





CONTENT

DIRECTORS' REPORT	05
FINANCIAL STATEMENTS – GROUP	
Consolidated Income Statement	09
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position – Assets	11
Consolidated Statement of Financial Position – Equity and Liabilities	12
Consolidated Statement of Changes in Equity	13
Consolidated Statement of Cash Flows	14
Notes to the consolidated financial statements	15
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	77
RESPONSIBILITY STATEMENT	81
CORPORATE GOVERNANCE	83

DIRECTORS

DIRECTORS' REPORT

INTRODUCTION AND STRATEGY

Petrolia Group, which comprises Petrolia SE ("Petrolia" or "the Company") and its subsidiaries (together referred to as the "Group") has three business segments: E&P, Drilling & Well Technology and OilService. 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). Petrolia Norway AS maximizes field potential through increased oil recovery technology from mature areas on the Norwegian Continental Shelf, leveraging on the extensive industry experience of the Petrolia Norway team. The company currently holds 50 per cent of PL 674 with E.ON Norge AS as operator, 30 per cent in four licences in PL 506 with Rocksource ASA as operator, 10 per cent in PL 546 and PL 628 with Statoil as operator. In addition, Petrolia owns Independent Oil Tools AS, a leading rental equipment company for the global oil industry.

The Group also owns two land rigs and employs staff of around 303 highly competent employees worldwide.

IMPORTANT EVENTS 2013

- 16 January: Petrolia Norway AS was awarded 50 per cent of PL674 licence (in blocks 16/3, 16/6, 17/1, 17/2, 17/4, 25/12 and 26/10) close to the Johan Sverdrup field in the 2012 APA round. E.ON E&P Norge AS holding the remaining 50 per cent will be the operator.
- 28 January: The Company's name was changed from Petrolia E&P Holdings SE to Petrolia SE.
- 30 January: Petrolia completed bond buy back of NOK 101.1 million of ISIN NO 0010440258.

- 13 March: Petrolia Norway AS entered into an agreement with Statoil Petroleum AS to purchase 10 per cent in PL 628 and an agreement granting Statoil Petroleum AS an option on 10 per cent in PL 506.

- 19 March: Oil Tools Supplier AS, a subsidiary of Petrolia, received a decision from Oslo District Court regarding the claim from the PetroMena ASA bankruptcy estate. The Court ruled in favour of the PetroMena ASA estate for USD 14 million. Oil Tool Supplier AS has filed an appeal.

- 10 April: Petrolia SE sold NOK 10 million of outstanding bonds at par value plus accrued interest.

- 24 April: IO&R Ltd, a subsidiary of Petrolia SE, sold the workover rig for USD 5.5 million and at the same time hired it back under a 3 year bareboat charter.

- 27 April: the Bond Loan has been restructured. Balances are currently as follows: "Old Bonds" (ISIN NO 0010440258): USD 9.3 million, "New Bonds" (ISIN NO 0010683592): USD 48.1 million, of which Petrolia owns USD 22.8 million.

- 29 April: the Storbarden well was completed with costs below budget, but did not encounter hydrocarbons.

- 28 June: the Annual General Meeting elected a new Board of Directors.

MARKET

Some of the key market drivers for the OilService division are the oil companies' E&P Investments and the global rig activity. Despite signals of a market tending down from historically high levels, underpinned by the oil companies ongoing efficiency programs, the demand is still robust and sustainable. Based on the market and the division's performance, the Board of Directors expects a continued satisfactory development for the OilService division in 2014.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

Financial information, Group

Total revenue amounted to USD 120.1 million for the fiscal year 2013, mainly related to the OilService segment. Total revenues for the fiscal year 2012 equaled USD 102.9 million.

Operating result for the Group amounted to USD -19.3 million in 2012, after deduction of depreciation of USD 31.2 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. Estimated useful life has been increased from 2012 to 2013, refer to note 11 for details. Result after tax for the Group amounted to USD 10.2 million in 2013 compared to USD -7.2 million in 2012.

As at 31 December 2013 the total assets of the Group amounted to USD 192.4 million of which OilService and other equipment was USD 54.7 million. Total equity of the Group amounted to USD 102.5 million as at 31 December 2013, including a minority interest of USD 4.1 million. Total equity as at 31 December 2012 was USD 90.6 million, including a minority interest of USD 3.1 million. As at 31 December 2013, 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 9.0 million, compared to USD 7.2 million in 2012. Cash flow from investments was USD -4.2 million in 2013. Cash flow from investments in 2012 amounted to USD -10.5 million. Cash flow from financing activities in 2013 was USD 3.2 million mainly related to the release of restricted cash, interest on bond loan and lease instalments. Cash flow from financing activities in 2012 was USD -7.9 million.

Total cash position at 31 December 2013 was USD 20.2 million compared to USD 22.9 million at 31 December 2012.

FINANCIAL AND LIQUIDITY RISK

At year-end the Group had a cash balance of USD 20.2 million. Restricted cash includes USD 1.2 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 related to one bond loan of NOK 56 million (of which the Group owns NOK 1.5 million) which falls due in June 2015 and one bond loan of NOK 288.5 million (of which the Group owns NOK 137.1 million) which falls due in June 2017.

According to the 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. 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 nonlisted companies, goodwill deducted and (iii) free cash. During 2013 and as at the end of 2013 Petrolia SE was in compliance with the terms in the bond loan agreements.

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 15.8 million compared to USD 7.8 million as at the end of 2012) and (iii) the increase in the revenue, 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 to continue the satisfactory development of its OilService segment in 2014 and remains positive to the

Group's ability to maintain sufficient finance to enable it to continue as a going-concern for the foreseeable future.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia SE has ten employees, six men and four women.

In total, the Group has 303 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 2013.

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 damage to people or 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 world-wide 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

- 11 January: Petrolia Norway AS, a wholly owned subsidiary of Petrolia SE, spudded the well 25/9-4 Tastaveden in PL 628. The well, which is located approximately 35 km northeast of the Grane field, tested a prospect adjacent to the Utsira High and was drilled with the semi-submersible rig Ocean Vanguard, but was water wet.
- 15 January: Petrolia Norway AS, a subsidiary of Petrolia SE, entered into an agreement with Lundin Norway AS to purchase 10 % in PL 546. PL 546 is located north and adjacent to PL 501 Johan Sverdrup. The

transaction is pending approval from the authorities.

- 21 January: Petrolia Norway AS, a subsidiary of Petrolia SE, was awarded a 20% share in a new licence in the 2013 Awards in Predefined Areas (APA) in Norway. The licence PL 739S is located south of the Oseberg South field and encompasses parts of the blocks 26/1, 31/10 and 31/11. Statoil Petroleum AS is the operator with a 50 per cent share and Petoro AS hold the remaining 30 per cent of the license.
- 24 January: a Bondholder Meeting was held pursuant to summons of 16th January 2014 and extended maturity date of bond loan "12.00% Petrolia SE Senior Unsecured Bond Issue 2013/2015 with call options" ISIN: NO 0010683592 by two years from June 2015 to June 2017.

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 2013.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2013 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 28 June 2013 appointed Mr Erwin Joseph Pierre Godec and Ms Judith Parry as directors of the board as replacements for Mr Erik Johan Frydenbø and Ms Unni Fossberg Tefre.

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.

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, 29th of April 2014



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member



Erwin Joseph Pierre Godec
Board member, Managing Director



Judith Parry
Board member

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE - Group

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)	Note	2013	2012
Continuing operations			
Revenue	5	120,077	102,893
Wage cost	6	-29,563	-24,913
Other operating expenses	7	-55,205	-58,351
EBITDA excluding exploration cost		35,309	19,629
Exploration cost		-25,230	-9,230
EBITDA		10,079	10,399
Depreciation	11	-16,544	-31,241
Impairment charge/reversal of fixed assets	11	-3,496	1,500
Operating result		-9,961	-19,342
Result from associated companies	14	-2,662	253
Impairment of other financial assets	15	-1,387	0
Interest income	8	613	2,253
Financial income	8	8,936	5,281
Interest expenses	8	-5,628	-6,634
Financial expenses	8	-5,301	-2,208
Result before income taxes		-15,390	-20,397
Tax on result	9	25,607	13,199
Result for the year		10,217	-7,198
Attributable to:			
Shareholders		9,409	-8,064
Minority interests		808	866
		10,217	-7,198
Earnings per share attributable to the equity holders (USD per share)			
Basic earnings per share	10	0.35	-0.33

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in USD 1 000)	Note	2013	2012
Result for the year		10,217	-7,198
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation differences of foreign operations		1,672	994
Total comprehensive income for the year		11,889	-6,204
Attributable to:			
Owners of the parent		10,901	-7,077
Minority interest		988	873
Total comprehensive income for the year		11,889	-6,204

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

ASSETS (Amounts in USD 1 000)	Note	2013	2012
Non-current assets			
Goodwill	13	1,947	1,947
Exploration costs and licences	12	0	3,741
Land and buildings	11	2,674	2,117
Land rigs	11	13,048	13,360
OilService and other equipment	11	54,715	62,881
Investment in associated companies	14	2,334	4,246
Other financial assets	15	4,023	5,410
Deferred tax assets	9	9,214	15,727
Restricted cash	18	3,664	14,671
Total non-current assets		91,619	124,100
Current assets			
Inventory		1,741	1,271
Tax receivables	9	21,436	13,199
Trade receivables	16	39,016	38,968
Other current receivables	16	6,736	29,726
Financial assets at fair value through profit and loss	17	15,296	12,455
Free cash	18	15,814	7,827
Restricted cash	18	760	396
Total current assets		100,799	103,842
TOTAL ASSETS		192,418	227,942

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2013	2012
Equity			
Share capital	19	27,236	27,236
Own shares		-47	-47
Other equity		71,159	60,258
Equity attributable to equity holders of the parent		98,348	87,447
Non-controlling interest		4,119	3,131
Total equity		102,467	90,578
Liabilities			
Non-current liabilities			
Bond loans	20	30,063	53,625
Other non-current liabilities	21	6,629	5,155
Deferred tax liability	9	6,725	15,727
		43,417	74,507
Current liabilities			
Short term portion of non-current liabilities	20,21	6,715	10,820
Trade payables	22	12,184	22,132
Other current liabilities	22	11,084	14,230
Bank loan	23	3,503	3,827
Provisions	24	13,048	11,848
		46,534	62,857
Total liabilities		89,951	137,364
TOTAL EQUITY AND LIABILITIES		192,418	227,942

Limassol, 29th of April 2014



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 2012	1,226	-2,153	0	0	77,460	4,950	81,483	2,615	84,098
Comprehensive income									
Profit or loss					-8,064		-8,064	866	-7,198
Other comprehensive income									
Currency translation differences						987	987	7	994
Total comprehensive income					-8,064	987	-7,077	873	-6,204
Transactions with owners									
Minority interest arising on business combination							0	-357	-357
Capital increase (rig merger)	948		12,093				13,041		13,041
Cyprus merger	25,062	2,106	-12,093	-15,075			0		0
Total transactions with owners	26,010	2,106	0	-15,075			13,041	-357	12,684
Equity 31st of December 2012	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

On 30 December 2011 the general meeting resolved to issue 135,000,000 new shares as consideration to the shareholder of IO&R AS which merged with Petrolia Rigs II AS. The new capital was recorded at www.brreg.no on 30 March 2012.

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 to 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 2012 and 2013 the Company owns 47,274 (0.17 per cent) of its own shares. The shares have 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	2013	2012
Cash flows from operating activities			
Result before taxes		-15,390	-20,397
Loss/profit from sold equipment		26	-1,708
Depreciation	11	16,544	31,241
Impairment of drilling equipment	11	3,496	-1,500
Interest income	8	-613	-2,253
Change in financial assets at fair value through profit or loss	8	-8,734	-3,771
Interest financial leasing	8	727	674
Interest expenses bonds	8	4,482	5,960
Change in net pension liability		294	61
Change in inventory		-470	-284
Change in trade receivables		-48	-11,717
Change in other current receivables		4,718	2,051
Change in trade payables		-9,948	-6,494
Change in provisions		1,200	7,900
Change in other current liabilities		-3,146	2,250
Change in other non-current liabilities		0	2,043
Result from investment in associated companies	14	2,662	-253
Impairment of other financial assets	15	1,387	0
Tax received	9	13,199	1,830
Other, incl unrealised foreign currency gain/loss		-1,345	1,552
Net cash generated from operating activities		9,041	7,185
Cash flows from investing activities			
Exploration licences	12	0	-3,741
Purchase of operating equipment	11	-10,693	-14,731
Sale of equipment		1,153	1,760
Acquisition of a subsidiary, net cash acquired	29	0	146
Loan granted		-247	-977
Investment in Associates		-750	-1,498
Net proceeds from investments in listed shares		5,893	8,175
Interest received		400	367
Net cash used in investing activities		-4,244	-10,499
Cash flows from financing activities			
Repurchase and repayment of bond loan		-2,167	3,354
Release of restricted cash		10,653	0
Leasing instalments		-7,785	-9,777
New leasing		6,971	0
Interest paid on bond loans (net)	8	-4,482	-5,960
Bank loan		0	3,827
Net loan obtained from shareholder		0	700
Net cash generated from/(used in) financing activities		3,190	-7,856
Net cash flow of the period		7,987	-11,170
Free cash and cash equivalents at the beginning of the period	18	7,827	18,997
Free cash balance at December 31	18	15,814	7,827

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 27 Spyrou Kyprianou, 4001 Limassol, Republic of 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 29th of April 2014 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 2013 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 to sell 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 to sell the asset or transfer the liability 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 to 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 15.8 million compared to USD 7.8 million as at the end of 2012) and (iii) the increase in the revenue, 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 to continue the satisfactory development of its OilService segment in 2014 and remains positive to the Group's ability to maintain sufficient finance 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 2013.

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 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 are recognised during the period 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 is 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 from 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 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 arrears 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 30.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations adopted by the Group

The new and amended IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2013 did not have a material impact on the Group.

Application of IFRS 13 'Fair Value Measurement' has not materially impacted the fair value measurements of the Group. The Group owns financial assets at fair value through profit or loss as noted in note 17, which includes listed shares (level 1) in the Oslo Stock Exchange and their fair value measurement has not changed from prior year. In addition, the Group discloses the fair value of its bond loan as noted in note 26 which again its fair value measurement has not changed from prior year as the bond is listed (level 1) in the Oslo Stock Market.

The amendments to IAS 1 'Presentation of items of Other Comprehensive Income' introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Standards issued but not yet effective and not early adopted

(i) Issued by the IASB and adopted by the

European Union

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**

For companies which apply IFRS as adopted by the EU the amendments are effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group intends to adopt the amendments no later than the accounting period beginning on or after 1 January 2014, and expects no impact.

- **IFRS 10 Consolidated Financial Statements**

For companies which apply IFRS as adopted by the EU the Standard is effective for annual periods beginning on or after 1 January 2014. This standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidated – Special Purpose Entities". IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. The Group intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014, and expects no impact.

- **IFRS 11 Joint Arrangements**

For companies which apply IFRS as adopted by the EU the Standard is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaced IAS 31 "Investments in Joint Ventures". The new standard removed the option to proportionately recognise the assets and liabilities of jointly controlled entities and equity accounting is now the only accounting treatment for joint ventures. The transition is applied retrospectively as required by the new standard and the comparative information should be restated. The Group intends to adopt IFRS 11 no later

than the accounting period beginning on or after 1 January 2014, and expects no impact.

- **IFRS 12 Disclosure of Interests in Other Entities**

For companies which apply IFRS as adopted by the EU the Standard is effective for annual periods beginning on or after 1 January 2014. IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 "Investment in Associates". The requirements in IFRS12 are more comprehensive than the previously existing disclosure requirements and include enhanced reporting of the nature of risks associated with the Group's interests in other entities, and the effects of those interests on the Group's consolidated financial statements. The Group is yet to assess IFRS12's full impact and intends to adopt IFRS12 no later than the accounting period beginning on or after 1 January 2014.

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

For companies which apply IFRS as adopted by the EU the amendments are effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualifies as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through

profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The Group intends to adopt the amendments no later than the accounting period beginning on or after 1 January 2014, and expects no impact.

- **Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

For companies which apply IFRS as adopted by the EU the guidance is effective for annual periods beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. The Group is yet to assess Transition Guidance's full impact and intends to adopt the Transition Guidance no later than the accounting period beginning on or after 1 January 2014.

- **IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32**

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group is yet to assess amendments' full impact and intends to adopt the amendments no later than the accounting period beginning on or after 1 January 2014.

- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments are not relevant to the Group's operations.

(ii) Issued by the IASB but not yet adopted by the European Union

- IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the tentative effective date to 1 January 2018. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC21 will have material financial impact in future financial statements.

- IAS 19 Defined Benefit Plans: Employee Contributions (amendments)

The amendments made to IAS19 removed the accounting options available under the previous standard. Prior to the transition to IAS19, actuarial gains and losses were recognised in the income statement whereas now are required to be recognised in other comprehensive income (OCI) and excluded permanently from profit or loss. Unvested past service costs, previously deferred and recognised over the future vesting period are now immediately recognised to profit or loss. There are also a number of other changes, including modification to the timing of recognition of termination benefits and more extensive disclosures of defined benefit. The amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect that the amendments will have material financial impact in future financial statements.

- Annual Improvements Cycles

"Annual Improvements to IFRSs 2010–2012 Cycle" is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs. It includes the following amendments:

- IFRS 3 "Business Combinations" – "Accounting for contingent consideration in a business combination"
- IFRS 8 "Operating Segments" – "Aggregation of operating segments"
- IFRS 8 "Operating Segments" – "Reconciliation of the total of the reportable segments' assets to the entity's assets"
- IFRS 13 "Fair Value Measurement: Short-term receivables and payables"

- IAS 16 "Property, Plant and Equipment" – "Revaluation method—proportionate restatement of accumulated depreciation"
- IAS 24 "Related Party Disclosures" – "Key management personnel"
- IAS 38 "Intangible Assets" – "Revaluation method – proportionate restatement of accumulated amortisation"

"Annual Improvements to IFRSs 2011–2013 Cycle" is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. It includes the following amendments:

- IFRS 3 "Business Combinations" – "Scope exceptions for joint ventures"
- IFRS 13 "Fair Value Measurement" – "Scope of paragraph 52 (portfolio exception)"
- IAS 40 "Investment Property" – "Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property"

The Group intends to adopt Annual Improvements to IFRSs no later than the accounting period beginning on or after 1 January 2014, and expects no impact.

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 significant difference in opinions regarding the validity of the claims and 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

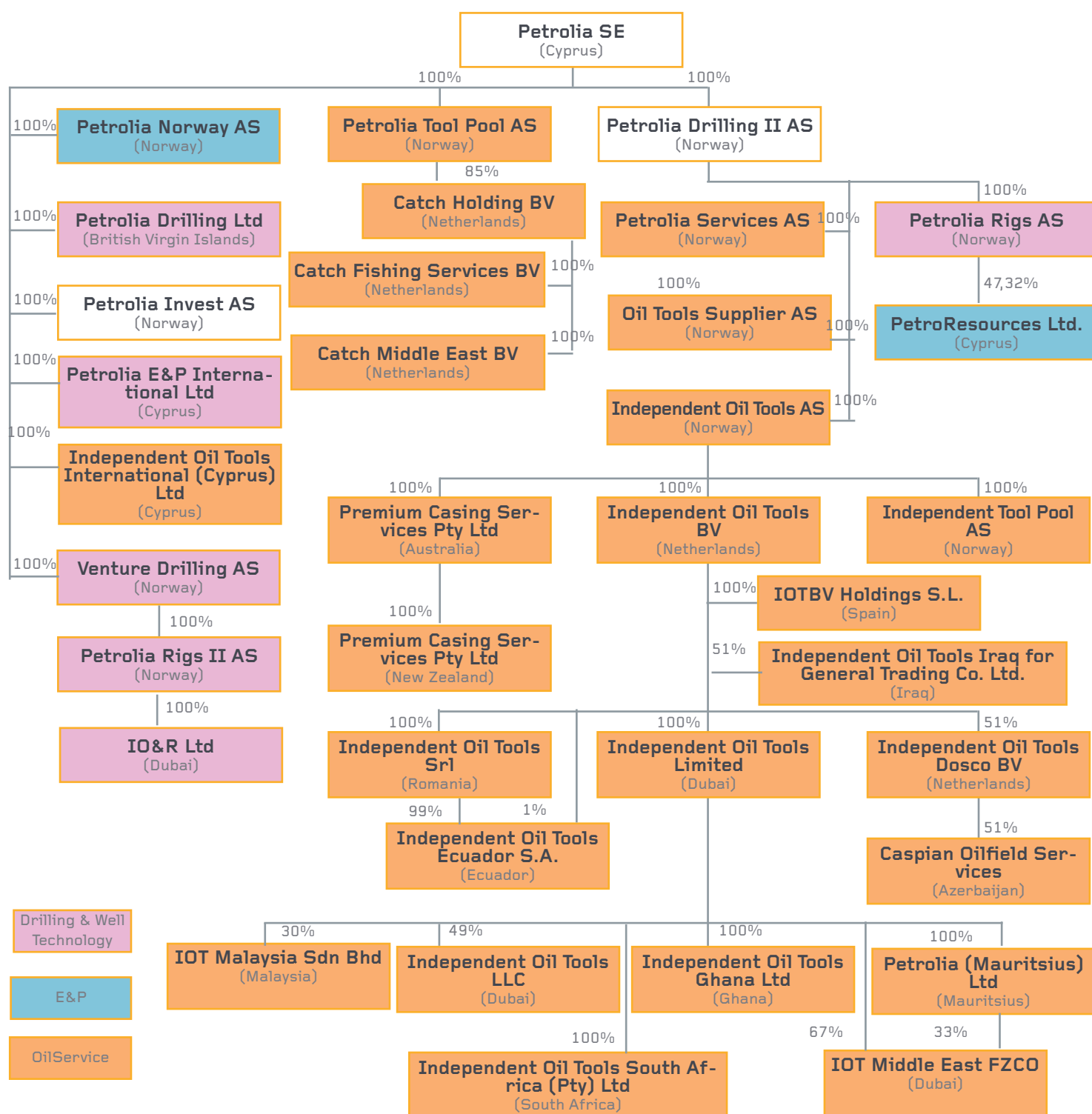
Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a "substance over form" approach 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 31.12.2013 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.
Oil Tools Supplier AS	Norway. OilServices.
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 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)	2013	2012
Norway	22,528	21,030
Europe outside Norway	42,393	37,453
Asia and Australia	55,156	44,410
Total	120,077	102,893

Non-current tangible assets (amounts in USD 1 000)	2013	2012
Norway	8,016	6,424
Europe outside Norway	8,782	8,337
Asia and Australia	13,760	4,250
Tool pools	39,879	59,347
Total	70,437	78,358

Revenue

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

Major customers

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

Geographic allocation

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

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

2012 KEY FIGURES PER SEGMENT

Amounts in USD 1 000	Oil & Gas	Drilling & well technology	OilService	Total
Revenue	700	251	101,942	102,893
EBITDA excluding exploration costs	-16,180	-996	36,805	19,629
Depreciation	0	385	30,856	31,241
Reversal of impairment	0	0	1,500	1,500
Result from associated companies	0	-709	962	253
Tax	13,199	0	0	13,199
Result	-4,825	-1,691	-682	-7,198
Rental equipment, land rigs, exploration cost and licences	3,741	13,360	62,881	79,982
Property	0	0	2,117	2,117
Additions (Capex)	3,741	13,745	14,003	31,489

OilService includes unclassified entities.

NOTE 6 WAGES

Wage costs (amounts in USD 1 000)	2013	2012
Salaries (incl social security)	29,043	24,137
Pension costs (Norway)	382	302
Other contributions	138	474
Total	29,563	24,913

The Group had 303 employees as at the end of 2013. A 5 year secured loan facility of NOK 2 million has been granted to Kjetil Forland (see note 27). Interest in 2013 was 2.25%.

Remuneration and benefits General Manager and Finance Manager (amounts in USD 1 000)	2013	2012
Pierre Godec (14 September 2012 -), Managing director, Cyprus	155	37
Demos Demou (14 September 2012 -), Finance manager, Cyprus	66	20
Kjetil Forland (18th of January 2011 -), Managing director, Norway	450	473
Sølve Nilsen (1st October 2010 -), Finance manager, Norway	241	240
Total	912	770

The following fee has been paid to the members of the board (amounts in USD 1 000):	2013	2012
Berge Gerdt Larsen - Chairman of the board	36	34
Unni Tefre - Board member (resigned on 28 June 2013)	35	34
Erik Frydenbø - Board member, Audit committee (resigned on 28 June 2013)	39	42
Marit Kristin Instanes - Board member (19th of April 2010 - 20th of October 2011)	0	11
Sjur Storaas - Board member (includes advance for 2012/2013, Audit committee)	46	29
Pierre Godec (elected on 28 June 2013)	0	0
Judith Parry (elected on 28 June 2013)	0	0
Total	156	150

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) :	2013	2012
Fees to external advisors, lawyers, auditors	4,373	3,894
Cost of goods sold	26,503	7,937
Other operating expenses	24,329	46,520
Total other operating expenses	55,205	58,351

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1 000) :	2013	2012
Audit	656	900
Tax assistance	40	33
Other services	83	142
Total auditor's fee	779	1,075

NOTE 8 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2013	2012
Interest income		
Interest income from current bank deposits	400	367
Other interest income	213	1,886
	613	2,253
Financial income		
Foreign exchange gain - net	0	1,470
Other financial income	202	40
Value change in shares at fair value through profit and loss (refer to note 17)	8,734	3,771
	8,936	5,281
Interest expenses		
Interest expenses bonds	4,482	5,960
Other interest expense	419	0
Interest financial leasing	727	674
	5,628	6,634
Financial expenses		
Fee 1%, extended maturity bond loan	0	639
Foreign exchange loss - net	3,535	0
Other financial expenses	1,766	1,569
	5,301	2,208
Net finance cost	-1,380	-1,308

NOTE 9 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1 000)	2013	2012
Result before tax charges	-15,390	-20,397
Tax calculated at domestic tax rates applicable to profits in respective countries (12.5% for parent company /10% in 2012)	0	0
Tax on non deductible differences	0	150
Change deferred tax asset	-2,489	0
Tax refund, exploration costs	-21,436	-13,199
Other	-1,682	-150
Tax on result	-25,607	-13,199

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

Calculation of deferred tax asset (amounts in USD 1 000)	2013	2012
Non-current assets	-9,026	-1,401
Current assets	-20,705	-23,728
Pension	-513	-286
Profit and loss account	12,146	14,678
Net temporary differences	-18,098	-10,737
Carry forward loss	-84,545	-88,269
Basis for deferred tax asset	-102,643	-99,006
Tax assets NCS	2,489	-
Deferred tax asset at nominal tax rates	31,945	27,722
Carried tax asset	9,214	15,727
Carried tax liability	6,725	15,727

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 17,216 through group contribution. Tax liability and 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)		2013	2012
Average no. of shares (weighted using Brreg date)		27,235,867	24,284,310
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		0.35	-0.33
Basic earnings per share (USD per share)		0.35	-0.33

The Company has no outstanding or authorized stock options, warrants or convertible debt. As at 31 December 2013, the Company held 47,274 (0.17 per cent) treasury shares.

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

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

On 30 December 2011 the general meeting resolved to issue 135,000,000 new shares as consideration to the shareholder of IO&R AS which merged with Petrolia Rigs II AS.

The new capital was recorded at www.brreg.no on 30 March 2012.

NOTE 11 NON-CURRENT ASSETS

(amounts in USD 1 000)	OilService and other equipment	Land and buildings	Land rigs	Total
Per 1 January 2012				
Acquisition cost	262,356	2,978	0	265,334
Accumulated impairment	-12,276	0	0	-12,276
Accumulated depreciation	-170,692	-697	0	-171,389
Book value 01.01.12	79,388	2,281	0	81,669
Accounting year 2012				
Book value 01.01.12	79,388	2,281	0	81,669
Translation differences	-1,127	-139	0	-1,266
Additions including leased equipment	12,000	10	2,721	14,731
Rigs merger	1,993	0	11,024	13,017
Disposal	-163	0	0	-163
Depreciation of the year	-30,821	-35	-385	-31,241
Impairment	1,500	0	0	1,500
Disposal of depreciation	111	0	0	111
Book value 31.12.12	62,881	2,117	13,360	78,358
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
Depreciation period	7-12 year	33 year	12 year	
Residual value	0	0	0	

Additions

Through the rig merger completed in 2012, two land rigs were acquired. The drilling rig has completed its first contract and started on an excellent track record. Both rigs are being now 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

Fixed assets have had impairments reversed by USD 1.5 million in 2012. Initially the disputed equipment was fully impaired due to the assumption that equipment would have to be handed back in case of a loss. Now provisions have been made reflecting that ruling may result in having to pay cash. In such case the equipment would be kept and the reversal therefore puts back a carried value to the disputed equipment based on its assumed value in use. In 2013 impairments were USD 3.5 million connected to unutilised marine risers whose future revenues are uncertain and therefore have been fully impaired.

As at the end of 2013 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 and one could expect such impairment being made on. Impairment tests do not indicate need for more impairment charges and the low market capitalisation is considered to be due to reasons other than impairment issues.

Change in useful life

After reviewing the OilService equipment it was decided to change the estimated useful life from 5 years to 7 years for the drill pipe and test tubing and from 5 years to 12 years for handling and auxiliary equipment. This change is a key factor in the reduced depreciation by USD 15 million from USD 30.8 million in 2012 to USD 15.8 million in 2013.

LEASED EQUIPMENT (INCLUDED IN NON-CURRENT ASSETS ABOVE)

Drilling equipment and rig acquired through financial leases amounts to: (amounts in USD 1 000)			
	Land rig	Drilling equipment	Total
Accounting year 2012			
Book value 01.01.2012	0	17,935	17,935
Addition	0	2,503	2,503
Depreciation of the year	0	-10,880	-10,880
Translation differences	0	-21	-21
Book value 31.12.2012	0	9,537	9,537
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

See note 21 and 27 for details on sale and leaseback of land rig.

NOTE 12 EXPLORATION COSTS AND LICENCES

(amounts in USD 1 000)	Exploration cost and licences
Per 1 January 2012	
Acquisition cost	0
Accumulated depreciation	0
Book value 01.01.12	0
Accounting year 2012	
Book value 01.01.12	0
Translation differences	0
Additions	3,741
Disposal	0
Depreciation of the year	0
Disposal of depreciation	0
Book value 31.12.12	3,741
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
Depreciation period	-
Residual value	0

Additions and disposals

In 2012 Petrolia Norway AS purchased 30% of 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.

NOTE 13 GOODWILL

(amounts in USD 1 000)	Goodwill
Per 1 January 2012	
Acquisition cost	0
Accumulated depreciation	0
Book value 01.01.12	0
Accounting year 2012	
Book value 01.01.12	0
Translation differences	0
Additions	1,947
Disposal	0
Depreciation of the year	0
Disposal of depreciation	0
Book value 31.12.12	1,947
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
Depreciation period	-
Residual value	0

Goodwill

The purchase of 85 per cent of Catch Holding BV on 8 February 2012 (refer to Note 29) resulted in a goodwill 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 2012 nor in 2013.

Goodwill is in its entirety allocated to the OilService segment. 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 47.32 % of the company as at 31.12.2013.

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

During 2012, TM Drill was reclassified as an available for sale financial asset (Note 15)

Calculation of values in the balance sheet (amounts in USD 1 000)	Petroresources Ltd Associated	TM Drill	Total
Book value per 01.01.2012	1,786	3,941	5,727
Addition of the year	1,498	0	1,498
Share of result of the year	-38	-709	-747
Reclassified to other financial asset	0	-3,232	-3,232
Reversal of impairment	1,000	0	1,000
Book value per 31.12.2012	4,246	0	4,246
Addition of the year	750	0	750
Share of result of the year	-2,662	0	-2,662
Book value per 31.12.2013	2,334	0	2,334

Petroresources Ltd has in 2013 made impairments of USD 5 million 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					
2013		4,823	14	0	-5,864	47.32%
2012		9,823	526	0	-84	47.08%

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 31.12.2013 owns 19.66%.

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 2013 was USD 2 million. The company is valued at cost less

impairment by reference to the net asset of TM Drill, as its shares in 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 in the oilfield services segment.

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

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.

OTHER FINANCIAL ASSETS

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

Calculation of values in the balance sheet (amounts in USD 1 000)	TM Drill	Other	Total
Book value per 01.01.2012	0	1,202	1,202
Addition of the year	0	976	976
Reclassification from associated companies (Note 14)	3,232	0	3,232
Book value per 31.12.2012	3,232	2,178	5,410
Impairment	0	-1,387	-1,387
Book value per 31.12.2013	3,232	791	4,023

NOTE 16 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1 000)	2013	2012
Trade receivables	39,016	38,968
Other current receivables *	6,736	29,726
Total	45,742	68,694

*) In 2012 this includes receivable of USD 18,272 connected to the sale of the Borrower's Bonds. This receivable carries interest at 12% per annum. On 30 January 2013 the Group bought back these bonds by netting off the receivable due by the third party.

Aging of trade receivables	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)	2013	2012
Opening balance	23,000	22,500
Charge for the year	4,000	500
Reversals	-7,000	0
Closing balance	20,000	23,000

NOTE 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2013 and 2012 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 DNO International ASA, ticker DNO, and for Rocksource ASA, ticker RGT. The change of fair value and the profit from disposal of shares (amounting to USD 8.7 million) is shown in note 8. Petrolia Invest AS has granted a mortgage on its 3.8 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)	2013	2012
DNO, shares	3,802,245	6,968,200
DNO, total shares	1,023,279,255	1,023,279,255
DNO, % owned	0.37%	0.68%
RGT, shares	1,198,900	2,831,315
RGT, total shares	87,055,500	87,055,500
RGT, % owned	1.38%	3.25%
DNO, market value (NOK 24.20 / USD 3.9778) (NOK 9.47 / USD 1.7012)	15,125	11,855
RGT, market value (NOK 0.87 / USD 0.1430) (NOK 1.18 / USD 0.2119)	171	600
Fair Value / Carried value	15,296	12,455

NOTE 18 BANK DEPOSITS

(amounts in USD 1 000)	2013	2012
Bank deposits	20,238	22,894
Hereof deposits restricted		
Connected to the bond loan in Petrolia SE	1,174	5,880
Connected to the sale of shares in Deepwater Driller Ltd	0	3,002
Connected to sale of equipment	2,200	2,200
Connected to legal claims / other	290	3,589
Sum non-current	3,664	14,671
Other	380	0
Employees' tax deduction	380	396
Sum current	760	396
Total restricted capital	4,424	15,067
Free cash	15,814	7,827
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash and bank deposits in NOK	5,314	11,932
Cash and bank deposits in USD	11,276	8,757
Cash and bank deposits in AED	46	46
Cash and bank deposits in GBP	256	35
Cash and bank deposits in EUR	633	-150
Cash and bank deposits in NZD	211	136
Cash and bank deposits in RON	1,051	651
Cash and bank deposits in AZN	128	20
Cash and bank deposits in ZAR	311	615
Cash and bank deposits in GHS	31	147
Cash and bank deposits in AUD	981	705
Total	20,238	22,894

NOTE 19 SHARE CAPITAL

Share capital of Petrolia SE as at 31.12.2013: (amounts in USD 1 000)	Number	Nominal value	Book value 2013	Book value 2012
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.

On 30 December 2011 the general meeting resolved to issue 135,000,000 new shares. The new capital was recorded at www.brreg.no on 30 March 2012.

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

- 2012: 27,235,867
- 2013: 27,235,867

As at 31 December the number of shares authorised was:

- 2012: 27,235,867
- 2013: 27,235,867

TREASURY SHARES

As at 31 December 2013 and 2012 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 3,699 shareholders as at 31 December 2013. The tables below shows the Company's 20 largest shareholders as at 31 December 2013 and as at 3 April 2014 according to the VPS (shares with nominal value USD 1.00):

	Shareholders 31 December 2013	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	1 264 000	4,64 %
4	TROMMESTAD, OLE	350 874	1,29 %
5	SILVERCOIN INDUSTRIES AS	219 807	0,81 %
6	ELEKTROLAND NORGE AS	170 893	0,63 %
7	SERIOUS AS	164 971	0,61 %
8	ING BANK N.V - EQUITY FINANCE	150 000	0,55 %
9	LARSEN, VIDAR BERGO	105 156	0,39 %
10	FORLAND HOLDING AS	101 464	0,37 %
11	OLSEN, ROLF ARILD	100 075	0,37 %
12	ONYX AS	97 846	0,36 %
13	HEDEN HOLDING AS	82 146	0,30 %
14	HANSTVEIT, JON	81 803	0,30 %
15	GLASS & TRE AS	75 489	0,28 %
16	ASKELADDEN INVEST AS	74 740	0,27 %
17	NORDEA BANK DANMARK A/S	67 141	0,25 %
18	TOSKA, KETIL	60 045	0,22 %
19	SIX-SEVEN AS	58 650	0,22 %
20	HALVORSEN, TORBEN	54 027	0,20 %
	Others	4 305 654	15,81 %
	Total no. of shares before treasury shares	27 188 593	99,83%
	Treasury shares	47 274	0,17%
	Total no. of shares	27 235 867	100,00%

Shareholders 25 April 2014		No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES ASA	13 381 639	49,13 %
2	LARSEN OIL & GAS AS	6 269 447	23,02 %
3	Ø. H. HOLDING AS	1 244 500	4,57 %
4	SIX-SEVEN AS	329 990	1,21 %
5	SÆTER, HAAKON MORTEN	293 394	1,08 %
6	SILVERCOIN INDUSTRIES AS	215 381	0,79 %
7	DNB NOR MARKETS, AKSJEHAND/ANALYSE	215 000	0,79 %
8	ELEKTROLAND NORGE AS	170 893	0,63 %
9	SERIOUS AS	164 971	0,61 %
10	ING BANK N.V. - EQUITY FINANCE	115 587	0,42 %
11	LARSEN, VIDAR BERGO	105 156	0,39 %
12	OMMUNDSEN	104 258	0,38 %
13	FORLAND HOLDING	101 464	0,37 %
14	HEDEN HOLDING AS	100 214	0,37 %
15	OLSEN, ROLF ARILD	100 075	0,37 %
16	ONYX AS	97 846	0,36 %
17	HANSTVEIT, JON	81 803	0,30 %
18	ASKELADDEN INVEST AS	74 740	0,27 %
19	KRISTIANRO AS	57 710	0,21 %
20	HALVORSEN, TORBEN	54 027	0,20 %
	Others	3 957 772	14,53 %
Total no. of shares before treasury shares		27 188 593	99,83%
Treasury shares		47 274	0,17%
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⁾	
Members of the board and management as at:	31 December 2013	31 December 2013	25 April 2014	25 April 2014
Berge Gerdt Larsen, Chairman of the Board ¹⁾	0	0	0	0
Kjetil Forland, Managing director (Norway)	101,464	40,930	101,464	40,930
Sølve Nilsen, Finance manager (Norway)	164,971	40,930	164,971	40,930
Total	266,435	81,860	266,435	81,860

¹⁾ Berge Gerdt Larsen, together with his son, controls Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 23,16 % of the shares. Increased Oil Recovery AS is a 43.19% shareholder in Independent Oil & Resources Plc, which holds 49.13% of the shares.

²⁾ Ref note 27.

NOTE 20 BOND LOANS

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

Bond Loans (amounts in USD 1 000)		Average in- terest rate	Effective interest rate	2013	2012
Gross outstanding, mNOK	ISIN: NO 001044025.8 ("PDR04 PRO") &			56.0	344.5
Gross outstanding, mNOK	ISIN NO 001068359.2 ("PDR05 PRO")			288.5	0
Gross outstanding	(mNOK 344.5 / mNOK 344.5)	12.00%	12.00%	56,627	61,889
Of which Group owns	(mNOK 138.6 / 23.0)			22,783	4,132
Book value 31.12.	Net (mNOK 205.9 / 321.5)			33,844	57,757

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

Split between long term and short term portion of bond loan 31.12.2012:	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 321.5)	53,625	4,132	57,757
Book value 31.12.	53,625	4,132	57,757

The bond loan is listed on the Nordic ABM marked with ticker PDR04 PRO and PDR05 PRO.

(http://www.oslobors.no/markedsaktivitet/bondOverview?newt__ticker=PDR04+PRO)

(http://www.oslobors.no/markedsaktivitet/bondOverview?newt__ticker=PDR05+PRO)

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

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

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

Exchange rate as at 31 December 2013 for NOK/USD was 6.0837 compared to 5.5664 as at 31 December 2012.

BOOK VALUE OF MORTGAGE

Bond loan mNOK 344.5 is subject to security in bank deposit.	2013	2012
Secured bond loan mNOK	56.0	344.5
Restricted bank deposit (9 months interests)	828	5,570
Total book value of mortgage	828	5,570

Petrolia Invest AS has granted a mortgage on its NOK 24.5 million holding in the bond as security for a bank loan. Refer also to note 23.

MATURITY

Maturity structure gross bond loans:	2014	2015	2016	2017	Total
Instalment (mNOK 33.0 / mNOK 288.5)	0	5,424	0	47,422	52,846
Committed repurchase (mNOK 23.0)	3,781	0	0	0	3,781
Interest	6,795	6,243	5,691	2,845	21,574
Total	10,576	11,667	5,691	50,267	78,201
Of which to Group (Borrower's Bonds)	-2,961	-3,193	-2,734	-24,455	-33,343
Net	7,615	8,474	2,957	25,812	44,858

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

The Group has committed to re-purchase 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 1 500 000 in this bond.

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

The remaining instalment on the bond loan is due in June 2017. Petrolia Invest AS owns NOK 23 000 001 and Petrolia SE owns NOK 114 103 982 in 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 of 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.

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. During and as at the end of 2013 (and 2012) the Company was in compliance with the terms in the bond loan agreements.

NOTE 21 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2013	2012
Liability connected to financial leasing of drilling equipment	2,537	2,784
Liability connected to financial leasing of land rig	3,470	0
Other	622	2,371
Total other non-current liabilities	6,629	5,155

Included in other non-current liabilities are pensions amounting to USD 0.6 million (2012: USD 0.3 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) :	2013	2012
Falling due within 1 year	2,934	6,688
Falling due between 1 and 5 years	6,007	2,784
Total	8,941	9,472

Book value of assets financed through financial leasing amounts to USD 12.5 million. Refer also to note 11. Petrolia SE has given security towards one leasing company at a value of USD 65.5 million. The last installment on this lease has been made in 2014. On 15 April 2013, the Group signed a sale and leaseback of its workover rig, under bareboat charter, for an aggregate consideration of USD 5.5 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.

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

2012

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	6,955	6,688
After one year but not more than 5 years	3,278	2,784
More than 5 years	0	0
Total minimum lease payments	10,233	9,472
Less amounts representing finance charges	-761	0
Present value of minimum lease payments	9,472	9,472

NOTE 22 TRADE AND OTHER PAYABLES

Current liabilities (amounts in USD 1 000)	2013	2012
Trade payables	12,184	22,132
Total trade payables	12,184	22,132
Other current liabilities		
Other current liabilities	11,084	14,320
Total other current liabilities	11,084	14,320
Total trade payables, other current liabilities	23,268	36,362

NOTE 23 BANK LOAN

Current liabilities (amounts in USD 1 000)	2013	2012
Bank loan	3,503	3,827
	3,503	3,827

BANK LOAN

Petrolia Invest AS has entered into a short term bank facility of NOK 31.3 million of which NOK 21.3 million was drawn as at 31 December 2013 (USD 3.5 million). The bank facility is secured by (i) bonds of NOK 24.5 million has been mortgaged and (ii) 3,800 DNO shares have been mortgaged. The loan is repayable in November 2014 and its interest rate is NIBOR +4.3% per annum.

NOTE 24 PROVISION

Current liabilities (amounts in USD 1 000)	2013	2012
Provisions	13,048	11,848
	13,048	11,848
Changes in Provisions		
As at 01.01	11,848	3,948
Used	-2,600	0
Added	3,800	7,900
As at 31.12	13,048	11,848

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.

In the dispute with the Petromena estate, Oil Tools Supplier AS received a writ of summons from the estate on 15 December 2010 with a claim of up to USD 40 million (subsequently reduced to USD 28 million) related to an agreement of 13 November 2008 regarding

an acquisition by Petrolia Services of equipment from Petromena.

The hearing between Oil Tools Supplier AS and Petromena ASA bankruptcy estate was held in December 2012. Oil Tools Supplier AS received the decision from the Oslo District Court on 18 March 2013. The Court ruled in favor of the estate for USD 14 million. Oil Tools Supplier AS is of the opinion that the decision is based on an incorrect factual and legal basis, and has appealed against the decision to the Court of Appeal. The hearing will start on 23 October 2014.

There is no guarantee that out of court settlements will be reached.

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 belonging favourable loan terms from the lenders in accordance with the Group's operations. Through 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 or issuing new shares.

(amounts in USD 1 000)	2013	2012
Total liabilities	89,951	137,364
Equity of majority	98,348	87,447
Debt ratio	0.91	1.57

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 categorized as financial liability measured at amortised cost. In 2013 and 2012 the Group has invested in shares listed on the Oslo Stock Exchange.

Profit and loss effects from financial instruments are financial income and expenses on financial instruments measured at amortised cost. 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 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 past due 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 31.12.2013 the Group's bond loan has fixed interest, while the lease obligation and bank loan are subject to floating rate 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
2013	+50	+43	+43
2012	+50	+73	+73

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 31.12.2012.

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
As at 31st of December 2012	< 1 year	1-5 years	> 5 years	Total
Trade payables	22,132	0	0	22,132
Bond loans (incl interest)	10,815	62,782	0	73,597
Leasing (incl interest)	6,955	3,278	0	10,233
Bank loan	3,827	0	0	3,827
Provisions and other liabilities	26,078	2,043	0	28,121
Total	69,807	68,103	0	137,910

Retirement benefit obligations have been exempted in the above profiles.

The Group's long term financing is mainly related to one bond loan of NOK 56 million (of which the Group owns NOK 1.5 million) which falls due in June 2015 and one bond loan of NOK 288.5 million (of which the Group owns NOK 137.1 million) which falls due in June 2017.

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 nominated in NOK.

As at 31 December 2012 the Group had NOK 344.5 million (of which NOK 23 million was owned by the Group, leaving NOK 321.5 million as net) in bond loan nominated in NOK.

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

As at 31 December 2013, the Group had USD 35.4 million net debt nominated in NOK, while the corresponding figure for 2012 was USD 61.1 million.

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
2013	5 %	1,687	1,687
	-5 %	-1,865	-1,865
2012	5 %	2,911	2,911
	-5 %	-3,217	-3,217

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.nfmf.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 2013 was USD 15.3 million.

Bond loan - fair value	2013	2012
Net outstanding, mNOK	205.9	321.5
Book value	33,844	57,757
Fair value	32,152	56,602
www.nfmf.no	95%	98%

NOTE 27 RELATED PARTIES

LARSEN OIL & GAS AS (LOG AS)

The Company has an office-support agreement with LOG AS. Mr. Berge Gerdt Larsen, Chair of the Board has economic interest of 24.27% in LOG AS and is chair of the board in LOG AS. The annual cost coverage was NOK 2.5 million in 2013 and for 2014 it will be NOK 1.5 million.

During 2013 the Group had a short term loan of USD 8.2 million from LOG AS. The loan carried an interest of 4% and was in its entirety repaid in December 2013.

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.

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 120.000 with 6 months termination to assist with legal matters.

INDEPENDENT OIL & RESOURCES PLC (IOTA)

IOTA is the largest shareholder of the Company.

On 29 November 2011 the board of directors of Independent Oil & Resources AS (a subsidiary of IOTA) and Petrolia Rigs II AS (a subsidiary of Petrolia SE) approved the merger plan between the companies. The merger plan was approved by the general meetings of the companies on 30 December 2011.

As consideration the Company will issue a total of 135,000,000 new shares, with a nominal value of NOK 0.04 each, to IOTA. IOTA will pay NOK 0.55 per share, in total NOK 74,250,000. The consideration is based on cost price and external valuation.

The acquisition cost of the assets is NOK 74,250,000. The assets the Group receives consists of two rigs valued at NOK 62,734,773 for the Rigs and 11,479,625 for certain drilling equipment. The acquisition did not result in any recognition of goodwill. Upon completion of the merger IOTA's ownership in the Company increased from 30 % to 61,44 %.

The acquisition of the assets is a part of the Group's strategy to improve its balance sheet, strengthen and leverage the drilling & well business segment and generate a positive cash flow to fund new value creating initiatives.

The transaction was completed on 30 March 2012 when the new capital was registered at www.brreg.no and IOTA subsequently sold shares to drop under 50%.

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 11.10547 and the options expire on 9 November 2014.

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 secured loan facility of NOK 2 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.

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 per month.

NOTE 28 MATERIAL PARTLY OWNED SUBSIDIARIES

Independent Oil Tools DOSCO BV The Netherlands	2013	2012
Proportion of equity interest held by non-controlling interest	49%	49%
Accumulated balances of material non-controlling interest	4,105	3,054
Profit/ (loss) allocated to material non-controlling interest	883	567
Comprehensive income allocated to material non-controlling interest	1,051	625

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	2013	2012
Revenue	22,821	17,389
Cost of sales	15,008	11,529
Administrative expenses	3,556	3,498
Depreciation	1,077	1,030
Finance costs	860	-111
Profit before tax	2,320	1,443
Income tax	517	287
Profit for the year	1,803	1,156
Total comprehensive income	2,145	1,275
Attributable to non-controlling interest	1,051	625
Dividends paid to non-controlling interest	0	0

NOTE 29 BUSINESS COMBINATION

In 2012 two business combinations took place: (1) Catch acquisition and (2) Rig merger. The table below presents the details of the transactions.

Catch acquisition

As announced on 8 February 2012, 85 per cent of Catch Holding BV ("Catch") and a loan to Catch was acquired by Petrolia Tool Pool AS. Total consideration was USD 3.1 million (EUR 2.4 million) and was paid in cash. The business is complementary to services already provided in the OilService segment. The transaction resulted in a goodwill of

USD 1.9 million. Refer also to note 13. The parties believe that there will be synergies resulting from Catch joining the Group, that (i) Catch can expand its business through the network of the Group, (ii) the Group will get an attractive addition to the services it can offer to its customers and (iii) the Group can achieve higher utilisation of its fishing tools. The Group does not expect that the goodwill will be deductible for tax purposes. Catch had revenues of USD 1.3 million and EBITDA of USD 0.1 million in 2012. Total assets was USD 1.2 million and total equity was USD -2.6 million.

Rig merger

As announced on various occasions and finally on 30 March 2012 when new shares were recorded at the Norwegian Register of Business Enterprises, two land rigs were acquired through a merger. In effect this was an investment in non current assets through contribution in kind, i.e. the rigs were paid by issuing new shares. The transaction did not result in any goodwill.

The net assets acquired (amounts in USD 1 000)	Catch acquisition	Rig merger
Financial fixed assets	20	0
Receivables	831	0
Other current assets	124	24
Drilling equipment	203	1,993
Land rigs	0	11,024
Inventories	495	0
Bank deposits	146	0
	1,819	13,041
Short term portion of long term liabilities	615	0
Trade creditors	336	0
Other current liabilities	80	0
	1,031	0
Net assets	788	13,041
	85%	100%
Share of net assets acquired excluding group loans	669	13,041
Loan to group company at 15% (minority interest)	475	0
Share of net assets acquired	1,144	0
Consideration paid	3,092	0
Shares issued	0	13,041
Goodwill	1,947	0
Minority interests at acquisition date	357	0

NOTE 30 EVENTS AFTER THE BALANCE SHEET DATE

- 11 January: Petrolia Norway AS, a fully owned subsidiary of Petrolia SE, spudded the well 25/9-4 Tastaveden in PL 628. The well, which is located approximately 35 km northeast of the Grane field, tested a prospect adjacent to the Utsira High and was drilled with the semi-submersible rig Ocean Vanguard. The well was water wet.
- 15 January: Petrolia Norway AS, a subsidiary of Petrolia SE, entered into an agreement with Lundin Norway AS to purchase 10 % in PL 546. PL 546 is located north and adjacent to PL 501 Johan Sverdrup. The transaction is pending approval from the authorities.
- 21 January: Petrolia Norway AS, a subsidiary of Petrolia SE, was awarded a 20% share in a new licence in the 2013 Awards in Predefined Areas (APA) in Norway. The licence PL 739S is located south of the Oseberg South field and encompasses parts of the blocks 26/1, 31/10 and 31/11. Statoil Petroleum AS is the operator with a 50 per cent share and Petoro AS hold the remaining 30 per cent of the license.
- 24 January: a Bondholder Meeting was held pursuant to summons of 16th January 2014 and extended maturity date of bond loan "12.00% Petrolia SE Senior Unsecured Bond Issue 2013/2015 with call options" ISIN: NO 0010683592 by two years from June 2015 to June 2017.

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2013

PETROLIA SE

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 USD 000	2012 USD 000
Revenue	4	1,694	347
Other income	17	671	-
Administration expenses		(7,301)	(4,503)
Impairment of investments in subsidiary companies	10	(20,424)	-
Impairment reversal of investments in subsidiary companies	10	8,794	-
Operating loss	5	(16,566)	(4,156)
Finance income	7	4,676	1,109
Finance costs	7	(6,005)	(1,326)
Loss before tax		(17,895)	(4,373)
Tax	8	(17)	-
Net loss for the year		(17,912)	(4,373)
Other comprehensive income		-	-
Total comprehensive loss for the year		(17,912)	(4,373)

PETROLIA SE**STATEMENT OF FINANCIAL POSITION**

At 31 December 2013

	Note	2013 USD 000	2012 USD 000
ASSETS			
Non-current assets			
Property, plant and equipment	9	-	60
Investments in subsidiary companies	10	121,230	111,694
Restricted cash	13	1,268	9,468
Loans due from subsidiary companies	18.3	23,411	24,444
		<u>145,909</u>	<u>145,666</u>
Current assets			
Loans receivable	11	-	19,425
Trade and other receivable	12	386	330
Cash at bank and in hand	14	2,523	388
		<u>2,909</u>	<u>20,143</u>
Total assets		<u>148,818</u>	<u>165,809</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	27,236	27,236
Treasury shares		(47)	(47)
Merger reserve		67,093	67,093
Accumulated losses		(22,285)	(4,373)
Total equity		<u>71,997</u>	<u>89,909</u>
Non-current liabilities			
Borrowings	16	33,473	57,757
Loans due to related parties	18.5	37,921	9,117
		<u>71,394</u>	<u>66,874</u>
Current liabilities			
Borrowings	16	4,536	4,359
Trade and other payables	17	891	4,667
		<u>5,427</u>	<u>9,026</u>
Total liabilities		<u>76,821</u>	<u>75,900</u>
Total equity and liabilities		<u>148,818</u>	<u>165,809</u>

On 29 April 2014 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 2013

	Note	Share capital USD 000	Treasury shares USD 000	Merger reserve USD 000	Accumulated losses USD 000	Total USD 000
Issue of share capital	15	35	-	-	-	35
Net loss for the year		-	-	-	(4,373)	(4,373)
Merger transaction	3	27,201	(47)	67,093	-	94,247
Balance at 31 December 2012/ 1 January 2013		27,236	(47)	67,093	(4,373)	89,909
Net loss for the year		-	-	-	(17,912)	(17,912)
Balance 31 December 2013		27,236	(47)	67,093	(22,285)	71,997

PETROLIA SE**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2013

	Note	2013 USD 000	2012 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(17,895)	(4,373)
Adjustments for:			
Depreciation of property, plant and equipment	9	60	9
Unrealised exchange loss	7	115	271
Interest income	7	(4,676)	(1,109)
Interest expense	7	5,856	1,052
Impairment charge - investments in subsidiaries	10	20,426	-
Impairment reversal - investments in subsidiaries	10	(8,794)	-
Cash flows used in operations before working capital changes		(4,908)	(4,150)
(Increase)/decrease in trade and other receivables		(56)	142
(Decrease)/increase in trade and other payables		(3,776)	3,169
Cash flows used in operations		(8,740)	(839)
Tax paid		(17)	-
Net cash flows used in operating activities		(8,757)	(839)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted to subsidiary companies		(15,578)	(169)
Net cash flows used in investing activities		(15,578)	(169)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	35
Proceeds from loans from related parties		27,525	3,660
Proceeds from loans granted to subsidiary companies		-	1,097
Interest paid		(5,856)	(3,688)
Reduction in restricted cash		8,200	-
Bond loan purchase		(3,399)	-
Net cash flows from financing activities		26,470	1,104
Net increase in cash and cash equivalents		2,135	96
Cash and cash equivalents:			
At beginning of the year		388	-
Additional cash from merger	3	-	292
At end of the year	14	2,523	388

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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. Its registered office is at 27 Spyrou Kyprianou Avenue, 4001 Limassol, Cyprus.

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 April 1, 2005 (the "SE Act").

Following the completion of the 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 accounts less impairment. The notes to the consolidated accounts provide additional information to the separate accounts which is not presented here separately.

During the period from 9 August 2011 (date of incorporation) to 31 December 2011 the Company had no activities and as at 31 December 2011, the Company had only issued share capital of USD 35,000.

The amounts shown in the statement of comprehensive income comprise the results of Petrolia SE for the year and the results of the Company's branch in Norway. For 2012 the amounts shown in the statement of comprehensive income comprise the results of Petrolia SE for the year and the results of the Company's branch in Norway from the date of Merger (26 October 2012) to 31 December 2012.

3. Merger transaction

The Merger entailed a transfer of all of Petrolia ASA's assets, rights and obligations to Petrolia SE. Petrolia ASA was dissolved following the completion of the Merger.

As consideration for their shares in Petrolia ASA, Petrolia ASA's shareholders as at the time of completion of the Merger received shares in Petrolia SE corresponding to the economic value of their shares in Petrolia ASA (the "Consideration Shares"). The exchange ratio was 0.090045702, or approximately 1 new share in the capital of Petrolia SE for 11 shares in Petrolia ASA. The exchange ratio was based on a valuation of Petrolia ASA and Petrolia SE respectively. Petrolia ASA was valued on the basis of the market value of its shares on the Oslo Stock Exchange as at the time of the adoption of the Merger Plan. Petrolia ASA was valued at NOK 160.1 million (USD 27.2 million based on an exchange rate of 5.8859 as of 28 November 2011).

Petrolia SE was valued on the basis of the value of its assets, namely its cash reserve corresponding to the paid-in share capital of USD 35,000. Total combined value amounted to USD 27.2 million. As consideration to the shareholders of Petrolia ASA at the time of completion of the Merger, Petrolia SE issued a total of 27,200,867 shares with a nominal value of USD1 each (the "Consideration Shares"), the exchange ratio between the shares of Petrolia ASA and the shares of Petrolia SE thus being 0.090045702, or approximately 1 new share in the capital of Petrolia SE for 11 shares in Petrolia ASA. The Consideration Shares were issued on completion of the Merger.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. Merger transaction (continued)

The Consideration Shares issued in connection with the Merger were ordinary shares of Petrolia SE, issued under the laws of the Republic of Cyprus and having a nominal value of USD 1 each. The Consideration Shares rank pari passu in all respects with the existing shares of Petrolia SE and carry full shareholder rights from the time of issuance. The Consideration Shares are eligible for any dividends declared by Petrolia SE from the time of issuance.

Following completion of the Merger as described above, the parent company of the Group is Petrolia SE. The Merger has not resulted in any other changes to the Group structure.

26/10/2012
USD 000

1) Merger reserve

Petrolia ASA

Share capital	2,175
Treasury shares	(2,153)
Share premium	12,093
Retained earnings	82,132
Total equity	94,247

Petrolia E&P Holdings Plc

Share capital	35
Total combined equity following the merger	94,282
Share capital after the merger	(27,236)
Treasury shares	47

Merger reserve created on merger

67,093

2) Assets acquired and liabilities assumed to the date of Merger

Petrolia ASA

Statement of financial position as at 26 October 2012

ASSETS

Non-current assets

Property, plant and equipment	69
Investments in subsidiaries	111,694
Restricted cash	9,206
Loans due from subsidiary companies	24,151
	145,120

Current assets

Trade and other receivable	490
Loans receivable	18,522
Cash at bank and in hand	292
	19,304

Total assets

164,424

EQUITY AND LIABILITIES

Equity and reserves

Share capital	2,175
Treasury shares	(2,153)
Share premium	12,093
Retained earnings	82,132
Total equity	94,247

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

3. Merger transaction (continued)

Non-current liabilities	26/10/2012
	USD 000
Borrowings	60,607
Loans due to subsidiaries	5,426
	<u>66,033</u>
Current liabilities	
Trade and other payable	1,498
Borrowings	2,646
	<u>4,144</u>
Total liabilities	70,177
Total equity and liabilities	164,424

4. Revenue

	2013	2012
	USD 000	USD 000
Management fees (Note 18.2)	1,408	347
Other fees (Note 18.2)	286	-
	<u>1,694</u>	<u>347</u>

5. Operating loss

	2013	2012
	USD 000	USD 000
Operating loss is stated after charging the following items:		
Depreciation of property, plant and equipment (Note 9)	60	9
Directors' fees (Note 18.1)	54	23
Staff costs (Note 6)	1,778	400
Auditors' remuneration	201	123
Auditors' remuneration for non-audit services	49	42
Legal and professional fees	<u>2,042</u>	<u>735</u>

6. Staff costs

	2013	2012
	USD 000	USD 000
Salaries	1,562	318
Other staff costs	206	79
Social insurance costs and other funds	<u>10</u>	<u>3</u>
	<u>1,778</u>	<u>400</u>

7. Finance income/(costs)

	2013	2012
	USD 000	USD 000
Interest income – loans with related parties (Note 18.3)	4,555	1,109
Other interest income	<u>121</u>	<u>-</u>
	<u>4,676</u>	<u>1,109</u>

Finance income

Bond loan interest	(4,736)	(1,010)
Interest expense – loans with related parties (Note 18.5)	(1,120)	(42)
Sundry finance expenses	(34)	(3)
Net foreign exchange transaction losses	<u>(115)</u>	<u>(271)</u>

Finance costs

	<u>(6,005)</u>	<u>(1,326)</u>
Net finance cost	<u>(1,329)</u>	<u>(217)</u>

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

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:

	2013 USD 000	2012 USD 000
Loss before tax	<u>(17,895)</u>	<u>(4,373)</u>
Tax calculated at the applicable tax rates	(2,237)	(437)
Tax effect of expenses not deductible for tax purposes	2,646	238
Tax effect of allowances and income not subject to tax	(1,156)	(63)
Tax effect of tax loss for the year	<u>764</u>	<u>262</u>
Tax charge	<u>17</u>	<u>-</u>

The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all Cypriot entities are taxed at the standard rate of 12.5% (2012:10%).

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 10% (15% as of 31 August 2011 and 30% as of 29 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% 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 2013, the balance of tax losses which is available for offset against future taxable profits amounts to USD 764 thousand for which no deferred 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 realized in Norway. The Branch under current legislation may carry forward the balance of tax losses indefinitely in the future.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. Property, plant and equipment

	2013 USD 000
Cost	
Additions from merger	169
Balance at 31 December 2012/1 January 2013	169
Balance at 31 December 2013	169
Depreciation	
Balance at 1 January 2012	-
Additions from Merger	100
Charge for the year	9
Balance at 31 December 2012/1 January 2013	109
Charge for the year	60
Balance at 31 December 2013	169
Net book value	
Balance at 31 December 2013	-
Balance at 31 December 2012	60

10. Investments in subsidiary companies

	2013 USD 000	2012 USD 000
At cost		
Balance at 1 January	111,694	-
Additions from Merger	-	111,694
Additions	21,166	-
Impairment charge	(20,424)	-
Impairment reversal	8,794	-
Balance at 31 December	121,230	111,694

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2013 Holding %	2012 Holding %	2013 USD 000	2012 USD 000
Petrolia Drilling II AS (1)	Norway	Holding company of IOT Group	100	100	12,806	16,050
Petrolia Invest AS (2)	Norway	Holding company	100	100	43,294	34,500
Petrolia Norway AS (3)	Norway	Oil & Gas	100	100	4,172	188
Petrolia Tool Pool AS	Norway	Holding company (Catch fishing Group)	100	100	17	17
Venture Drilling AS	Norway	Oil service	100	100	60,939	60,939
Petrolia E&P International Ltd (4)	Cyprus	Dormant	100	-	1	-
Independent Oil Tools International (Cyprus) Ltd (5)	Cyprus	Dormant	100	-	1	-
					121,230	111,694

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. Investments in subsidiary companies (continued)

- (1) During 2013, an impairment provision of USD 3,245 thousand was recognised for the investment in Petrolia Drilling II AS. (Accumulated impairment is USD 125,004 thousand).
- (2) During 2013, prior year's impairment of USD 8,794 thousand was reversed for the investment in Petrolia Invest AS. (Accumulated impairment is USD 8,755 thousand).
- (3) On 9 December 2013 the Company made an additional contribution to its subsidiary Petrolia Norway AS. The contribution amounted to USD 21,166 thousand (NOK 130,000 thousand) and was made in exchange for 130,000 shares. An impairment provision was recognised during 2013 for an amount of USD 17,181 thousand. (Accumulated impairment is USD 17,181 thousand).
- (4) 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.
- (5) 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.

11. Loans receivable

	2013 USD 000	2012 USD 000
Loans receivable	-	19,425
	<u>-</u>	<u>19,425</u>

On 30 January 2013 the Company purchased back from a third party bond loan of USD 18,272 thousand (NOK 101,104 thousand). The bond loan was purchased back in exchange for waiver of the remaining loan receivable from the third party.

12. Trade and other receivable

	2013 USD 000	2012 USD 000
Trade receivables	16	31
Deposits and prepayments	84	39
Other receivables	83	72
Refundable VAT	63	188
Receivables from related parties (Note 18.6)	140	-
	<u>386</u>	<u>330</u>

13. Restricted cash

	2013 USD 000	2012 USD 000
Balance at 31 December	<u>1,268</u>	<u>9,468</u>

Refer also to Note 18 in the Group accounts.

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

14. Cash at bank and in hand

Cash balances are analysed as follows:

	2013 USD 000	2012 USD 000
Cash at bank and in hand	<u>2,523</u>	388
	<u>2,523</u>	388

15. Share capital

	2013	2013	2012	2012
	Number of shares	USD 000	Number of shares	USD 000
Authorised				
Ordinary shares of USD1 each	<u>27,235,867</u>	<u>27,236</u>	27,235,867	27,236
Issued and fully paid				
Balance at 1 January 2013/9 August 2011	<u>27,235,867</u>	<u>27,236</u>	-	-
Issue of shares	<u>-</u>	<u>-</u>	27,235,867	27,236
Balance at 31 December	<u>27,235,867</u>	<u>27,236</u>	27,235,867	27,236

Authorised capital

Petrolia SE fixed its authorised share capital to 27,235,867 ordinary shares of nominal value of USD1 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.

As consideration to the shareholders of Petrolia ASA as at the time of completion of the 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 2013 the total number of shares issued by the Company amounted to 27,235,867.

16. Borrowings

	2013 USD 000	2012 USD 000
Current borrowings		
12% Callable bond loan - interest due, not yet paid	208	227
12% Callable bond loan - principal	<u>4,328</u>	4,132
	4,536	4,359
Non current borrowings		
12% Callable bond loan	<u>33,473</u>	57,757
Total	<u>38,009</u>	62,116
Maturity of borrowings:		
Within one year	4,536	4,359
Between one and five years	<u>33,473</u>	57,757
	<u>38,009</u>	62,116

Refer also to Note 20 in the Group accounts.

Out of the total bond loans outstanding as at 31 December 2013, an amount of USD4.2 million (NOK24.5 million) is due to the subsidiary company, Petrolia Invest AS.

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2013

17. Trade and other payable

	2013 USD 000	2012 USD 000
Trade payable	269	464
Social insurance and other taxes	319	343
Holiday allowance	28	28
Accruals	261	507
Provision for legal cases (1)	-	3,300
Amounts due to related companies (Note 18.4)	14	25
	891	4,667

(1) The Petrojack Estate case has been closed resulting in a positive financial effect for the Company of USD 671 thousands.

Refer also to Note 22 in the Group accounts.

18. Related party balances and transactions

The following transactions were carried out with related parties:

18.1 Directors' remuneration (Note 5)

	2013 USD 000	2012 USD 000
Directors' fees	54	23
	54	23

18.2 Rendering of services (Note 4)

	2013 USD 000	2012 USD 000
Petroresources Ltd (Group associated company)	30	21
IO&R Ltd (Group subsidiary company)	-	326
Oil Tool supplier (Group associated company)	997	-
Petrolia Norway AS (subsidiary company)	381	-
	1,408	347
	2013 USD 000	2012 USD 000
IO&R Ltd (Group subsidiary company)	146	-
Independent Oil Tools Dosco BV (Group subsidiary company)	35	-
Independent Oil Tools SRL (Group associated company)	35	-
Catch Fishing Services BV (Group subsidiary company)	70	-
	286	347

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

18.3 Loans due from related parties

	2013 USD 000	2012 USD 000
Petrolia Norway AS (subsidiary company) (1)	20,987	23,177
Petrolia Invest AS (subsidiary company) (Note 18.5)	-	666
Oil Tools Supplier AS (Group subsidiary company) (2)	1,472	88
Petrolia Drilling Ltd (subsidiary company) (3)	165	120
IO&R Ltd (group subsidiary company) (4)	540	393
Kjefil Forland (Managing director of the Norwegian branch of the Company) (5)	247	-
	23,411	24,444

- (1) On 3 June 2011, Petrolia AS (entity before merger into Petrolia SE) entered into a loan facility agreement with its subsidiary company Petrolia Norway AS for an amount of USD 19,685 thousand (NOK 119,756 thousand). The interest accrued as at 31 December 2013 amounted to USD 1,302 thousand (NOK 7,926 thousand). The loan bears interest of three months NIBOR 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 4,481 thousand.
- (2) The outstanding loan principal with Oil Tools Supplier AS amounted to USD 1,465 thousand (2012: USD 87 thousand) whereas the accrued interest amounted to USD 7 thousand (2012: USD 1 thousand). Interest income for the year amounted to USD 18 thousand (2012: USD 1 thousand).
- (3) The outstanding loan principal with Petrolia Drilling Ltd amounted to USD 1,802 thousand (NOK 10,963 thousand) whereas the accrued interest amounted to USD 11 thousand (NOK 68 thousand). Interest income for the year amounted to USD 45 thousand (NOK 273 thousand). Accumulated impairment amounted to USD 1,648 thousand.
- (4) The outstanding loan principal with IO&R Ltd amounted to USD 532 thousand (NOK 3 thousand) whereas the accrued interest amounted to USD 8 thousand (NOK 47 thousand). Interest income for the year amounted to USD 11 thousand.
- (5) On 12 August 2013, the Company granted a loan to the Managing director of its Norwegian branch for the amount of USD 247 thousand (NOK 1,500 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 2014, therefore, the loans due from related parties are classified as non-current assets in the Company's statement of financial position.

18.4 Amounts due to related parties (Note 17)

Name	Nature of transactions	2013 USD 000	2012 USD 000
TOT Drilling Ltd (controlled by shareholder)	Trade	-	25
Independent Oil Tools S.R.L (Group subsidiary company)	Current account	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	7	-
		14	25

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

18.5 Loans due to related parties

		2013 USD 000	2012 USD 000
	<u>Terms</u>		
Petrolia Rigs AS (Group subsidiary company) (1)	Inter-company loan	21,941	4,347
Venture Drilling AS (subsidiary company) (2)	Inter-company loan	6,766	4,051
Larsen Oil & Gas AS (shareholder) (3)	Inter-company loan	-	719
Petrolia Invest AS (subsidiary company) (4)	Inter-company loan	9,214	-
		<u>37,921</u>	<u>9,117</u>

(1) The outstanding loan principal with Petrolia Rigs AS Ltd amounted to USD 21,818 thousand (2012: USD 4,326 thousand) whereas the accrued interest amounted to USD 123 thousand (2012: USD 21 thousand). Interest expense for the year amounted to USD 154 thousand (2012: USD 22 thousand).

(2) The outstanding loan principal with Venture Drilling AS Ltd amounted to USD 6,724 thousand (2012: USD 4,031 thousand) whereas the accrued interest amounted to USD 42 thousand (2012: USD 20 thousand). Interest expense for the year amounted to USD 301 thousand (2012: USD 20 thousand).

(3) The outstanding loan principal with Larsen Oil & Gas AS amounted to USD NIL (2012: USD 719 thousand). Interest expense for the year amounted to USD 472 thousand (2012: USD NIL).

(4) The outstanding loan principal with Petrolia Invest AS amounted to USD 9,154 thousand (2012 debit balance: USD 657 thousand) whereas the accrued interest amounted to USD 60 thousand (2012: debit balance USD 9 thousand). Interest expense for the year amounted to USD 170 thousand (2012 debit balance: USD 9 thousand).

During the year, the Company obtained a loan of NOK 5 million (USD 821 thousand) from Increased Oil Recovery AS which was repaid on 23 December 2013. Interest expense for the year amounted to 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.

18.6 Receivables from related parties (Note 12)

	2013 USD 000	2012 USD 000
Independent Oil Tools Dosco BV (Group subsidiary company)	35	-
Independent Oil Tools S.R.L (Group subsidiary company)	35	-
Catch Fishing Services BV (Group subsidiary company)	70	-
	<u>140</u>	<u>-</u>

19. 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 2013, 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 financial statements.

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

A member firm of Ernst & Young Global Limited

Directors: Andreas Demetriou, Neophytos Neophytou, Yiannakis Theoklitou, Stavros Pantzaris, Charalambos Stylianou, Gabriel Onisiforou, Andreas Avraamides, Petros Liassides, Philippos Raptopoulos, Irene Psalti, Savvas Pentaris, Mikhail Khachatryan



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 2013, 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

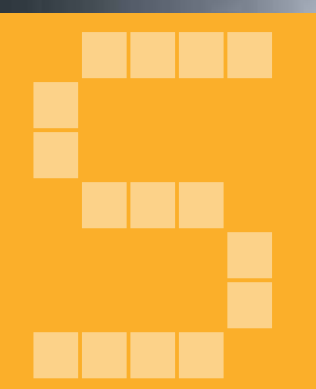
This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume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

A blue ink signature of Stavros Pantzaris.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
29 April, 2014



START

MENT

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1st of January to 31st of December 2013 have been prepared in accordance with current applicable accounting standards, and give a

true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the

development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.



Berge Gerdt Larsen
Chairman of the Board

Limassol, 29th of April 2014



Judith Parry
Board member



Siur Storaas
Board member



Erwin Joseph Pierre Godec
Board member
Managing director

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 23 October 2012 (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 follows a report outlining how Petrolia has implemented the Code of Practice. This report 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 was formed in Cyprus in October 2012. Consequently, various associated policies can still 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 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".

The Company has three business segments: Exploration & Production (E&P), Drilling & Well Technology and OilService and is listed on the 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 maximize 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, were the possibilities for further value creation through investments are taken into account.

The Company's key targets for 2013 were to improve the Company's financial position, grow the rental equipment business and to develop Petrolia Norway AS. Dividends to shareholders are consequently not prioritized short term.

Authorizations 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 authorizations granted by the board. Thus, the authorizations should be limited in time to no later than the date of the next Annual General Meeting. All authorizations not in compliance with these guidelines should be accounted for in the Annual Report.

As of 31 December 2013, the Company had equity of USD 102.5 million, representing an equity ratio of 53 per cent.

The Board of Directors was at the Annual General Meeting 28 June 2013 granted authorizations with regards to increasing the share capital and to hold its own shares. The details of the grants are provided in the minutes to the Annual General Meeting, published 1 July 2013 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.

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.

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 see to it 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 ongoing 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 2013. The current composition of the board of directors is described on page 6 in the Petrolia SE Annual Report 2013. 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 2013 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 2013, 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 2013 are set out in Note 19 to the consolidated financial 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 2013;
- Ensure that a system of direction and internal control is established and maintained to ensure that the Group activities are conducted in accordance with all rules and regulations applicable to the Group, Petrolia's Articles of Association, its corporate

values and its ethical guidelines, as well as authorizations and instructions approved by the General Meeting. The internal control arrangements must address the organization 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 organized. 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 jeopardize the independence. The audit committee held regular meetings in 2013 and reviewed all interim reports prior to publication. The committee works closely with the Group auditor.

The Board of Directors has currently not found it necessary to formally appoint a remuneration committee. Given the size of the Company's administration and business and the competence of the Board members, it is the Board's opinion that the matters in question may be properly handled by the Board without such committee.

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 monthly.

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 in more 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 for the Group 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 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 are part of incentive programs available for the executive management and/or other employees.

More detailed information about the reward of individual directors in 2013 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 information to the General Meeting shall pay particular attention to any changes made during the last year.

The Company has no bonus schemes or incentives in place. As of 31 December 2013, executive management held common shares in the company following the rights issue towards key employees and the Board of Directors on 2 September 2011 in addition to shares and options bought in the market through 2012.

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 to the information:

- Each year, Petrolia publishes an overview of the dates for major 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 mail 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 based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law. The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company 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 the 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.

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.

Too much non-auditing work being 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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