technology and OilService.

THE GROUP'S BUSINESS SEGMENTS OPERATE IN THE FOLLOWING MAIN GEOGRAPHICAL AREAS:

Revenue (amounts in USD 1 000)	2014	2013
Norway	24,137	22,528
Europe outside Norway	32,481	42,393
Asia and Australia	49,886	55,156
Other	3,567	0
Total	110,071	120,077

Non-current tangible assets (amounts in USD 1 000)	2014	2013
Norway	8,162	8,016
Europe outside Norway	6,657	8,782
Asia and Australia	13,686	13,760
Tool pools	37,679	39,879
Total	66,184	70,437

Revenue

The major part of the Group's revenues derives from rental of drilling equipment such as drill pipes and test tubings.

Geographic allocation

Geographic allocation is primarily based on where the companies are domiciled. Some asset owning subsidiaries are allocated as Tool pools, because they only rent their equipment to companies in the group.

Major customers

The end customers are oil companies, drilling contractors or oil service companies. No single customer represents a significant part of total revenues.

2014 KEY FIGURES PER SEGMENT

Amounts in USD 1 000	Oil & Gas	Drilling & well technology	OilService	Total
Revenue	313	426	109,332	110,071
EBITDA	-13,617	-2,880	46,899	30,402
Depreciation	361	1,050	15,808	17,219
Impairment charge	0	5,432	2,897	8,329
Result from associated companies	0	-2,239	0	-2,239
Tax	-10,831	0	-1,286	-12,117
Result	-5,689	-7,241	15,123	2,193
Rental equipment, land rigs, exploration cost and licences	1,157	9,400	53,047	63,604
Property	0	0	3,563	3,563
Addition (Capex)	1,024	8	24,356	25,388

2013 KEY FIGURES PER SEGMENT

Amounts in USD 1 000	Oil & Gas	Drilling & well technology	OilService	Total
Revenue	0	1,979	118,098	120,077
EBITDA	-33,286	-2,142	45,507	10,079
Depreciation	426	1,435	14,683	16,544
Impairment charge	0	3,496	0	3,496
Result from associated companies	-2,662	0	0	-2,662
Tax	-25,033	-1,497	923	-25,607
Result	-13,086	-4,630	27,933	10,217
Rental equipment, land rigs, exploration cost and licences	527	15,874	51,362	67,763
Property	0	0	2,674	2,674
Addition (Capex)	285	197	10,211	10,693

OilService includes unclassified entities.

NOTE 6 WAGES

Wage costs (amounts in USD 1 000)	2014	2013
Salaries (incl social security)	26,572	26,691
Pension costs	1,713	1,669
Other contributions	1,376	1,203
Total	29,661	29,563

The Group had 322 employees as at the end of 2014.

Remuneration and benefits General Manager and Finance Manager (amounts in USD 1 000)	2014	2013
Pierre Godec (14 September 2012 -), Managing director, Cyprus	265	155
Demos Demou (14 September 2012 -), Finance manager, Cyprus	67	66
Kjetil Forland (18th of January 2011 -), Managing director, Norway	373	450
Sølve Nilsen (1st October 2010 -), Finance manager, Norway	204	241
Total	909	912

The following fee has been paid to the members of the board (amounts in USD 1 000):	2014	2013
Berge Gerdt Larsen - Chairman of the board (re-elected on 6 June 2014)	0	36
Pierre Godec - Board member (re-elected on 6 June 2014)	0	0
Sjur Storaas - Board member, Audit committee (re-elected on 6 June 2014)	38	46
Judith Parry - Board member, Audit committee (elected on 6 June 2014)	42	0
Erik Frydenbø - Board member, Audit committee (resigned on 28 June 2013)	0	39
Unni Tefre - Board member (resigned on 28 June 2013)	0	35
Total	80	156

NOTE 7 SPECIFICATION OF OTHER OPERATING EXPENSES

The amounts are exclusive of value added tax.

Other operating expenses comprise the following main items (amounts in USD 1 000) :	2014	2013
Fees to external advisors, lawyers, auditors	2,519	4,373
Cost of goods sold	25,310	26,503
Provisions (Note 24)	-10,936	3,800
Other operating expenses	25,114	20,529
Total other operating expenses	42,007	55,205

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1 000) :	2014	2013
Audit	747	656
Tax assistance	34	40
Other services	174	83
Total auditor's fee	955	779

NOTE 8 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2014	2013
Interest income		
Interest income from current bank deposits	485	400
Other interest income	0	213
	485	613
Financial income		
Foreign exchange gain - net	1	0
Other financial income	75	202
Profit on shares at fair value through profit and loss (refer to note 17)	0	8,734
	76	8,936
Interest expenses		
Interest expense on bonds	3,746	4,482
Other interest expense	846	419
Interest expense on financial leasing	705	727
	5,297	5,628
Financial expenses		
Loss on shares at fair value through profit and loss (refer to note 17)	5,029	0
Foreign exchange loss - net	0	3,535
Other financial expenses	482	1,766
	5,511	5,301
Net finance cost	-10,247	-1,380

NOTE 9 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1 000)	2014	2013
Result before tax charges	-9,924	-15,390
Tax calculated at domestic tax rates applicable to profits in respective countries (12.5% for parent company)	0	0
Tax on non deductible differences	0	0
Change in deferred tax asset/liability	-2,631	-2,489
Tax refund, exploration costs	-9,639	-21,436
Other	153	-1,682
Tax on result	-12,117	-25,607

In Cyprus there is a time limit of 5 years for the use of carry-forward tax losses. There is no time limit for the use of carry-forward tax losses in Norway. On the Norwegian Continental Shelf ("NCS") exploration expences in one year qualify for tax refunds payable in December of the subsequent year. The relevant tax rate for the refund is 78%.

Calculation of deferred tax asset (amounts in USD 1 000)	2014	2013
Non-current assets	-15,921	-9,026
Current assets	-13,029	-20,705
Pension	-317	-513
Profit and loss account	13,071	12,146
Net temporary differences	-16,196	-18,098
Carry forward loss	-20,679	-84,545
Basis for deferred tax asset	-36,875	-102,643
Tax assets NCS	1,840	2,489
Deferred tax asset at nominal tax rates	13,485	31,945
Carried tax asset	10,545	9,214
Carried tax liability	5,425	6,725

For the Norwegian companies the tax obligation is nominated and calculated in NOK, and then converted to USD.

The Group expects to utilise tax losses carried forward of USD 46.1 million through group contribution. The tax liability and the corresponding deferred tax asset is recognised gross in the

consolidated statement of financial position until the Group contribution is effected.

The Norwegian tax authorities notified Petrolia ASA in 2006 of a tax audit for Petrolia ASA and it's subsidiaries Petrolia Drilling II AS, Petrolia Rigs AS and Petrolia Services AS (now

Oil Tools Supplier AS) for the period from the formation of the companies in 1997 until the accounting year 2005. The companies have, as of today, not received notice of any changes affecting the tax position of the companies.

NOTE 10 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earnings per share)	2014	2013
Average no. of shares	27,235,867	27,235,867
No. of shares at period end	27,235,867	27,235,867
Fully diluted no. of shares	27,235,867	27,235,867
Basic earnings per average no. of shares		
From continuing operations	0,05	0.35
Basic earnings per share (USD per share)	0,05	0.35

The Company has no outstanding or authorised stock options, warrants or convertible debt. As at 31 December 2014, the Company held no treasury shares.

(resulting in Petrolia SE) was completed. The merger implies a reverse split of 11.10547.

On 26 October 2012 the cross-border merger of Petrolia ASA and Petrolia E&P Holdings Plc

NOTE 11 NON-CURRENT ASSETS

(amounts in USD 1 000)	OilService and other equipment	Land and buildings	Land rigs	Total
Per 31 December 2012				
Acquisition cost	276,186	2,989	13,745	292,920
Accumulated impairment	-10,776	0	0	-10,776
Accumulated depreciation	-202,529	-872	-385	-203,786
Book value 31.12.12	62,881	2,117	13,360	78,358
Accounting year 2013				
Book value 01.01.13	62,881	2,117	13,360	78,358
Translation differences	2,636	-19	-12	2,605
Additions including leased equipment	9,523	669	501	10,693
Disposal	-2,829	-201	0	-3,030
Depreciation of the year	-15,851	108	-801	-16,544
Impairment	-3,496	0	0	-3,496
Disposal of depreciation	1,851	0	0	1,851
Book value 31.12.13	54,715	2,674	13,048	70,437
Per 31 December 2013				
Acquisition cost	285,516	3,438	14,234	303,188
Accumulated impairment	-14,272	0	0	-14,272
Accumulated depreciation	-216,529	-764	-1,186	-218,479
Book value 31.12.13	54,715	2,674	13,048	70,437
Accounting year 2014				
Book value 01.01.14	54,715	2,674	13,048	70,437
Translation differences	-2,123	-565	1	-2,687
Additions including leased equipment	22,881	1,516	8	24,405
Disposal	-2,255	0	0	-2,255
Depreciation of the year	-16,352	-62	-805	-17,219
Impairment	-4,477	0	-3,852	-8,329
Disposal of depreciation	1,832	0	0	1,832
Book value 31.12.14	54,221	3,563	8,400	66,184
Per 31 December 2014				
Acquisition cost	304,019	3,632	14,243	321,894
Accumulated impairment	-18,749	0	-3,852	-22,601
Accumulated depreciation	-231,049	-69	-1,991	-233,109
Book value 31.12.14	54,221	3,563	8,400	66,184
Depreciation period	7-12 year	33 year	12 year	
Residual value	0	0	0	

Land rigs

Through the rig merger completed in 2012, two land rigs were acquired. The drilling rig completed its first contract in 2013 and has started an excellent track record. Both rigs are now being marketed outside of Romania where the prices are too low. The work-over rig is not ready for operations yet but will be completed once a letter of intent or similar is signed.

Impairment of fixed assets

In 2013 impairment charges amounted to USD 3.5 million connected to unutilised marine risers whose future revenues are uncertain and therefore have been fully impaired.

In 2014, following impairment testing which concluded that the fair value was lower than the book value due to low utilisation, the land rigs have been impaired by USD 3.9 million and drilling equipment has been impaired by USD 4.5 million.

As at the end of 2014 the market capitalisation of the Group was significantly lower than its equity indicating that impairments could be required. Rental equipment is the largest asset group where impairment could be expected. However, impairment tests do not indicate need for additional impairment charges and the low market capitalisation is considered to be due to reasons other than impairment issues.

LEASED EQUIPMENT (INCLUDED IN NON-CURRENT ASSETS ABOVE)

Drilling equipment and rig acquired through financial leases amount to: (amounts in USD 1 000)			
	Land rig	Drilling equipment	Total
Accounting year 2013			
Book value 01.01.2013	0	9,537	9,537
Addition	4,593	1,435	6,028
Depreciation of the year	0	-3,063	-3,063
Translation differences	0	-38	-38
Book value 31.12.2013	4,593	7,871	12,464
Accounting year 2014			
Book value 01.01.2014	4,593	7,871	12,464
Addition	0	2,036	2,036
Depreciation of the year	0	-3,264	-3,264
Impairment of the year	-2,893	0	-2,893
Translation differences	0	-551	-551
Book value 31.12.2014	1,700	6,092	7,792

Refer also to notes 21 and 27.

NOTE 12 EXPLORATION COSTS AND LICENCES

(amounts in USD 1 000)	Exploration cost and licences
Per 31 December 2012	
Acquisition cost	3,741
Accumulated depreciation	0
Book value 31.12.12	3,741
Accounting year 2013	
Book value 01.01.13	3,741
Translation differences	-318
Additions	0
Disposal	-3,423
Depreciation of the year	0
Disposal of depreciation	0
Book value 31.12.13	0
Per 31 December 2013	
Acquisition cost	0
Accumulated depreciation	0
Book value 31.12.13	0
Accounting year 2014	
Book value 01.01.14	0
Translation differences	0
Additions	983
Disposal	0
Depreciation of the year	0
Disposal of depreciation	0
Book value 31.12.14	983
Per 31 December 2014	
Acquisition cost	983
Accumulated depreciation	0
Book value 31.12.14	983
Depreciation period	-
Residual value	0

Additions and disposals

In 2012 Petrolia Norway AS purchased a 30% interest in the licences PL 506S, PL 506BS, PL 506CS and PL 506DS.

In 2013 the exploration and licence costs were written off after the drilling of a dry well.

In 2014 Petrolia Norway AS acquired a 10% interest in PL 546 at a cost of USD 0.2 million. Also, preparation costs of USD 0.8 million were capitalised in connection with a well in PL 674BS.

NOTE 13 GOODWILL

(amounts in USD 1 000)	Goodwill
Per 31 December 2012	
Acquisition cost	1,947
Accumulated depreciation	0
Book value 31.12.12	1,947
Accounting year 2013	
Book value 01.01.13	1,947
Translation differences	0
Additions	0
Disposal	0
Depreciation of the year	0
Disposal of depreciation	0
Book value 31.12.13	1,947
Per 31 December 2013	
Acquisition cost	1,947
Accumulated impairment	0
Accumulated depreciation	0
Book value 31.12.13	1,947
Accounting year 2014	
Book value 01.01.14	1,947
Translation differences	0
Additions	0
Disposal	0
Depreciation of the year	0
Impairment of the year	-1,947
Disposal of depreciation	0
Book value 31.12.14	0
Per 31 December 2014	
Acquisition cost	1,947
Accumulated impairment	-1,947
Accumulated depreciation	0
Book value 31.12.14	0
Depreciation period	-
Residual value	0

Goodwill

The purchase of 85 per cent of Catch Holding BV on 8 February 2012 resulted in a goodwill allocation of USD 1.9 million.

Based on expected future cashflows and synergies resulting from becoming a part of the Group it was concluded that no impairment was needed in 2013.

In 2014 it was concluded that goodwill should be impaired based on the weak financial results and the tougher market expected following the plunge of the oil price.

Goodwill was in its entirety allocated to the OilService segment. The impairment test for cash generating units is based on value in use calculated as estimated present value of future cash flows. Management has based its cash flow projections on the most recent budget covering a period of two years.

NOTE 14 ASSOCIATED COMPANIES

PETRORESOURCES LTD

Petrolia has invested USD 14 million in Petroresources Ltd and controlled 47.39 % of the company as at 31.12.2014.

The company is an investment company and has financial interests in E&P licences in Africa.

Calculation of values in the balance sheet (amounts in USD 1 000)	Petroresources Ltd
Book value per 01.01.2013	4,246
Addition of the year	750
Share of result of the year	-2,662
Book value per 31.12.2013	2,334
Addition of the year	249
Share of result of the year	-2,239
Book value per 31.12.2014	344

Petroresources Ltd has made impairments of USD 4 million in 2014 and USD 5 million in 2013 primarily connected to its economic interests in E&P assets in Africa.

KEY NUMBERS FROM THE ACCOUNTS

Company	Incorporated in	Assets	Liabilities	Revenue	Profit /(Loss)	Shareholding
Petroresources Ltd	Limassol, Cyprus					
2014		830	104	0	-4,437	47.39%
2013		4,678	14	0	-6,132	47.32%

NOTE 15 OTHER FINANCIAL ASSETS

TM DRILL

Petrolia has invested USD 5.5 million in Foraj Sonde SA Ernei (forst Foraj Sonde TG. Mures), "TM Drill", and as at 31.12.2014 owns 19.66% of the latter's share capital.

The company is listed on the Romanian stock exchange:

<http://bvb.ro/ListedCompanies/SecurityDetail.aspx?s=FOSP&t=1>.

The Group's share of the market value of TM Drill as at 31 December 2014 was USD 1.5 million. The company is valued at cost less

impairment by reference to the net asset of TM Drill, as its shares on the stock exchange are not actively traded, and its market value is not considered to be its fair value.

TM Drill was the operator of the drilling land rig owned by the Group until January 2014 and is also a customer of the oilfield services segment.

OTHER FINANCIAL ASSETS

The Group has invested USD 1.2 million in Exai AS in 2011. In 2013 USD 1.2 million was impaired resulting in carrying value being

zero. Exai AS is a technology company developing a tool for removing scale in oil wells.

Venture Drilling AS, a subsidiary of the Group, has given a loan to Albatross Energy, a non-related company. The loan carries interest at 6% per annum and is accrued to the balance. Final maturity is 31 December 2015.

In 2014 a payment plan was agreed with TM Drill regarding trade receivables. The non-current part is reported as other below.

Calculation of values in the balance sheet (amounts in USD 1 000)	TM Drill	Other	Total
Book value per 01.01.2013	3,232	2,178	5,410
Impairment	0	-1,387	-1,387
Book value per 31.12.2013	3,232	791	4,023
Additions	0	1,131	1,131
Impairment	-345	0	-345
Translation difference	-637	1	-636
Book value per 31.12.2014	2,250	1,923	4,173

NOTE 16 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1 000)	2014	2013
Trade receivables	32,047	39,016
Other current receivables	5,792	6,736
Total	37,839	45,742

Aging of trade receivables 2014	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	10,843	2,659	2,939	3,715	11,891	32,047
Total						32,047

Aging of trade receivables 2013	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	16,154	5,865	4,587	3,807	8,603	39,016
Total						39,016

Movement of accumulated impairments

(amounts in USD 1 000)	2014	2013
Opening balance	20,000	23,000
Charge for the year	2,310	4,000
Reversals	-351	-7,000
Closing balance	21,959	20,000

NOTE 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2014 and 2013 Venture Drilling AS and Petrolia Invest AS have invested liquid reserves in shares listed on the Oslo Stock Exchange. The table below presents details for shares in DNO International ASA, ticker DNO, and for Rocksource ASA, ticker RGT. The change of fair value and the loss from disposal of shares amounting to USD 5.0 million (2013: loss of USD 8.7 million) is shown in note 8. Petrolia Invest AS has granted a mortgage on its 3.0 million DNO shares as security for a bank loan. Refer also to note 23.

Financial assets at fair value through profit or loss (amounts in USD 1 000)	2014	2013
DNO, shares	3,002,245	3,802,245
DNO, total shares	1,023,279,255	1,023,279,255
DNO, % owned	0.29%	0.37%
RGT, shares	76,129	1,198,900
RGT, total shares	98,371,500	87,055,500
RGT, % owned	0.08%	1.38%
DNO, market value (NOK 15.98 / USD 2,1498) (NOK 24.20 / USD 3.9778)	6,455	15,125
RGT, market value (NOK 6.00 / USD 0,8072) (NOK 0.87 / USD 0.1430)	61	171
Fair Value / Carried value	6,516	15,296

NOTE 18 BANK DEPOSITS

(amounts in USD 1 000)	2014	2013
Bank deposits	34,317	20,238
Hereof deposits restricted		
Connected to the bond loan in Petrolia SE	0	1,174
Connected to sale of equipment	0	2,200
Connected to legal claims / other	352	290
Sum non-current	352	3,664
Other	455	380
Connected to the bond loan in Petrolia SE	976	0
Connected to sale of equipment	2,200	0
Employees' tax deduction	359	380
Sum current	3,990	760
Total restricted capital	4,342	4,424
Free cash	29,975	15,814
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash and bank deposits in NOK	19,512	5,314
Cash and bank deposits in USD	12,171	11,276
Cash and bank deposits in AED	97	46
Cash and bank deposits in GBP	29	256
Cash and bank deposits in EUR	838	633
Cash and bank deposits in NZD	277	211
Cash and bank deposits in RON	829	1,051
Cash and bank deposits in AZN	0	128
Cash and bank deposits in ZAR	160	311
Cash and bank deposits in GHS	103	31
Cash and bank deposits in AUD	301	981
Total	34,317	20,238

NOTE 19 SHARE CAPITAL

Share capital of Petrolia SE as at 31.12.2014: (amounts in USD 1 000)	Number	Nominal value	Book value 2014	Book value 2013
Shares	27,235,867	USD 1.00	USD 27,236	USD 27,236

CHANGES TO SHARE CAPITAL

On 26 October 2012 the cross-border merger between Petrolia ASA and Petrolia E&P Holdings Plc, resulting in the creation of Petrolia E&P Holdings SE, was completed. Following the merger the total number of shares is 27,235,867 of par value USD 1 each, resulting in a share capital of USD 27.2 million. The merger implies a reverse split of 11.10547 and is done as a continuity both in accounting terms and tax terms.

As at 31 December the actual number of shares issued was:

- 2014: 27,235,867
- 2013: 27,235,867

As at 31 December the number of shares authorised was:

- 2014: 27,235,867
- 2013: 27,235,867

TREASURY SHARES

As at 31 December 2014 Petrolia SE held no treasury shares. As at 31 December 2013

Petrolia SE held 47,274 treasury shares, corresponding to 0.17 % of the shares outstanding in Petrolia SE.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia SE had a total of 3,335 shareholders as at 31 December 2014. The tables below shows the Company's 20 largest shareholders as at 31 December 2014 and as at 29 April 2015 according to the VPS (shares with nominal value USD 1.00):

	Shareholders 31 December 2014	No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC	13,381,639	49.13 %
2	LARSEN OIL & GAS AS	6,269,447	23.02 %
3	Ø. H. HOLDING AS	1,186,124	4.36 %
4	DNB NOR MARKETS, AKSJEHAND/ANALYSE	495,000	1.82 %
5	SIX-SEVEN AS	379,673	1.39 %
6	HAAKON MORTEN SÆTER	180,267	0.66 %
7	ELEKTROLAND NORGE AS	170,893	0.63 %
8	SERIOUS AS	164,971	0.61 %
9	ANNE GRETE OMMUNDSEN	151,544	0.56 %
10	HEDEN HOLDING AS	119,270	0.44 %
11	TOKLA AS	118,000	0.43 %
12	SALTO MEDIA AS	111,668	0.41 %
13	LARSEN, VIDAR BERGO	105,156	0.39 %
14	FORLAND HOLDING AS	101,464	0.37 %
15	OLSEN, ROLF ARILD	100,075	0.37 %
16	ONYX AS	97,846	0.36 %
17	HANSTVEIT, JON	83,303	0.31 %
18	EGD CAPITAL AS	74,740	0.27 %
19	CLEARSTREAM BANKING S.A.	60,878	0.22 %
20	SWEDBANK AS	57,872	0.21 %
	Others	3,826,037	14.05 %
	Total no. of shares before treasury shares	27,235,867	100.00 %
	Treasury shares	0	0.00%
	Total no. of shares	27,235,867	100.00%

	Shareholders 29 April 2015	No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC	13,381,639	49.13 %
2	LARSEN OIL & GAS AS	6,269,447	23.02 %
3	Ø. H. HOLDING AS	975,873	3.58 %
4	DNB NOR MARKETS, AKSJEHAND/ANALYSE	527,225	1.94 %
5	SIX-SEVEN AS	436,586	1.60 %
6	HAAKON MORTEN SÆTER	180,267	0.66 %
7	ELEKTROLAND NORGE AS	170,893	0.63 %
8	SERIOUS AS	164,971	0.61 %
9	OLE ANDREAS BAKSAAS	132,188	0.49 %
10	ARNFINN SØDERHOLM	128,680	0.47 %
11	HEDEN HOLDING AS	119,270	0.44 %
12	TOKLA AS	118,000	0.43 %
13	VIDAR BERGO LARSEN	105,156	0.39 %
14	FORLAND HOLDING AS	101,464	0.37 %
15	ROLF ARILD OLSEN	100,075	0.37 %
16	ONYX AS	97,846	0.36 %
17	JON HANSTVEIT	83,303	0.31 %
18	EGD CAPITAL AS	74,740	0.27 %
19	ANNE GRETE OMMUNDSEN	65,878	0.24 %
20	HALVORSEN, TORBEN	65,816	0.24 %
	Others	3,936,550	14.45 %
Total no. of shares before treasury shares		27,235,867	100.00%
Treasury shares		0	0.00%
Total no. of shares		27,235,867	100.00%

SHARES AND OPTIONS OWNED BY MEMBERS OF THE BOARD AND OTHER PRIMARY INSIDERS

The table below shows shareholding of members of the board and key management and other related parties (shares with nominal value USD 1.00 each)

Name	Shares	Options ²⁾	Shares	Options
Members of the board and management as at:	31 December 2014	31 December 2014	29 April 2015	29 April 2015
Berge Gerdt Larsen, Chairman of the Board ¹⁾	0	0	0	0
Pierre Godec, Board member, Managing director	47,274	0	47,274	0
Kjetil Forland, Managing director (Norway)	101,464	40,930	101,464	40,930
Sølve Nilsen, Finance manager (Norway)	172,971	40,930	172,971	40,930
Total	321,709	81,860	321,709	81,860

¹⁾ Berge Gerdt Larsen, together with his son, controls Increased Oil Recovery AS and its subsidiary Larsen Oil & Gas AS. Together the two companies hold 23.16 % of the shares. Increased Oil Recovery AS is a 49.16% shareholder in Independent Oil & Resources Plc, which holds 49.13% of the shares.

²⁾ Refer to note 27.

NOTE 20 BOND LOANS

AS AT 31 DECEMBER THE GROUP HAD THE FOLLOWING BOND LOANS:

The bond loans are reported as a current liability since the coverage ratio (ratio of total assets to total debt) covenant ("financial covenant") referred to in the bond loan agreements was breached as at 31 December 2014. As at 28 April 2015 confirmations have been received from bondholders representing a majority of 80% of the net outstanding bonds in PDR05 PRO that the loan will not be declared to be in default and that they will vote in favour of the proposal whereby the financial covenant is changed (the proposed new financial covenant is that the Group's total equity shall be 40%, as a minimum, of the Group's total assets). The bond trustee has indicated that assuming bondholders representing a majority of 80% of the net outstanding bonds have confirmed the waiver of the above financial covenant breach, the remaining bondholders may not declare the bonds to be in default.

Bond Loans (amounts in USD 1 000)		Average in- terest rate	Effective interest rate	2014	2013
Gross outstanding, mNOK	ISIN: NO 001044025.8 ("PDR04 PRO") &			56.0	56.0
Gross outstanding, mNOK	ISIN NO 001068359.2 ("PDR05 PRO")			288.5	288.5
Gross outstanding, mUSD	(mNOK 344.5 / mNOK 344.5)	12.00%	12.00%	46,353	56,627
Of which Group owns	(mNOK 148.6 / mNOK 138.6)			19,992	22,783
Book value 31.12.	Net (mNOK 195.9 / 205.9)			26,361	33,844

Split between long term and short term portion of bond loan 31.12.2014:	Long term portion	Short term portion	Total bond loan
"Old bond loan" (net mNOK 31.5)	0	4,238	4,238
"New bond loan" (net mNOK 164.4)	0	22,123	22,123
Book value 31.12. (mNOK 195.9)	0	26,361	26,361

Split between long term and short term portion of bond loan 31.12.2013:	Long term portion	Short term portion	Total bond loan
"Old bond loan" (net mNOK 54.5)	5,177	3,781	8,958
"New bond loan" (net mNOK 151.4)	24,886	0	24,886
Book value 31.12. (mNOK 205.9)	30,063	3,781	33,844

The bond loan is listed on the Nordic ABM marked with ticker PDR04 PRO and PDR05 PRO.
<http://www.oslobors.no/markedsaktivitet/#/details/PDR04%20PRO.ABM/overview>
<http://www.oslobors.no/markedsaktivitet/#/details/PDR05%20PRO.ABM/overview>

Maturity of the bond was extended from 20 June 2012 to 19 June 2015 at the bond holders meeting 7 June 2012.

In June 2013, the interest security (interest for 9 months) was released for most of the bond through a voluntary exchange offer whereby bondholders could exchange "old bond" (PDR04 PRO) for "new bond" (PDR05 PRO).

In January 2014, the maturity of the "new bond" was extended from June 2015 to June 2017.

Exchange rate as at 31 December 2014 for NOK/USD was 7.4332 compared to 6.0837 as at 31 December 2013.

BOOK VALUE OF MORTGAGE

Bond loan mNOK 344.5 is subject to security in bank deposit.	2014	2013
Secured bond loan mNOK	56.0	56.0
Restricted bank deposit (9 months interests)	678	828
Total book value of mortgage	678	828

Petrolia Invest AS has granted a mortgage on its NOK 47.5 million holding in the bond as security for a bank loan. Refer also to note 23.

MATURITY

Following the confirmations/waivers received on 28 April 2015 as indicated above, the maturity of the bond loan is as follows:

Maturity structure gross bond loans:	2015	2016	2017	Total
Instalment (mNOK 56.0 / mNOK 288.5)	7,534	0	38,819	46,353
Interest	5,110	4,658	2,329	12,097
Total	12,644	4,658	41,148	58,450
Of which to Group (Borrower's Bonds)	-5,497	-2,004	-17,698	-25,199
Net	7,147	2,654	23,450	33,251

ISIN: NO 001044025.8 ("PDR04 PRO") - NOK 55,999,998

The Group purchased NOK 23 million on 20 June 2014 at 99% of par value. The remaining instalment on the bond loan is due in June 2015. Petrolia Invest AS owns NOK 24,499,998 of this bond.

ISIN NO 001068359.2 ("PDR05 PRO") - NOK 288,500,002

Following the above-mentioned confirmations/waivers received on 28 April 2015, the remaining instalment of the bond loan is due in June 2017. Petrolia Invest AS owns NOK 23,000,001 and Petrolia SE owns NOK 101,103,982 of this bond.

BORROWING TERMS

Bond loans mNOK 56 and 288.5 in Petrolia SE

Petrolia has an option to redeem the loans inclusive of interest in total or partly at any time at 103.25%.

Bond borrowing is recognised at amortised cost. According to the borrowing agreement Petrolia SE cannot incur mortgage debt, encumbrances, guarantees, right of retention or any other type of mortgage for present or future assets or give any guarantee or compensation, exemptions may, however, be made provided it is in compliance with normal market practice.

Covenants

Petrolia SE cannot, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 30% of the Group's profit after taxes for the preceding year, without approval from the lenders. Nor can the Company without approval dispose of or close down a significant

part of the enterprise or change the character of its operations.

In addition Petrolia is responsible that the Company (parent) maintains a coverage ratio (ratio of total assets to total debt) of 2.0 or higher on each Balance Sheet Reporting Date, which is every quarter ("financial covenant").

Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness as per the IFRS accounts.

BREACH OF FINANCIAL COVENANT OF BOND LOAN

As indicated above, as at 31 December 2014, the Company was in breach of its financial covenant of the bond loans.

NOTE 21 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2014	2013
Liability connected to financial leasing of drilling equipment	3,084	2,537
Liability connected to financial leasing of land rig	2,042	3,470
Other	296	622
Total other non-current liabilities	5,422	6,629

Included in other non-current liabilities are pensions amounting to USD 0.3 million (2013: USD 0.6 million). One Norwegian subsidiary has a defined benefit plan, which includes 6 employees where 3 of the 6 are retired. Pension costs and pension liabilities are estimated on the basis of linear earnings and future salary. The calculation is based on assumptions of discount rate, future wage adjustments, pension and other payments from the national insurance fund, future return on pension funds and actuarial assumptions for mortality etc. Pension funds are valued at fair value and deducted from net pension liabilities in the balance sheet.

FINANCIAL LEASING LIABILITY ON DRILLING EQUIPMENT AND LAND RIG

The payment schedule is (amounts in USD 1 000) :	2014	2013
Falling due within 1 year	2,864	2,934
Falling due between 1 and 5 years	5,126	6,007
Total	7,990	8,941

Book value of assets financed through financial leasing amounts to USD 7.8 million. Refer also to note 11. Petrolia SE had given security towards one leasing company at a value of USD 65.5 million. The last instalment on this lease has been made in 2014 and the security has been cancelled. On 15 April 2013, the Group signed a sale and leaseback of its workover rig, under bareboat charter, for an aggregate consideration of USD 4.5 million at an effective interest rate of 12 % per annum. The lease contract was classified as finance lease at the inception of the lease. The Group has an option to repurchase the rig from the lessor at anytime during the three year bareboat charter for the principle balance of the four year annuity profile.

2014

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1 000)	Minimum payments	Present value of payments
Within one year	3,362	2,864
After one year but not more than 5 years	5,410	5,126
More than 5 years	0	0
Total minimum lease payments	8,772	7,990
Less amounts representing finance charges	-782	0
Present value of minimum lease payments	7,990	7,990

2013

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1 000)	Minimum payments	Present value of payments
Within one year	3,580	2,934
After one year but not more than 5 years	6,675	6,007
More than 5 years	0	0
Total minimum lease payments	10,255	8,941
Less amounts representing finance charges	-1,314	0
Present value of minimum lease payments	8,941	8,941

NOTE 22 TRADE AND OTHER PAYABLES

Current liabilities (amounts in USD 1 000)	2014	2013
Trade payables	16,684	12,184
Total trade payables	16,684	12,184
Other current liabilities		
Other current liabilities	8,777	11,084
Total other current liabilities	8,777	11,084
Total trade payables, other current liabilities	25,461	23,268

NOTE 23 BANK LOAN

Current liabilities (amounts in USD 1 000)	2014	2013
Bank loan	4,036	3,503
Overdraft facility	354	0
Total	4,390	3,503

BANK LOAN

Petrolia Invest AS has entered into a short term bank facility of NOK 31.3 million of which NOK 30.0 million was drawn as at 31 December 2014 (USD 4.0 million). The bank facility is secured by: (i) bonds of NOK 47.5 million have been mortgaged and (ii) 3 million DNO shares have been mortgaged. The loan has been repaid in 2015 and its interest rate is NIBOR +4.3% per annum.

NOTE 24 PROVISIONS

Current liabilities (amounts in USD 1 000)	2014	2013
Provisions	0	13,048
Total	0	13,048
Changes in Provisions		
As at 01.01	13,048	11,848
Used	-2,112	-2,600
Reversed	-10,936	0
Added	0	3,800
As at 31.12	0	13,048

MAIN DISPUTED ITEMS

Oil Tools Supplier (formerly Petrolia Services AS) and Petrolia SE have been involved in two disputes regarding claw back claims presented by the bankruptcy estates of Petromena ASA and Petrojack ASA.

The dispute with the Petrojack estate was settled during 2013.

The Estate of PetroMENA ASA (51 % owned by Petrolia) was, through a writ of summons ("stevning"), seeking to invalidate an equipment purchase on 13 November 2008 whereby Oil Tools Supplier AS (formerly Petrolia Services AS) purchased drilling equipment

for USD 34.7 million from PetroMENA ASA. Oil Tools Supplier AS is a subsidiary of Petrolia Drilling II AS which is owned by Petrolia SE.

On 18 December 2014 Borgarting Court of Appeal in majority ruled in favour of Oil Tool Supplier AS and reduced the claim from USD 34.7 million to USD 1.5 million plus accrued interest.

On 21 January 2015 both parties entered into an agreement not to file an appeal to the Supreme Court over the decision from Borgarting Court of Appeal. Consequently, Borgarting Court of Appeal reduced the claim from the Estate of PetroMENA ASA from USD 34.7 million to USD 1.5 million, plus accrued

interest, with no legal costs awarded. The total amount to be paid to the Estate of PetroMENA ASA is now USD 2.1 million.

Petrolia SE has previously made provisions of USD 13 million for legal claims. Provisions of USD 10.9 million have consequently been reversed in the fourth quarter. The amount is included in Operating Expenses.

There were no other contingent liabilities as at the year end.

NOTE 25 CAPITAL MANAGEMENT

CAPITAL STRUCTURE AND EQUITY

The main objectives of the Group when monitoring capital are to safeguard the Group's ability to maintain a good credit rating and favourable loan terms from the lenders in accordance with the Group's operations. By maintaining a satisfactory debt ratio and

meeting its loan covenants, the Group is supporting the current operations and maximizing the Group's value accordingly.

The Group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial

conditions that the enterprise is subject to and the present short and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital, issuing new shares or through dividend policy.

(amounts in USD 1 000)	2014	2013
Total liabilities	69,923	89,951
Equity of majority	97,317	98,348
Debt ratio	0.72	0.91

NOTE 26 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The Group uses financial instruments such as bond loans, bank loans, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the Group's activities. In addition the Group has financial instruments like trade receivables and trade payables which are directly connected to the current operations of the Group. The Group has no derivative financial instruments, neither for hedging nor trading purposes. Except financial assets at fair value, all financial assets are categorized as loans and receivables measured at amortised cost and available for sale investments measured at cost, and all financial liabilities are categorised as financial liability measured at amortised cost. In 2013 and 2014 the Group has invested in shares listed on the Oslo Stock Exchange.

Profit and loss effects from financial instruments measured at fair value through profit and loss are disclosed in note 17 and note 18. Impairment on financial instruments concerns trade receivables and are disclosed in note 16 and under Credit risk below. The Group's activities expose it to a variety of financial risks: interest rate

risk, credit risk, currency risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The Group is subject to a balanced exposure through income and expenses in USD and NOK and financing in USD and NOK. The Group has a fixed rate on the major part of interest bearing liabilities, which limits the liquidity risk. The credit risk which the Group is exposed to is acceptable.

Credit risk

The Group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments for equipment. The maximum risk exposure is represented by the carrying value of trade receivables and other receivables referred to in note 16.

The Group's revenues arise from a limited number of transactions and customers and therefore credit risk is transparent. Management has assessed the collectability of receivables overdue and do not expect losses for other than balances that have already been impaired. Refer also to note 16.

The Group does not hold any collateral as security for its receivables.

Interest rate risk

The Group is exposed to interest rate risk through its financing activities (refer to notes 20, 21 and 23). Part of the interest-bearing liabilities is based on floating rates which implies that the Group is exposed to changes in the interest rate level.

The Group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. As at 31.12.2014 the Group's bond loan has fixed interest, while the lease obligation and bank loan are subject to floating rates of interest.

Sensitivity for changes in interest rate level (amounts in USD 1000)	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2014	+50	+75	+75
2013	+50	+43	+43

Further information regarding the interest rate conditions of the Group's financing is given in notes 20, 21 and 23.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its financial liabilities as they fall due. The Group's strategy of handling liquidity risk is to have sufficient liquidity at all times to pay any liability on maturity, in both normal and extraordinary circumstances.

The table below states maturity profile of financial liabilities recognised as at 31.12.2013 and 31.12.2014.

As at 31st of December 2014	< 1 year	1-5 years	> 5 years	Total
Trade payables	16,684	0	0	16,684
Bond loans (incl interest) (*)	7,147	26,105	0	33,252
Leasing (incl interest)	3,362	5,410	0	8,772
Bank loan	4,390	0	0	4,390
Provisions	0	0	0	0
Other liabilities	8,777	0	0	8,777
Total	40,360	31,515	0	71,875

As at 31st of December 2013	< 1 year	1-5 years	> 5 years	Total
Trade payables	12,184	0	0	12,184
Bond loans (incl interest)	7,615	37,243	0	44,858
Leasing (incl interest)	3,580	6,675	0	10,255
Bank loan	3,713	0	0	3,713
Provisions	13,048	0	0	13,048
Other liabilities	11,084	0	0	11,084
Total	51,224	43,918	0	95,142

Retirement benefit obligations have been exempted in the above profiles.

(*) reference is made to note 20 with respect to the financial covenant breach as at the year end and the confirmations/waivers received on 28 April 2015.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NOK. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the Group has mainly income and operating expenses in USD while parts of the financing is denominated in NOK.

As at 31 December 2014 the Group had NOK 344.5 million (of which NOK 148.6 million was

owned by the Group, leaving NOK 196.0 million as net) in bond loan denominated in NOK.

As at 31 December 2013 the Group had NOK 344.5 million (NOK 205.9 million net) in bond loan denominated in NOK.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The table below illustrates the Group's sensitivity related to reasonable changes in the currency rate between USD and NOK.

Changes in other currencies will not have material impact on the profit & loss or equity.

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2014	5 %	709	709
	-5 %	-784	-784
2013	5 %	1,687	1,687
	-5 %	-1,865	-1,865

FAIR VALUE

Except financial assets at fair value, all financial instruments are measured at amortised cost.

Fair value of non-current liabilities is assessed by means of quoted market prices, last available selling price or the use of interest terms for liabilities with similar repayment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer Association assessment of value for tax purpose at year end, available on the website <http://www.vpff.no/>. The table on the next page shows a comparison of book values and fair values of the bond.

Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as they are established at normal terms and doubtful receivables are impaired by recording impairment loss.

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group uses fair value through profit and loss only on listed shares. Fair value is determined by the quoted (unadjusted) prices in the market (Level 1). Carrying amount per 31st of December 2014 was USD 6.5 million.

Bond loan - fair value	2014	2013
Net outstanding, mNOK	196.0	205.9
Book value	26,361	33,844
Fair value	25,306	32,152
http://www.vpff.no/	96%	95%

NOTE 27 RELATED PARTIES

LARSEN OIL & GAS AS (LOG AS) AND INCREASED OIL RECOVERY AS (IOR AS)

IOR AS is the 100% owner of LOG AS. Mr. Berge Gerdt Larsen, Chair of the Board has economic interest of 24.27% in IOR AS and LOG AS and is chair of the board in IOR AS and LOG AS.

The Company has an office support agreement with LOG AS. The annual cost coverage was NOK 1.5 million in 2014.

During 2014 the Group had a short term loan of NOK 50 million (USD 6.7 million) from IOR AS. The loan carried an interest of 12% and was in its entirety repaid in December 2014.

KVER AS

An office lease agreement has been signed with Kver AS, controlled by Mr. Berge Gerdt Larsen. Annual office rent is NOK 1.5 million. In 2014 shared costs amounted to NOK 1.1 million.

ERIK FRYDENBØ

The Company has entered into a consultancy agreement with its former board member and lawyer Erik Frydenbø at a monthly fee of NOK 100.000 with 6 months termination to assist with legal matters.

INDEPENDENT OIL & RESOURCES PLC (IOTA)

IOTA is the largest shareholder of the Company.

The Managing Director and the Finance Manager of the Group's operations in Norway have each purchased 40,930 options in the Company's shares from IOTA. Strike price

is NOK 12.60 and the options expire on 28 October 2017.

TOT DRILLING LTD

On 15 April 2013 the Group sold its work-over rig to TOT Drilling for USD 5.6 million (including a loan of USD 1 million).

In the same agreement the rig was hired back on a three year bareboat charter with purchase options. The charter is USD 147,284 per month reflecting a four-year annuity at 12% annual interest. At any time during the charter the rig can be purchased for a price equal to the remaining principle balance of the annuity.

Mr. Berge Gerdt Larsen, Chair of the Board has 10% of the shares in TOT Drilling Ltd., Aberdeen, Scotland and a party related to him has the remaining 90%. Neither are on the Board of Directors of TOT Drilling Ltd.

The sale was part of the refinancing plan of Petrolia SE, with the same interest as the Bond loan and the temporary liquidity loans to Petrolia Norway to assist with the financing of the exploration programme.

KJETIL FORLAND

The Company has granted a 5 year secured loan facility of NOK 2 million (USD 0.3 million) to the Managing Director of its Norwegian Branch, Mr. Kjetil Forland. As at the year end the outstanding balance was USD 0.2 million. Interest rate in 2014 has been between 2.25% and 2.75%.

JUDITH PARRY

The Company has entered into a consultancy agreement with Farnaby Projects Ltd regarding ad hoc consultancy to be provided by Judith Parry. Monthly fee is GBP 2,000.

NOTE 28 MATERIAL PARTLY OWNED SUBSIDIARIES

Independent Oil Tools DOSCO BV The Netherlands	2014	2013
Proportion of equity interest held by non-controlling interest	49%	49%
Accumulated balances of material non-controlling interest	4,267	4,105
Profit/ (loss) allocated to material non-controlling interest	826	883
Comprehensive income allocated to material non-controlling interest	292	1,051

The summarised financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss	2014	2013
Revenue	21,091	22,821
Cost of sales	14,944	15,008
Administrative expenses	3,247	3,556
Depreciation	929	1,077
Finance costs	-299	860
Profit before tax	2,270	2,320
Income tax	584	517
Profit for the year	1,686	1,803
Total comprehensive income	596	2,145
Attributable to non-controlling interest	292	1,051
Dividends paid to non-controlling interest	0	0

NOTE 29 EVENTS AFTER THE BALANCE SHEET DATE

- 20 January: Petrolia Norway AS, was awarded a 30 per cent interest in licence PL 674 CS, a 30 per cent interest in PL 781 and a 30 per cent interest in licence PL 774 in the APA 2014.
- 6 February: the Zulu well was completed as a gas discovery.
- 26 March: Petrolia purchased bond to the par value of NOK 30,500,000 at 55 per cent of par value plus accrued interest of ISIN NO 0010683592 ("PDR05 PRO").
- 27 April: Summons to a bondholders' meeting in ISIN NO 0010683592 ("PDR05 PRO") to be held 5 May 2015 was issued. The financial covenant is proposed to be changed to a Group Equity Ratio of 40%.

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2014

PETROLIA SE

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 USD 000	2013 USD 000
Revenue	4	2,108	1,694
Other income		29	671
Administration expenses		(5,566)	(7,301)
Impairment of investments in subsidiary companies	10	(22,753)	(20,424)
Impairment of loan receivable from related company		(210)	-
Impairment reversal of investments in subsidiary companies	10	5,194	8,794
Operating loss	5	(21,198)	(16,566)
Finance income	7	5,729	4,676
Finance costs	7	(6,209)	(6,005)
Loss before tax		(21,678)	(17,895)
Tax	8	-	(17)
Net loss for the year		(21,678)	(17,912)
Other comprehensive income		-	-
Total comprehensive loss for the year		(21,678)	(17,912)

PETROLIA SE**STATEMENT OF FINANCIAL POSITION**

At 31 December 2014

	Note	2014 USD 000	2013 USD 000
ASSETS			
Non-current assets			
Investments in subsidiary companies	10	137,977	121,230
Restricted cash	12	1,060	1,268
Loans due from related parties	17.3	10,348	23,411
		149,385	145,909
Current assets			
Trade and other receivables	11	9,953	386
Cash at bank	13	2,173	2,523
		12,126	2,909
Total assets		161,511	148,818
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	14	27,236	27,236
Treasury shares		-	(47)
Merger reserve		67,093	67,093
Accumulated losses		(43,963)	(22,285)
Total equity		50,366	71,997
Non-current liabilities			
Borrowings	15	-	33,473
Loans due to related parties	17.5	77,476	37,921
		77,476	71,394
Current liabilities			
Borrowings	15	32,864	4,536
Trade and other payables	16	805	891
		33,669	5,427
Total liabilities		111,145	76,821
Total equity and liabilities		161,511	148,818

On 30 April 2015 the Board of Directors of Petrolia SE authorised these financial statements for issue.



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member



Erwin Joseph Pierre Godec
Board member, Managing Director



Judith Parry
Board member

PETROLIA SE**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2014

	Share capital USD 000	Treasury shares USD 000	Merger reserve USD 000	Accumulated losses USD 000	Total USD 000
At 1 January 2013	27,236	(47)	67,093	(4,373)	89,909
Net loss for the year	-	-	-	(17,912)	(17,912)
Balance at 31 December 2013/ 1 January 2014	27,236	(47)	67,093	(22,285)	71,997
Net loss for the year	-	-	-	(21,678)	(21,678)
Sale of treasury shares	-	47	-	-	47
Balance 31 December 2014	27,236	-	67,093	(43,963)	50,366

PETROLIA SE**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2014

	Note	2014 USD 000	2013 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(21,678)	(17,895)
Adjustments for:			
Depreciation of property, plant and equipment	9	-	60
Unrealised exchange (gain)/loss	7	(2,572)	115
Interest income	7	(3,157)	(4,676)
Interest expense	7	6,174	5,856
Impairment charge - investments in subsidiaries	10	22,753	20,426
Impairment reversal - investments in subsidiaries	10	(5,194)	(8,794)
Impairment charge – loan from related company		<u>210</u>	-
Cash flows used in operations before working capital changes		(3,464)	(4,908)
Increase in trade and other receivables		(9,567)	(56)
Decrease in trade and other payables		<u>(86)</u>	<u>(3,776)</u>
Cash flows used in operations		(13,117)	(8,740)
Tax paid		-	(17)
Net cash flows used in operating activities		<u>(13,117)</u>	<u>(8,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Contributions to investment in subsidiaries	10	<u>(34,306)</u>	-
Net cash flows used in investing activities		<u>(34,306)</u>	<u>(15,578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from loans from related parties		42,171	27,525
Net proceeds / (payments) from loans granted to related parties		15,966	(15,578)
Interest paid		(6,174)	(5,856)
Reduction in restricted cash		208	8,200
Purchase of bonds		(5,145)	(3,399)
Disposal of treasury shares		<u>47</u>	-
Net cash flows from financing activities		<u>47,073</u>	<u>26,470</u>
Net (decrease)/increase in cash and cash equivalents		(350)	2,135
Cash and cash equivalents:			
At beginning of the year		<u>2,523</u>	<u>388</u>
At end of the year	13	<u>2,173</u>	<u>2,523</u>

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. Corporate information

Country of incorporation

Petrolia SE (the "Company") was incorporated in Cyprus on 9 August 2011 as a limited liability company under the Cyprus Companies Law, Cap. 113.

Change of Company name

On 17 November 2011, the Company changed its name from Petrolia E&P Holdings Limited to Petrolia E&P Holdings Plc. Following a shareholders' plan to re-domicile to Cyprus that was approved on 30 December 2011, Petrolia ASA merged ("cross-border merger") with Petrolia E&P Holdings Plc ("surviving entity") and the latter was at the same time converted into a European public company limited by shares ("Societas Europaea" or "SE") in accordance with Article 2 no. 1 of the European Council Regulation no. 2157/2001 (the "SE Regulation") and Section 5 of the Norwegian Act on European Companies of 1 April 2005 (the "SE Act").

Following the completion of the cross-border merger on 26 October 2012 and the creation of Petrolia E&P Holdings SE, the Company on 28 January 2013 changed its name to Petrolia SE. The Company's shares are listed on the Oslo Stock Exchange (Ticker: "PDR").

Principal activities

The principal activities of the Company are the financing of group companies and the holding of investments in subsidiaries engaged in three business segments: Exploration and Production, Drilling & Well technology and Oil Service.

2. Basis of preparation

These separate parent financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention. The accounting policies applied to the Group accounts have also been applied to the parent company, Petrolia SE. Investments in subsidiaries are carried at cost in these separate financial statements less impairment. The notes to the consolidated financial statements provide additional information to the separate financial statements which is not presented here separately.

4. Revenue

	2014	2013
	USD 000	USD 000
Management fees (Note 17.2)	1,828	1,408
Other fees (Note 17.2)	280	286
	2,108	1,694

5. Operating loss

	2014	2013
	USD 000	USD 000
Operating loss is stated after charging the following items:		
Depreciation of property, plant and equipment (Note 9)	-	60
Directors' fees (Note 17.1)	88	54
Staff costs (Note 6)	1,914	1,778
Auditors' remuneration	233	201
Auditor's remuneration - prior year	70	107
Auditors' remuneration for non-audit services	15	49
Legal and professional fees	1,347	1,935

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2014

6. Staff costs

	2014 USD 000	2013 USD 000
Salaries	1,664	1,562
Other staff costs	233	206
Social insurance costs and other funds	17	10
	<u>1,914</u>	<u>1,778</u>

7. Finance income/(costs)

	2014 USD 000	2013 USD 000
Interest income – loans with related parties (Note 17.3)	3,113	4,555
Other interest income	44	121
Net foreign exchange transaction gains	2,572	-
	<u>5,729</u>	<u>4,676</u>

Finance income

Bond loan interest	(4,430)	(4,736)
Interest expense – loans with related parties (Note 17.5)	(1,744)	(1,120)
Sundry finance expenses	(35)	(34)
Net foreign exchange transaction losses	-	(115)

Finance costs

	<u>(6,209)</u>	<u>(6,005)</u>
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Net finance cost

	<u>(480)</u>	<u>(1,329)</u>
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8. Tax

The tax on the Company's results before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2014 USD 000	2013 USD 000
Loss before tax	<u>(21,678)</u>	<u>(17,895)</u>
Tax calculated at the applicable tax rates	(2,710)	(2,237)
Tax effect of expenses not deductible for tax purposes	3,369	2,646
Tax effect of allowances and income not subject to tax	(896)	(1,156)
Tax effect of tax loss for the year	237	764
Tax charge	<u>-</u>	<u>17</u>

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. Tax (continued)

The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all companies are taxed at the standard corporation tax rate of 12.5%.

Interest income is subject to Income Tax at the standard rate of 12.5% if the interest is considered to be generated in the ordinary carrying on of a business or closely connected to it. If the interest income is neither generated in the ordinary carrying on of a business nor closely connected to it, it is subject to Defence Tax at a rate of 30% (15% up to 28 April 2013).

Dividends received from a non resident (foreign) company are exempt from Defence Tax if the dividend paying company derives more than 50% of its income directly or indirectly from activities which do not lead to investment income or the foreign tax burden on the profit to be distributed as dividend has not been substantially lower than the Cypriot tax rate at the level of the dividend paying company.

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends distribution. Profits and to the extent that these are attributable to shareholders, who are not tax resident of Cyprus and own shares in the Company either directly and/or indirectly at the end of two years from the end of the tax year to which the profits relate, are exempted. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

Due to tax losses sustained in the year, no tax liability arises on the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the five succeeding years. As at 31 December 2014, the balance of tax losses which is available for offset against future taxable profits amounts to USD 594 thousand for which no deferred tax asset is recognised in the statement of financial position.

The Company's Branch in Norway (the "Branch") is subject to income tax at the rate of 28% on the tax profits realised in Norway. The Branch under current legislation may carry forward the balance of tax losses indefinitely in the future.

9. Property, plant and equipment

	Office equipment 2014 USD 000
Cost	
Balance at 1 January 2013	169
Balance at 31 December 2013/1 January 2014	169
Balance at 31 December 2014	169
Depreciation	
Balance at 1 January 2013	109
Charge for the year	60
Balance at 31 December 2013/1 January 2014	169
Charge for the year	-
Balance at 31 December 2014	169
Net book value	
Balance at 31 December 2014	-
Balance at 31 December 2013	-

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

10. Investments in subsidiary companies

At cost	2014 USD 000	2013 USD 000
Balance at 1 January	121,230	111,694
Additions	34,306	21,166
Impairment charge	(22,753)	(20,424)
Impairment reversal	5,194	8,794
Balance at 31 December	<u>137,977</u>	<u>121,230</u>

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2014 Holding %	2013 Holding %	2014 USD 000	2013 USD 000
Petrolia Drilling II AS (1)	Norway	Holding company of IOT Group	100	100	44,818	12,806
Petrolia Invest AS (2)	Norway	Holding company	100	100	46,476	43,294
Petrolia Norway AS (3)	Norway	Oil & Gas	100	100	2,421	4,172
Petrolia Tool Pool AS	Norway	Holding company (Catch fishing Group)	100	100	17	17
Venture Drilling AS (4)	Norway	Oil service	100	100	44,243	60,939
Petrolia E&P International Ltd (5)	Cyprus	Dormant	100	100	1	1
Independent Oil Tools International (Cyprus) Ltd (6)	Cyprus	Dormant	100	100	1	1
					<u>137,977</u>	<u>121,230</u>

- (1) On 27 October 2014 the Company made an additional contribution to its subsidiary Petrolia Drilling II AS. The contribution amounted to USD 30,000 thousand (NOK 198 thousand) and was made in exchange for 250,000 shares. An impairment reversal was recognised during 2014 for an amount of USD 2,012 thousand (accumulated impairment is USD 122,993 thousand).
- (2) During 2014, an impairment reversal of USD 3,182 thousand was recognised for the investment in Petrolia Invest AS (accumulated impairment is USD 5,573 thousand).
- (3) On 1 December 2014 the Company made an additional contribution to its subsidiary Petrolia Norway AS. The contribution amounted to USD 4,306 thousand (NOK 30,000 thousand) and was made in exchange for 30,000 shares. An impairment provision was recognised during 2014 for an amount of USD 6,057 thousand (accumulated impairment is USD 23,238 thousand).
- (4) During 2014, an impairment provision of USD 16,696 thousand was recognised on the investment in Venture Drilling AS (accumulated impairment is USD 16,696 thousand).
- (5) During 2013, the Company established a new subsidiary - Petrolia E&P International Ltd. The contribution amounted to USD 1 thousand and was made in exchange for 1,000 shares.
- (6) During 2013 the Company established a new subsidiary - Independent Oil Tools International (Cyprus) Ltd. The contribution amounted to USD 1 thousand and was made in exchange for 1,000 shares.

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2014

11. Trade and other receivable

	2014 USD 000	2013 USD 000
Trade receivables	14	16
Deposits and prepayments	51	84
Other receivables	648	83
Refundable VAT	160	63
Receivables from related parties (Note 17.6)	9,080	140
	9,953	386

12. Restricted cash

	2014 USD 000	2013 USD 000
Bank deposits	1,060	1,268

Refer also to Note 18 in the Group accounts.

13. Cash at bank and in hand

Cash balances are analysed as follows:

	2014 USD 000	2013 USD 000
Cash at bank and in hand	2,173	2,523
	2,173	2,523

14. Share capital

	2014	2014	2013	2013
	Number of shares	USD 000	Number of shares	USD 000
Authorised				
Ordinary shares of USD 1 each	27,235,867	27,236	27,235,867	27,236
Issued and fully paid				
Balance at 1 January 2014	27,235,867	27,236	27,235,867	27,236
Balance at 31 December	27,235,867	27,236	27,235,867	27,236

Authorised capital

Petrolia SE fixed its authorised share capital to 27,235,867 ordinary shares of nominal value of USD 1 each.

Issued capital

Upon incorporation on 9 August 2011 the Company issued to the subscribers of its Memorandum of Association 1,000 ordinary shares of USD 1 each at par. On 10 October 2011 the Company issued an additional 34,000 ordinary shares of USD1 each increasing, therefore, its issued share capital to USD 35,000 divided into 35,000 ordinary shares of USD 1 each.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. Share capital (continued)

Issued capital

As consideration to the shareholders of Petrolia ASA as at the time of completion of the cross-border merger, Petrolia E&P Holdings Plc issued a total of 27,200,867 shares with a nominal value of USD 1 each (the "Consideration Shares"), the exchange ratio between the shares of Petrolia ASA and the shares of Petrolia E&P Holdings Plc thus being 0.090045702 (rounded down to 0.09004), or approximately 1 new share in the capital of the Petrolia E&P Holdings Plc for 11 shares in Petrolia ASA.

As of 31 December 2014 the total number of shares issued by the Company amounted to 27,235,867.

15. Borrowings

	2014 USD 000	2013 USD 000
Current borrowings		
12% Callable bond loan - interest due, not yet paid	120	208
12% Callable bond loan - principal	<u>32,744</u>	<u>4,328</u>
	32,864	4,536
Non current borrowings		
12% Callable bond loan	<u>-</u>	<u>33,473</u>
Total	<u>32,864</u>	<u>38,009</u>
Maturity of borrowings:		
Within one year	32,864	4,536
Between one and five years	<u>-</u>	<u>33,473</u>
	<u>32,864</u>	<u>38,009</u>

The bond loans are reported as current liability since the financial covenant was breached as at 31 December 2014. As at 28 April 2015 confirmations have been received from the majority (80%) of the bond holders in PDR05 PRO, that the loan will not be declared to be in default and that they will vote in favour of the proposal whereby the financial covenant is changed (the proposed new financial covenant is that the Group's total equity shall as a minimum be 40% of the Group's total assets). The bond trustee has also indicated that based on the percentage (80%) of the bondholders confirming the waiver of the above financial covenant breach, the bond loan may not be declared to be in default by any bondholder.

Out of the total bond loans outstanding as at 31 December 2014, an amount of USD 6.4 million (NOK 47.5 million) is due to the subsidiary company, Petrolia Invest AS.

Refer also to Note 20 in the Group accounts.

16. Trade and other payable

	2014 USD 000	2013 USD 000
Trade payable	246	269
Social insurance and other taxes	290	319
Holiday allowance	24	28
Accruals	200	261
Amounts due to related companies (Note 17.4)	<u>45</u>	<u>14</u>
	<u>805</u>	<u>891</u>

Refer also to Note 22 in the Group accounts.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. Related party balances and transactions

The following transactions were carried out with related parties:

17.1 Directors' remuneration (Note 5)

	2014 USD 000	2013 USD 000
Directors' fees	<u>88</u>	<u>54</u>
	<u>88</u>	<u>54</u>

17.2 Rendering of services (Note 4)

	Nature of transactions	2014 USD 000	2013 USD 000
Petroresources Ltd (Group associated company)	Management fees	31	30
Oil Tools Supplier AS (Group associated company)	Management fees	659	997
Petrolia Norway AS (subsidiary company)	Management fees	367	381
Petrolia Tool Pool AS (Group subsidiary company)	Management fees	150	-
Petrolia Drilling II AS (subsidiary company)	Management fees	55	-
Petrolia Invest AS (subsidiary company)	Management fees	173	-
Venture Drilling AS (subsidiary company)	Management fees	224	-
Petrolia Rigs II AS (Group subsidiary company)	Management fees	55	-
Petrolia Rigs AS (Group subsidiary company)	Management fees	<u>114</u>	<u>-</u>
		<u>1,828</u>	<u>1,408</u>
	Nature of transactions	2014 USD 000	2013 USD 000
IO&R Ltd (Group subsidiary company)	Consultancy fees	-	146
Independent Oil Tools Dosco BV (Group subsidiary company)	Consultancy fees	70	35
Independent Oil Tools SRL (Group subsidiary company)	Consultancy fees	70	35
Catch Fishing Services BV (Group subsidiary company)	Consultancy fees	<u>140</u>	<u>70</u>
		<u>280</u>	<u>286</u>

17.3 Loans due from related parties

	2014 USD 000	2013 USD 000
Petrolia Norway AS (subsidiary company) (1)	9,370	20,987
Oil Tools Supplier AS (Group subsidiary company) (2)	192	1,472
Petrolia Drilling Ltd (Group subsidiary company) (3)	-	165
IO&R Ltd (Group subsidiary company) (4)	538	540
Kjetil Forland (Managing director of the Norwegian branch of the Company) (5)	<u>248</u>	<u>247</u>
	<u>10,348</u>	<u>23,411</u>

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17.3 Loans due from related parties (continued)

- (1) The outstanding loan principal with Petrolia Norway AS amounted to USD 8,616 thousand (2013: USD 19,685 thousand). The interest accrued as at 31 December 2014 amounted to USD 754 thousand (2013: USD 1,302 thousand). The loan bears interest of three months LIBOR plus a margin of 10% per annum from 1 January 2012. The loan does not have a fixed maturity date and is repayable within 60 days after notice has been given by the lender. Interest income for the year amounted to USD 3,037 thousand (2013: USD 4,481 thousand).
- (2) The outstanding loan principal with Oil Tools Supplier AS amounted to USD 191 thousand (2013: USD 1,465 thousand) whereas the accrued interest amounted to USD 0,6 thousand (2013: USD 7 thousand). Interest income for the year amounted to USD 17 thousand (2013: USD 18 thousand).
- (3) The outstanding loan principal with Petrolia Drilling Ltd amounted to USD 1,847 thousand (NOK 13,732 thousand) whereas the accrued interest amounted to USD 11 thousand (NOK 85 thousand). Interest income for the year amounted to USD 45 thousand (2013: USD 45). Accumulated impairment amounted to USD 1,858 thousand.
- (4) The outstanding loan principal with IO&R Ltd amounted to USD 530 thousand (NOK 3,9 thousand) whereas the accrued interest amounted to USD 8 thousand (NOK 59 thousand). Interest income for the year amounted to USD 14 thousand (2013: USD 11 thousand).
- (5) The outstanding loan principal with the managing director of its Norwegian branch amounted to USD 248 thousand. The loan bears interest of 2.25% per annum and is repayable by monthly deductions from salary within five years.

The loans to related companies were provided at a margin of 2.25% + three months Libor p.a, and with no specified repayment date. The Company does not intend to request payment during 2015, therefore, the loans due from related parties are classified as non-current assets in the Company's statement of financial position.

17.4 Amounts due to related parties (Note 16)

Name	Nature of transactions	2014 USD 000	2013 USD 000
TOT Drilling Ltd (controlled by shareholder)	Trade	13	-
Independent Oil Tools S.R.L (Group subsidiary company)	Current account	9	5
Independent Oil Tools International (Cyprus) Ltd (subsidiary company)	Current account	-	1
Petrolia E&P International Ltd (subsidiary company)	Current account	-	1
Berge Larsen (chairman)	Current account	23	7
		<u>45</u>	<u>14</u>

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17.5 Loans due to related parties

		2014 USD 000	2013 USD 000
	<u>Terms</u>		
Petrolia Rigs AS (Group subsidiary company) (1)	Inter-company loan	36,242	21,941
Venture Drilling AS (subsidiary company) (2)	Inter-company loan	31,577	6,766
Petrolia Invest AS (subsidiary company) (3)	Inter-company loan	9,657	9,214
		<u>77,476</u>	<u>37,921</u>

- (1) The outstanding loan principal with Petrolia Rigs AS Ltd amounted to USD 35,995 thousand (2013: USD 21,818 thousand) whereas the accrued interest amounted to USD 247 thousand (2013: USD 123 thousand). Interest expense for the year amounted to USD 766 thousand (2013: USD 154 thousand).
- (2) The outstanding loan principal with Venture Drilling AS Ltd amounted to USD 31,419 thousand (2013: USD 6,724 thousand) whereas the accrued interest amounted to USD 158 thousand (2013: USD 42 thousand). Interest expense for the year amounted to USD 271 thousand (2013: USD 301 thousand).
- (3) The outstanding loan principal with Petrolia Invest AS amounted to USD 9,603 thousand (2013: USD 9,154 thousand) whereas the accrued interest amounted to USD 54 thousand (2013: USD 60 thousand). Interest expense for the year amounted to USD 203 thousand (2013: USD 170 thousand).

During the year, the Company obtained a loan of NOK 50 million (USD 8,369 thousand) from Increased Oil Recovery AS which was repaid on 19 December 2014. Interest expense for the year amounted to USD 504 thousand (2013: USD 23 thousand).

The loans to related companies were provided at a margin of 2.25% + three months Libor p.a, and with no specified repayment date. The related companies will not request payment during 2015, therefore, the loans due to related parties are classified as non-current liabilities in the Company's statement of financial position.

17.6 Receivables from related parties (Note 11)

	2014 USD 000	2013 USD 000
Independent Oil Tools Dosco BV (Group subsidiary company)	12	35
Independent Oil Tools S.R.L (Group subsidiary company)	12	35
Catch Fishing Services BV (Group subsidiary company)	207	70
Petroresources Ltd	27	-
Petrolia E & P International Ltd	336	-
Independent Tool Pool DMCC	360	-
Independent Oil Tools International (Cyprus) Ltd	7,726	-
Increased Oil Recovery Ltd	331	-
Petrolia Tool Pool AS	36	-
Oil Tool Suppliers AS	21	-
IO & R Ltd	11	-
Petrolia Norway AS	1	-
	<u>9,080</u>	<u>140</u>

18. Events after the reporting period

Refer to Note 30 in the Group accounts.

AUDITOR'S

AUDITORS REPORT



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Independent Auditor's report

To the Members of Petrolia SE

Report on the consolidated financial statements and the separate financial statements of Petrolia SE

We have audited the accompanying consolidated financial statements of Petrolia SE and its subsidiaries (the "Group"), and the separate financial statements of Petrolia SE (the "Company"), which comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows, and the statements of comprehensive income, changes in equity and cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements of the Company that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements of the Company based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young Cyprus Ltd is a member firm of Ernst & Young Global Ltd.
Ernst & Young Cyprus Ltd is a limited liability company incorporated in Cyprus with registration number HE 222520. A list of the directors' names is available at the company's registered office, Jean Nouvel Tower, 6 Stasinou Avenue, 1060 Nicosia, Cyprus.
Offices: Nicosia, Limassol.



Opinion

In our opinion, the consolidated financial statements and the separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.
- The consolidated and the separate financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated and the separate financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated and the separate financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Stavros Pantzaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
30 April, 2015

THE BOARD OF DIRECTORS' REPORT ON CORPORATE GOVERNANCE

The Corporate Governance Policy of Petrolia SE ("Petrolia" or "the Company") addresses the responsibility and interaction between shareholders, the General Assembly, the Board of Directors and the executive management. The purpose of this document is to outline the current status of Petrolia's Corporate Governance Policy.

Being listed on the Oslo Stock Exchange, Petrolia is subject to the Norwegian Code of Practice for Corporate Governance of 30 October 2014 (the "Code of Practice"). Adherence to the Code of Practice is based on a "comply or explain" principle, whereby companies will be expected to either comply with the Code of Practice or explain why they have chosen an alternative approach. The Code of Practice is published on www.nues.no/English

Below is an account outlining how Petrolia has implemented the Code of Practice. This account follows the same structure as the Code of Practice and covers all sections thereof. Petrolia complies with the Code of Practice. Any deviations from the Code of Practice are discussed under the relevant sections. In addition to the Code of Practice, the Norwegian Accounting Act § 3-3 stipulates that companies must provide a report on their policies and practices for corporate governance either in the annual report or in a document referred to in the annual report. This report is integrated in this Corporate Governance statement.

Through a cross-border merger, the holding company Petrolia SE is domiciled in Cyprus. Consequently, various associated policies can be subject to updates and revisions. Any updates and changes in the Company's Corporate Governance Policy will be published on www.petrolia.eu.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Petrolia believes that maintaining solid standards of Corporate Governance will improve the quality of discussions and work to be carried out by the corporate bodies. A sound Corporate Governance practice will strengthen confidence in the Company among shareholders, the capital market and other interested parties and thus contribute to value creation for the shareholders.

Petrolia is under several obligations provided for in the relevant Cyprus, Norwegian and other jurisdictions' laws in respect of the business operations carried out by the Company and its subsidiaries. The Board of Directors has formulated a Code of Ethics, implemented across the company, based on corporate values and corporate social responsibility principles. The Code of Ethics summarises the Company's values and standards of behaviour in, among others, human rights, safety, security, security and the working environment. In addition, the Company has implemented a strict policy regarding Health, Safety, Security and Environment, HSSE, especially within its E&P business Petrolia Norway AS.

2. BUSINESS GOALS AND STRATEGY

Petrolia's business scope is clearly defined in the Company's Articles of Association, as follows: "The purpose of the Company is to conduct business within the areas of petroleum, shipping, offshore, transport, trade, industry and finance and other related areas and also participate as shareholder or otherwise in other businesses".

As of April 2015, the Company is described as follows in Stock Exchange Notices: Petrolia SE has three business segments: E&P, Drilling & Well Technology and OilService and is listed on Oslo Stock Exchange under the ticker code PDR. The core activity includes Petrolia Norway AS, an independent oil & gas company approved as a licensee on the Norwegian Continental Shelf, and a group of leading rental equipment companies for the global oil industry. Petrolia SE employs a staff of around 300 highly competent employees worldwide.

The Company's basic value is to secure the shareholders' competitive return on the invested capital in the longer term. In accordance with this purpose the Board of Directors and the management shall actively develop and control the Company and its assets in order for the underlying values to be reflected in the share price.

3. EQUITY AND DIVIDENDS

Petrolia shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile. The Board of Directors' principal policy as regards to the

payment of dividends is to maximise returns on equity primarily in terms of increase in the share price. Dividend payments will depend on Petrolia's earnings, financial situation and cash flow, where the possibilities for further value creation through investments are taken into account.

The Company's key targets for 2014 were to improve the Company's financial position, prepare the rental equipment business for a more challenging market and to develop Petrolia Norway AS. Dividends to shareholders are consequently not prioritised in the short term. Dividends are restricted to a maximum of 30% of the Group's profit after taxes according to the bond loan agreement, refer to note 20.

Authorisations granted to the Board of Directors to increase Petrolia's share capital or to purchase own shares shall, as a general rule be restricted to defined purposes. At each Annual General Meeting, the shareholders shall have the opportunity to evaluate and consider the authorisations granted by the board. Thus, the authorisations should be limited in time to no later than the date of the next Annual General Meeting. All authorisations not in compliance with these guidelines should be accounted for in the Annual Report.

As of 31 December 2014, the Company had equity of USD 101.5 million, representing an equity ratio of 59.2 per cent.

At the Annual General Meeting on 6 June 2014 the Board of Directors was granted authorisations with regards to increasing the share capital and to acquiring its own shares. The details of the grants are provided in the minutes to the Annual General Meeting, published 10 June 2014 on the Company's website www.petrolia.eu.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSELY RELATED PARTIES

Petrolia has one class of shares and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable. No shareholders shall be treated unequally unless it is in the Company's and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares

in the event of an increase in Petrolia's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

Any transactions carried out by Petrolia in its own shares shall be made either through the stock exchange or, if carried out in any other way, at prevailing stock exchange prices. If there is limited liquidity in the Company's shares, the Company should consider other ways to ensure equal treatment of all shareholders.

In the event of any material transactions between the Company and its shareholders, directors, members of the executive management or close associates of any such parties, the Board of Directors shall arrange for valuation to be obtained from an independent third party. The same shall apply to transactions between companies within the Petrolia Group where any of the companies involved have minority shareholders. All such transactions shall be reported by the Board of Directors in the Annual Report. The Company has established and operates guidelines to ensure that members of the Board of Directors and the executive management promptly notify the Board of Directors if they have any significant direct or indirect interest in any transaction entered into by the Company.

During 2014, a liquidity loan of NOK 50 million was granted from Increased Oil Recovery AS. The loan was repaid in December 2014.

At the Annual General Meeting on 6 June 2014 the Board of Directors was granted authorisations with regards to increasing the share capital and to acquiring its own shares. The details of the grants are provided in the minutes to the Annual General Meeting, published 10 June 2014 on the Company's website www.petrolia.eu.

5. FREELY NEGOTIABLE SHARES

The shares are listed on the Oslo Stock Exchange and are freely transferable. No form of restriction on negotiability is included in the Articles of Association of Petrolia.

6. GENERAL MEETING

Through the General Meeting the shareholders exercise the highest authority in Petrolia. General Meetings are convened by written notice to all shareholders with known addresses with a minimum of 21 days notice. All shareholders are entitled to submit items to the agenda, meet, speak and vote at the General Meetings as is normally outlined in the summons to the General Meeting and as required by law.

Summons to general meetings, including supporting documentation on relevant items on the agenda, are made available on the Company's website no later than 21 days prior to the General Meeting. The Company's Articles of Association stipulate that documents pertaining to matters to be deliberated by the General Meeting shall only be made available on the Company's web site, and not normally be sent physically by post to the shareholders unless required by law. In order to ensure that the General Meeting is an effective forum for the views of the shareholders and the Board of Directors, the Board shall ensure that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings in Petrolia, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) as close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. To the extent practicable, the Board of Directors shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting.

As it is a priority for the General Meeting to be conducted in a sound manner, with all shareholder votes to be cast, to the extent possible, on the basis of the same information, the Company has thus far not deemed it advisable to recommend the introduction of electronic attendance. The Company will

contemplate the introduction of such arrangements on an on-going basis in view of, inter alia, the security and ease of use offered by available systems.

The General Meetings shall be organized in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the auditor are present at all General Meetings. Also, the Board of Directors shall make arrangements to ensure an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman.

The Minutes of the General Meetings will be made available as soon as practicable on the announcement system of the Oslo Stock Exchange, www.newsweb.no (ticker: PDR), and on Petrolia's own web site, www.petrolia.eu.

7. NOMINATION COMMITTEE

In accordance with its Articles, the Company shall have a Nomination Committee. The committee shall present to the General Meeting a proposal for candidates to be elected as members of the Board. The committee shall also propose to the General Meeting the Board members' remuneration. The nomination committee shall consist of three members who shall be elected by the General Meeting. The committee shall be independent of the Board and the management of the Company. The General Meeting shall set the committee members' remuneration. The General Meeting may adopt instructions for the Nomination Committee. The costs of the Nomination Committee shall be covered by the Company.

On 23 November 2012, Rob Arnott, Tove Kate Larsen and Marie Kameri were elected as members of the nomination committee.

The work of the nomination committee is regulated through Terms of Reference.

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

Petrolia does not have more than 200 employees in Norway, and is therefore not required to have a corporate assembly.

The Articles of Association stipulate that the Board of Directors shall consist of three to five directors elected by the General Meeting. According to the Articles of Association, the Board of Directors is appointed for one year by the General Meeting.

The Board of Directors comprised four directors as per 31 December 2014. The current composition of the board of directors is described on page 6 in the Petrolia SE Annual Report 2014. The Board shall attend to the common interests of all shareholders, and its members shall meet the Company's need for expertise, capacity and diversity. Attention should be paid to the fact that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. Two of the four members of the Board are independent of the Company's executive management, material business contacts and main shareholder(s). The two independent members are Sjur Storaas and Judith Parry. Erwin Joseph Pierre Godec is Managing Director of the company. Ms Parry's consultancy agreement with the Company in 2014 is not considered to imply that she is a material business contact of the Company.

The Petrolia Group cannot without the approval of the Board of Directors of Petrolia buy consultancy services from board members or from companies in which any board member is an owner, employee or otherwise has an interest.

Six board meetings were held during 2014, with a near complete attendance among the board members.

All the directors are encouraged to hold shares in Petrolia, however not to an extent that can encourage a short-term approach that is not in the best interest of Petrolia and its shareholders over the longer term. The shareholdings of the directors as per 31 December 2014 are set out in Note 19 to the consolidated annual statements.

9. THE WORK OF THE BOARD OF DIRECTORS

The proceedings and responsibilities of the Board of Directors have been laid down in written guidelines adopted by the Board of Directors. The main responsibilities of the Board of Directors are to:

- Lead Petrolia's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- Ensure that all instructions given by the Board of Directors are complied with;
- Ensure that the Board of Directors are well informed about the Company's and the Group's financial position,
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's executive management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the executive management and the Board of Directors.
- Agree on dividend policy;
- Annually evaluate its work, performance, composition and expertise and that of the managing director (the "MD"). The evaluation of the Board's work should be made available to the Nomination Committee. The Board of Directors did not evaluate its own work in 2014;
- Ensure that a system of direction and internal control is established and maintained as to ensure that the Group activities are conducted in accordance with all rules and regulation applicable to the Group, Petrolia's Articles of Association, its corporate values and its ethical guidelines, as well as authorisations and instructions approved by

the General Meeting. The internal control arrangements must address the organisation and implementation of the Company's financial reporting. The Board of Directors contributes with knowledge and experience to the Company and has frequent meetings with the executive management for updates on the recent developments.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organised. The Board of Directors will elect a deputy chairman who takes chair in the event that the Chairman of the Board cannot or should not lead the work of the Board, including in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors has appointed an Audit Committee. The committee, which is composed of Judith Parry and Sjur Storaas, shall prepare the board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the Group's auditor on a current basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the Group may jeopardise the independence. The Audit Committee held regular meetings in 2014 and reviewed all interim reports prior to publication. The committee works closely with the auditor.

The Board of Directors has appointed a Remuneration Committee. The committee is composed of Judith Parry, Berge Gerdt Larsen and Sjur Storaas.

The Managing Director is responsible for the day to day management of the Company. Further, the Managing Director is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are managed appropriately.

The Managing Director is appointed by the Board of Directors and reports to the Board

of Directors. His or her powers and responsibilities are defined by detailed instructions adopted by the Board of Directors.

10. RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is primarily handled locally in each Group company in accordance with applicable rules and regulations. Internal control in the Group is performed through Group companies reporting to Petrolia on operational and financial risk factors related to accounting, operations and HSE. Key figures and information are reported on a monthly basis, enabling the Board to monitor the situation on a continuous basis throughout the year.

The most important risk factors applicable to the Group are thoroughly considered in connection with yearly budgeting. The Audit Committee reviews quarterly reports from the Group companies and reports to the Board. The annual accounts for all Group companies are audited by the Group's external auditor.

The Company's risk management systems are described in Note 26 of this Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration awarded to the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of the Group. The Nomination Committee will propose the remuneration for approval by the General Meeting.

The remuneration is not linked to the Group's performance. No directors have been granted or will be granted share options, and no directors participate in the incentive programs available for the executive management and/or other employees.

More detailed information about the reward of individual directors in 2014 is provided in Note 6 to the consolidated financial statements for the Group.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Group in addition to their appointment as director. If such assignments are taken on, they shall be disclosed to the full Board, and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board and any remuneration paid in addition to normal director's fees. Details regarding Erwin Joseph Pierre Godec's remuneration are disclosed in Note 6 to the consolidated financial statements.

12. REMUNERATION OF EXECUTIVE MANAGEMENT

The Managing Director's remuneration shall be determined by a convened meeting of the Board of Directors and the Board has adopted guidelines for the reward of executive management.

Remuneration for the other members of the executive management is determined by the Managing Director and Chairman of the Board in accordance with guidelines provided by the Board of Directors. The guidelines are annually communicated to the General Meeting and included in the Annual Report together with detailed information on all elements of the remuneration. The General Meeting shall be informed of any changes made during the last year.

The Company has no bonus schemes or incentives in place. As of 31 December 2014, executive management held common shares in the Company following the rights issue offered to key employees and the Board of Directors on 2 September 2011, in addition to shares and options bought in the market.

Details regarding management remuneration can be found in Note 6 to the consolidated financial statements.

13. INFORMATION AND COMMUNICATION

Petrolia will ensure that the shareholders

receive accurate, clear, relevant and timely information related to all matters of significance to shareholders. All information is published in a way ensuring simultaneous and equal access for all equity shareholders:

- Each year, Petrolia publishes a Financial Calendar detailing key events.
- Information to shareholders is distributed through stock exchange notices and/or on www.petrolia.eu. To the extent required by law, information is also sent by regular post to shareholders.
- All information is available in English, and, when required, Norwegian.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information which are based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law. The guidelines also include instructions on the internal treatment of market sensitive information and insider trading instructions and for the Company's contact with shareholders other than through General Meetings.

To increase the share liquidity, the Company aims to increase the investor activities going forward, in addition to attending industry conferences.

14. TAKE-OVERS

The Company's objective is to create shareholder value and the Board of Directors and the executive management will not seek to hinder or obstruct takeover bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible takeover or restructuring situation, the Board of Directors will take particular care to protect shareholder value and the common interests of all shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the takeover bid unless approved by the General Meeting following announcement of the bid. In a takeover situation, the Board of Directors will issue a recommendation to the shareholders and arrange a valuation from an independent expert.

At the Annual General Meeting on 6 June 2014, the Board of Directors was granted authorisations with regards to increasing the share capital and acquiring its own shares. The details of the grants are provided in the minutes to the Annual General Meeting, published 10 June 2014 on the Company's website www.petrolia.eu.

Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

15. AUDITORS

Petrolia's auditor is Ernst & Young Cyprus Limited.

The auditor is elected by the General Meeting and shall report to the General Meeting.

Excessive non auditing work assigned to the auditor may jeopardise his position and diminish the public confidence in the auditor's integrity and independence from Petrolia. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards. The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the

requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the executive management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present. The Audit Committee will adopt guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company.

The Board of Directors must report the remuneration paid to the auditor at the Annual General Meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

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