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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 awarded in the Awards in Predefined Areas (APA) 2012 round together with E.ON E&P Norge AS as operator next to Sverdrup and 30 per cent in four licences in PL 506.

In addition, Petrolia owns Independent Oil Tools AS, a leading rental equipment company for the global oil industry.

The Group employs a staff of around 339 highly competent employees worldwide.

IMPORTANT EVENTS 2012

- 07 February: The Ministry of Petroleum and Energy approved Petrolia Norway AS as NCS licensee.
- 08 February: Petrolia acquired 85 per cent of Catch Holding BV, a leading provider of well fishing, remedial and whipstock services.
- · 23 March: The Ministry of Petroleum and Energy approved the transfer of 10 per cent of PL 356 (Ulvetanna) to Petrolia Norway AS.
- · 29 March: The Information Memorandum, Land Rig Merger, was prepared in connection with the issue of new shares by Petrolia ASA to Independent Oil & Resources ASA as consideration in the merger between Petrolia Rigs II AS and IO&R AS for two Land Rigs and associated

equipment. Through the transaction, assets of NOK 74,250,000 were acquired and 135 million new shares were issued. Additional references are made to our stock notices on 22 September, 29 November and 30 December 2011 on this subject.

- 30 March: In accordance with the Land Rig Merger, the total share capital of NOK 12,083,138.52 (302,078,463 shares at NOK 0.04 each) was registered at the Norwegian Register of Business Enterprises.
- 16 May: Petrolia sold NOK 139.5 million of outstanding bond at par + accrued interest.
- 18 May: Petrolia Norway AS entered into an agreement to purchase 30 per cent of production licences PL 506S, PL 506BS, PL 506CS and PL 506DS from Front Exploration AS. The licenses contain several prospects, and the first well will be drilled in 2013.
- 06 June: First contract to new land drilling rig entered into with a large oil company in Romania. The duration of the contract is for 16 wells until the end of December
- 07 June: The Bondholder Meeting of Petrolia ASA approved to amend the bond agreement for ISIN NO 0010440258, including an extension of maturity date from 20 June 2012 to 19 June 2015. The bondholders will receive an interest of 12 per cent and an incentive fee of 1 per cent of par value. In addition, Petrolia will facilitate an accelerated redemption of the minority bondholders' holdings in three partial repayments.
- 18 July: Petrolia Norway AS spuds its first NCS well PL 356, Ulvetanna, in the southern North Sea. The objective of the well was to prove petroleum in the Cretaceous rock, however the formation contained no hydrocarbons. The license has been relinquished and delivered back to the authorities.

- 11 September: Petrolia completed the first of three partial bond buyback of a total value of NOK 69 million at a purchase price of 99 per cent plus accrued interest. The next third is due on 20 June 2013 and the final repayment is due on 20 June 2014.
- · 12 September: The Ministry of Petroleum and Energy approved the transfer of 30 per cent of production licences PL 506S, PL 506B, PL 506CS and PL 506DS from Front Exploration AS to Petrolia Norway
- · 26 October: 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 and the Company is now re-domiciled to Cyprus as Petrolia SE (the company was renamed to Petrolia SE on 29 January 2013).
- 23 November: The Extraordinary General Meeting approved that the name of the Company be changed to Petrolia SE.

Supported by the current high oil price level, the oil companies are increasing their E&P investments, with a record number of rigs coming into the market in 2012 and beyond. Consequently, the Board of Directors of Petrolia SE expects an increased activity level for the oil service industry going forward.

At the same time, the companies have implemented several measures for improving the operations in the OilService division and have seen improvements of the restructuring during 2012 and expecting further development in 2013.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

Financial information, Group

Total revenue amounted to USD 102.9 million for the fiscal year 2012, mainly related to the OilService segment. Total revenues for the fiscal year 2011 equaled USD 83.9 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 2011 amounted to USD -16.5 million after deduction of USD 40.9 million in depreciation and USD 4.1 million in impairment of drilling equipment. Result after tax for the Group amounted to USD -7.2 million compared to USD -16.7 million in 2011.

As at 31 December 2012 the total assets of the Group amounted to USD 227.9 million of which OilService equipment was USD 62.9 million. Carried equity of the Group amounted to USD 90.6 million as at 31 December 2012, including a minority interest of USD 3.1 million. Carried equity as at 31 December 2011 was USD 84.1 million, including a minority interest of USD 2.6 million. As at 31 December 2012, 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 7.6 million, compared to USD -5.9 million in 2011. Cash flow from investments was USD -10.5 million in 2012. Cash flow from investments in 2011 amounted to USD 75.7 million. Cash flow from financing activities in 2012 was USD -7.9 million mainly related to the interest on bond loan and lease instalments. Cash flow from financing activities in 2011 was USD -67.1 million.

Total cash position at 31 December 2012 was USD 22.9 million compared to USD 32.8 million at 31 December 2011.

FINANCIAL AND LIQUIDITY RISK

At year-end the Group had a cash balance of USD 22.9 million. Restricted cash includes USD 5.9 million on a Bond Loan interest security account, USD 3.0 million in escrow connected to the sale of the shares of Deepwater Driller Ltd, USD 2.2 million in escrow connected to sale of disputed equipment and USD 3.6 million as security connected to legal claims.

The Group's long term financing is mainly related to bond loan of NOK 344.5 million

which is due in June 2015. The Group owns NOK 23 million of the bond loan. 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. As at the end of 2012 Petrolia SE was in compliance with the terms in the bond loan agreement.

GOING CONCERN

The Group's management is of the opinion that the consolidated financial statements be prepared on a going concern basis despite the fact that the Group continued to report negative results during the year ended 31 December 2012. The Group's operating loss for the year amounted to USD 19.3 million (2011: loss of USD 16.5 million) and the net loss after tax amounted to USD 7.2 million (2011: loss of USD 16.7 million). Following the reduction in free cash held at year-end (USD 7.8 million compared to USD 18.9 million as at the end of 2011) and further to the Group's buy-back of its bond loan of USD 18.2 million during January 2013 (Note 22), the Group needs to explore additional financing alternatives in order to secure sufficient cash flow for servicing its working capital needs and other financial liabilities as described in Note 8.

The Board of Directors remains positive to the Group's ability to obtain sufficient finance and believe that it is appropriate that the financial statements be prepared on a going concern basis.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia SE has 9 employees, six men and three women.

In total the Group has 339 employees. There have not been any serious damages or accidents in 2012.

The Group is actively and goal-oriented to encourage equality and to prevent discrimination.

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

ENVIRONMENT REPORTING

The Group has as objective that all activities that are performed are to be carried out without damage on people or surroundings. The Group's activities this year have not caused pollution of the environment in defiance of demands made by the prevailing authorities.

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

- 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.
- · 30 January: Petrolia completed bond buy back of NOK 101.1 million of ISIN NO 0010440258. Following the transaction Petrolia holds own bonds of NOK 124.1
- 28 January: The Company's name is now changed from Petrolia E&P Holdings SE to Petrolia SE.
- 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 favor of the PetroMena ASA estate for USD 14 million. Oil Tool Supplier AS is in the process of filing an appeal.
- 25 March 2013: Cyprus and the Eurogroup reached an agreement on a package of measures intended to restore the viability



of the financial sector and sound public finances over the coming years. Cyprus and the Troika (i.e. the EU, the International Monetary Fund and the European Central Bank) reached an agreement on the final terms of a memorandum of understanding in order to implement the agreement. The financial assistance that Cyprus will be receiving is up to EUR 10 billion and is subject to a bank restructuring program. The memorandum was approved on 12 April 2013 and, subject to the completion of national procedures, the first inflow of funds will be in mid May. The package of measures is aimed to restore the soundness of the Cypriot banking sector, to correct the general government deficit, to increase the efficiency of public spending, to improve the functioning of the public sector and to support competiveness and sustainable and balanced growth. As of 31 December 2012 and the date of the approval of these financial statements, the Group's bank assets domiciled in Cyprus are not significant. On this basis, management does not anticipate any material impact on the future recovery of the Group's bank assets from the implementation of the agreed measures.

- 10 April: Petrolia SE sold NOK 10 million of outstanding bonds at par value plus accrued interests.
- 24 April: IO&R Ltd sold the workower rig for USD 5.5 million and at the same time hired it back under a 3 year bareboat charter.
- 29 April: regarding the Storbarden well. The drilling rig "Borgland Dolphin" has completed drilling of the main reservoir and the secondary target in the Storbarden well

in PL 506S in the North Sea. The well has not encountered hydrocarbons. Final data acquisition and analysis is currently ongoing after which the well will be plugged and abandoned.

EXISTENCE OF BANCHES

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

CHANGES IN SHARE CAPITAL

On 30 March 2012, Petrolia ASA issued 135,000,000 new shares of NOK0.04 each at a premium of NOK 0.51 each. Total issue proceeds amounted to NOK 74.250 million or USD 13.041 million.

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. 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 USD 1 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. 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.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2012 and at the date of this report are the following:

Berge Gerdt Larsen Erik Johan Frydenbø Sjur Storaas Unni Fossberg

On 26 October 2012, the date the cross-border merger between Petrolia ASA and Petrolia E&P Holdings Plc was completed, Mr. Demos Demou, Mr. Erwin Joseph Pierre Godec and Mr. Kjetil Forland resigned from the Company's Board of Directors.

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

INDEPENDENT AUDITOR

The independent auditor of the Company, Ernst & Young Cyprus Limited, who have been appointed by the Company during the year, have expressed their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting of the Company.

Limassol, 29th of April 2013

Berge Gerdt Larsen Chairman of the Board

Unni F. Tefre Board member

Erik Johan Frydenbø Board member



FINANCIAL STATEMENTS

Petrolia SE - Group

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)	Note	2012	2011
Continuing operations			
Revenue	3	102,893	83,862
Wage cost	20	-24,913	-21,005
Other operating expenses	12	-58,351	-34,351
EBITDA excluding exploration cost		19,629	28,506
Exploration cost		-9,230	0
EBITDA		10,399	28,506
Depreciation	4	-31,241	-40,862
Impairment of fixed assets	4	1,500	-4,115
Operating result		-19,342	-16,471
Result from investment in joint venture		0	-658
Result from associated companies	18	253	-8,402
Interest income	15	2,253	554
Financial income	15	5,281	2,310
Interest expenses	15	-6,634	-10,640
Financial expenses	15	-2,208	-8,209
Result before income taxes		-20,397	-41,517
Tax on result	14	13,199	24,854
Result for the year		-7,198	-16,663
Attributable to:			
Shareholders		-8,064	-17,387
Minority interests		866	724
		-7,198	-16,663
Earnings per share attributable to the equity holders (USD per share)			
Basic earnings per share (2011: adjusted)	13	-0.33	-1.60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in USD 1 000)	Note	2012	2011
Result for the year		-7,198	-16,663
Other comprehensive income:			
Currency translation differences		994	46
Total comprehensive income for the year		-6,204	-16,617
Attributable to:			
Owners of the parent		-7,077	-16,378
Minority interest		873	-239
Total comprehensive income for the year		-6,204	-16,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

ASSETS (Amounts in USD 1 000)	Note	2012	2011
Non-current assets			
Goodwill	4	1,947	0
Exploration costs and licences	4	3,741	0
Land rigs	4	13,360	0
OilService and other equipment	4	62,881	79,388
Land and buildings	4	2,117	2,281
Investment in associated companies	18	4,246	5,727
Other financial assets	18	5,410	1,202
Deferred tax assets	14	15,727	20,297
Restricted cash	5	14,671	8,517
Total non-current assets	•	124,100	117,412
Current assets			
Inventory		1,271	987
Tax receivables		13,199	1,830
Trade receivables	6	38,968	27,251
Other current receivables	6	29,726	11,619
Financial assets at fair value through profit and loss	16	12,455	15,779
Investment in money market fund		0	15
Free cash	5	7,827	18,920
Restricted cash	5	396	5,397
Total current assets		103,842	81,797
TOTAL ASSETS		227,942	199,209

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31.12

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2012	2011
Equity			
Share capital	21	27,236	1,226
Own shares		-47	-2,153
Other equity		60,258	82,410
Majority interests		87,447	81,483
Minority interests		3,131	2,615
Total equity		90,578	84,098
Liabilities			
Non-current liabilities			
Bond loans	9	53,625	0
Pension liability		328	267
Other non-current liabilities	10	4,827	7,485
Deferred tax liability	14	15,727	20,297
		74,507	28,049
Current liabilities			
Short term portion of non-current liabilities	9,10	10,820	43,208
Trade payables	11	22,132	24,099
Provisions	11	11,848	3,948
Other current liabilities	11	14,230	15,807
Bank loan	11	3,827	0
		62,857	87,062
Total liabilities		137,364	115,111
TOTAL EQUITY AND LIABILITIES	•	227,942	199,209

Berge Gerdt Larsen Chairman of the Board Limassol, 29th of April 2013

Unni F. Tefre Board member

Mini F. Tefre

Board member

Eval Et sycholo Erik Johan Frydenbø

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the Company's shareholders. Refer also to note 21.

(Amounts in USD 1 000)	Share capital	Own shares	Share pre- mium	Reorganisa- tion reserve	Other reserves	Currency translation	Minority interests	Total equity
Equity 1st of January 2011	93,568	-2,153	45,232		-48,192	3,941	2,854	95,248
Comprehensive income	•		•••••••••••••••••••••••••••••••••••••••	•••••••••••••••••••••••••••••••••••••••	•	•		•••••••••••••••••••••••••••••••••••••••
Profit or loss			-51,888		34,501		724	-16,663
Currency translation differences	*****************		• • • • • • • • • • • • • • • • • •		***************************************	1,009	-963	46
Total comprehensive income	*************************		-51,888		34,501	1,009	-239	-16,617
Transactions with owners	***************************************	•••••••••••••••••••••••••••••••••••••••	• • • • • • • • • • • • • • • • • • • •		•••••••••••	• • • • • • • • • • • • • • • • • • • •		
Par value changed from NOK 5.00 to NOK 0.04	-92,820				92,820			0
Capital increase	478	• • • • • • • • • • • • • • • • • • • •	6,656		-1,666	• • • • • • • • • • • • • • • • • • • •		5,468
Total transactions with owners	-92,342	• • • • • • • • • • • • • • • • • • • •	6,656		91,154	• • • • • • • • • • • • • • • • • • • •		5,468
Equity 31st of December 2011	1,226	-2,153	0		77,460	4,950	2,615	84,098
Comprehensive income		•	•	••••••	•	•		
Profit or loss					-8,064		866	-7,198
Other comprehensive income								
Currency translation differences						987	7	994
Total comprehensive income					-8,064	987	873	-6,204
Transactions with owners								
Minority interest arrising on business combination							-357	-357
Capital increase (rig merger)	948	•••••••••••••••••••••••••••••••••••••••	12,093	•	•••••••••••••••••••••••••••••••••••••••	• • • • • • • • • • • • • • • • • • • •		13,041
Cyprus merger	25,062	2,106	-12,093	-15,075	•••••••••••	••••••••••••		0
Total transactions with owners	26,010	2,106	0	-15,075			-357	12,684
Equity 31st of December 2012	27,236	-47	0	-15,075	69,396	5,937	3,131	90,578

On 30 December 2011 the general meeting resolved to issue 135,000,000 new shares (rig merger). 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, 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 of December 2012 and 2011 (adjusted for the Cyprus merger) the Company owns 47,274 (0.17 per cent) 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	2012	2011
Cash flows from operating activities			
Result before taxes		-20,397	-41,517
Profit from sold equipment		-1,708	-1,828
Depreciation	4	31,241	40,862
Impairment of drilling equipment	4	-1,500	4,115
Interest income	15	-2,253	-554
Change in financial assets at fair value through profit or loss	15	-3,771	0
Interest financial leasing	15	674	1,284
Interest expenses bonds	15	5,960	8,914
Change in net pension liability		61	-40
Change in inventory		-284	134
Change in trade receivables		-11,717	-11,378
Change in other current receivables		2,051	-4,543
Change in trade payables		-6,494	7,554
Change in provisions		7,900	-5,552
Change in other current liabilities		2,250	-12,677
Change in other non/current liabilities		2,043	0
Result from investment in joint venture	17	0	658
Result from investment in associated companies	18	-253	8,402
Tax received		1,830	0
Other, incl unrealised foreign currency loss/gain		1,948	305
Net cash generated from/(used in) operating activities		7,581	-5,861
Cash flows from investing activities			
Exploration costs		-3,741	0
Purchase of operating equipment	4	-14,731	-20,593
Sale of equipment		1,760	2,298
Acquisition of a subsidiary, net cash acquired	17	146	0
Dividends from and consolidating Venture Drilling AS		0	86,786
Sold shares in Deepwater Driller Ltd	18	0	34,500
Loan granted	18	-977	0
Investment in Assosiates	18	-1,498	-11,456
Investments in listed shares		8,175	-15,171
Interest received		367	554
Other financial investments		0	-1,201
Net cash generated from/(used in) investing activities		-10,499	75,717
Cash flows from financing activities			
Repurchase and repayment of bond loan		3,354	-54,589
Leasing instalments	8	-9,777	-9,043
Interest paid on bond loans	15	-5,960	-8,914
Bank loan		3,827	0
Loan obtained from shareholder / Increased capital		700	5,467
Net cash generated from/(used in) financing activities		-7,856	-67,079
Net cash flow of the period		-10,774	2,777
Free cash and cash equivalents at the beginning of the period	5	18,997	16,220
Free cash balance at December 31	5	8,223	18,997
Specification of cash and cash equivalents at period end			
Bank deposits	5	8,223	18,997
Whereof restricted bank accounts is	5	396	77

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia SE - Group

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,

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 2013 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 13th of March, 1997) and Petrolia E&P Holdings Plc. The consolidated financial statements for the accounting year 2012 comprise the Company and its subsidiaries and the Group's share of associated companies and is prepared as a continuation of the previous Petrolia ASA acounts.

The Company is listed on the Oslo Stock Exchange with ticker "PDR" and ISIN "CY 010 263 0916".

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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement 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 despite the fact that the Group continued to report negative results during the year ended 31 December 2012. The Group's operating loss for the year amounted to USD 19.3m (2011: loss of USD 16.5m) and the net loss after tax amounted to USD 7.2m (2011: loss of USD 16.7m). Following the reduction in free cash held at year-end (USD 7.8m compared to USD 18.9m as at the end of 2011) and further to the Group's buy-back of its bond loan of USD 18.2m during January 2013 (Note 22), the Group needs to explore additional financing alternatives in order to secure sufficient cash flow for servicing its working capital needs and other financial liabilities as described in Note 8. The Group's management remains positive to the Group's ability to obtain sufficient finance. The above conditions indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012.

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
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

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 its associate, an entity 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 its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate 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.

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 yearend 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 is recognized as part of the total gains and losses. Exchange differences on equities classified as available for sale, included in the change in value 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 at the date of that balance sheet
- income and expenses in each income statement are translated at average exchange rates of 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. The sale of all or part of foreign operations reclassified the related exchange differences from the expanded result and the result as part of the gain or loss on the sale. 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 meassured, 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 mobilization of equipment and personnel. Mobilization fees received and costs incurred to mobilize a drilling unit are recognized 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, EVALU-ATION 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 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 untill 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 recognized 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, availablefor-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 though 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

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 (cashgenerating 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 pastservice 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 22.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

Standards issued but not yet effective and not early adopted

- (i) Issued by the IASB and adopted by the European Union
- IAS 1 Financial Statement Presentation (Amended) - Presentation of Items of Other Comprehensive Income

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The Group is yet to asses IAS 1's full impact and intends to adopt IAS 1 no later than the accounting period beginning on or after 1 January 2013.

· IAS 19 Employee Benefits (Revised)

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is yet to assess IAS 19's full impact and intends to adobt IAS 19 no later than the accounting period beginning on or after 1 January 2013.

· IAS 28 Investments in Associates and Joint Ventures (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 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 is yet to asses IAS 28's full impact and intends to adopt IAS 28 no later than the accounting period beginning on or after 1 January 2014. IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is yet to asses IAS 32's full impact and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.

• IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group is yet to asses IFRS 7's full impact and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2013.

· IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is yet to asses IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.

· IFRS 11 Joint Arrangements

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is yet to asses IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014.

• IFRS 12 Disclosures of Interests in Other

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 12 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. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is yet to asses IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

· IFRS 13 Fair Value Measurement

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013, and expects no impact.

• IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation applies to waste removal (stripping costs) incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The Group is yet to asses IFRIC 20's full impact and intends to adopt IFRIC 20 no later than the accounting period beginning on or after 1 January 2013.

· The IASB has issued the Annual Improvements to IFRSs - 2009 - 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but nonurgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. The Group intends to adopt Annual Improvements to IFRSs no later than the accounting period beginning on or after 1 january 2013, and expects no impact.

- IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- IAS 16 Property, Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- · IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. 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. This guidance has not yet been endorsed by the EU. 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 2013.

Issued by the IASB but not yet adopted by the European Union

• IFRS 9 Financial Instruments: Classification and Measurement

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9, as issued, reflects the first phase of the IASBs 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 mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. This standard has not yet been endorsed by the EU.

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

The amendment is 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 amendment also sets out disclosure requirements for investment entities. This amendment has not yet been endorsed by the EU.

NOTES - GROUP

to the consolidated financial statements

NOTE 1 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 note 4.

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 have suffered any impairment. An impairment loss is recognized 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 recognizes 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

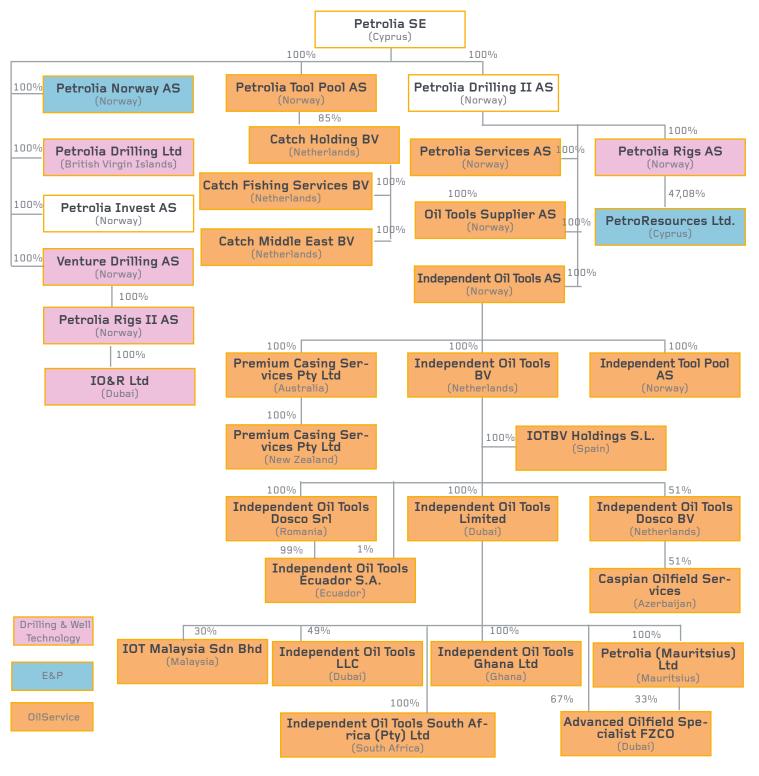
Depreciation of rigs and drilling equipment is computed using the straight line method over estimated useful lives. The depreciable amount is determined without taking into account any residual value of the asset. The cost of rigs has been categorised separately by its main components, and useful lives 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 the rigs could change, resulting in different depreciation amounts in the future.

NOTE 2 ORGANISATION

$\label{thm:companies} \mbox{Summary of the companies of the Group:}$

As at 31.12.2012 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.
IOT-DOSCO Srì	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.
Advanced Oilfield Specialists FZCO	Jebel Ali Free Zone (Dubai). OilService.
IOTBV Holdings S.L.	Spain. Investment company
Independent Oil Tools Ecuador S.A.	Ecuador. OilService.
Associated companies (equity method)	
Petroresources Ltd	Cyprus. Exploration & Production
IOT Malaysia Sdn Bhd	Malaysia. OilService.



NOTE 3 SEGMENT INFORMATION

IN 2012 AND 2011 ACTIVITY HAS PRIMARILY BEEN IN THE OILSERVICE SEGMENT

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

In the accounts of 2011, the OilService segment dominate the numbers completely. The activity within this segment is homogenous and is managed as one business and management focus on the Group result for internal

review purposes.

During 2012 activities in the E&P segment and in the Drilling & Well Technology segment have increased and the segment information is updated to reflect such change.

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

Revenue (amounts in USD 1 000)	2012	2011
Norway	21,030	27,472
Europe outside Norway	37,453	31,836
Asia and Australia	26,760	15,538
Other countries	17,650	9,016
Total	102,893	83,862

Non-current tangible assets (amounts in USD 1 000)	2012	2011
Norway	6,424	5,824
Europe outside Norway	8,337	9,489
Asia and Australia	4,250	9,968
Other countries	59,347	56,388
Total	78,358	81,669

Revenue

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

Geographic allocation

Geographic allocation is primarily based on where the companies are domiciled. Venture Drilling AS, Petrolia Tool Pool AS, Independent Tool Pool AS and Oil Tools Supplier AS (formerly Petrolia Services AS) are allocated as Other countries, because they operate globally.

Major customers

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

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

2011 KEY FIGURES PER SEGMENT

Amounts in USD 1 000	Oil & Gas	Drilling & well technology	OilService	Total
Revenue			83,862	83,862
EBITDA			28,506	28,506
Depreciation			40,862	40,862
Impairment			4,115	4,115
Result from associated companies			-8,402	-8,402
Tax			24,854	24,854
Result			-16,663	-16,663
Rental equipment, land rigs, exploration cost and licences			79,388	79,388
Property			2,281	2,281
Addition (Capex)			47,432	47,432

NOTE 4 NON-CURRENT ASSETS

(amounts in USD 1 000)	OilService and other	Land and buildings	Land rigs	Exploration cost and licences	Goodwill	Total
Per 1 January 2011	equipment			licerices		
Acquisition cost	233,787	2,464				236,251
Accumulated impairment	-13,264	2,101				-13,264
Accumulated depreciation	-133,762	-220				-133,982
Book value 01.01.11	86,761	2,245	0	0	0	89,006
Accounting year 2011	***************************************	•••••	•••••	•••••	••••••••••••	
Book value 01.01.11	86,761	2,245				89,006
Translation differences	-749	-96				-848
Additions including leased equipment	32,718	514				33,232
Consolidation Venture Drilling AS	14,202					14,202
Disposal	-18,351					-18,351
Depreciation of the year	-40,481	-381				-40,862
Impairment	-4,115					-4,115
Consolidation Venture Drilling AS	-1,978					-1,978
Disposal of depreciation	6,278					6,278
Disposal of impairment	5,103					5,103
Book value 31.12.11	79,388	2,281	0	0	0	81,669
Per 31 December 2011						
Acquisition cost	262,356	2,979				265,335
Accumulated impairment	-12,276					-12,276
Accumulated depreciation	-170,692	-697		••••	• • • • • • • • • • • • • • • • • • • •	-171,389
Book value 31.12.11 Accounting year 2012	79,388	2,281	0	0	0	81,669
Book value 01.01.12	79,388	2,281				81,669
Translation differences	-1,127	-139				-1,266
Additions including leased equipment	12,000	10	2,721	3,741	1,947	20,419
Rigs merger	1,993		11,024			13,017
Disposal	-163					-163
Depreciation of the year	-30,821	-35	-385			-31,241
Impairment	1,500					1,500
Disposal of depreciation	111					111
Book value 31.12.12	62,881	2,117	13,360	3,741	1,947	84,046
Per 31 December 2012	***************************************	•••••	••••	••••	***************************************	
Acquisition cost	276,186	2,989	13,745	3,741	1,947	298,608
Accumulated impairment	-10,776					-10,776
Accumulated depreciation	-202,529	-872	-385			-203,786
Book value 31.12.12	62,881	2,117	13,360	3,741	1,947	84,046
Depreciation period	5 year	33 year	12 year			
Residual value	0	0	0	0	0	0

70,867

-26,342

44,525

33,292

Additions

Through the rig merger two land rigs were acquired. The drilling rig has been completed and is on contract whereas the workover rig will be completed once a contract is secured.

Petrolia Norway AS purchased 30% of the licences PL 506S, PL 506BS, PL 506CS and PL 506DS.

Impairment of fixed assets

Accounting year 2010

Book value 01.01.2011

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 reveral therefore puts back a carried value to the disputed equipment based on its assumed value in use. In 2011 impairments were USD 4.1 million.

Market capitilisation of the Group is significantly lower than its equity and indicates 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 indicated need for more impairment charges and the low market capitalisation is considered to be due to reasons other than impairment issues.

Goodwill

The purchase of 85 per cent of Catch Holding BV on 8 February 2012 (refer to Note 17) 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.

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.

LEASED EQUIPMENT (INCLUDED IN DRILLING EQUIPMENT ABOVE)

Per 1st of January 2010 Acquisition cost – financial leases Accumulated depreciation Book value per 01.01.2010

Book value 01.01.2010	44,525
Addition	6
Depreciation of the year	-13,502
Translation differences	2,263

Book value 31.12.2010	33,292
	• • • • • • • • • • • • • • • • • • • •
Accounting year 2011	

Addition	846
Depreciation of the year	-12,999
Translation differences	-3,204

Translation differences	-3,204
Book value 31.12.2011	17,935

Accounting year 2012	
Book value 01.01.2012	17,935
Addition	2,503
Depreciation of the year	-10,880

Book value 31.12.2012	9,537
 Translation differences	-21
Depreciation of the year	-10,880

NOTE 5 BANK DEPOSITS

(amounts in USD 1 000)	2012	2011
Bank deposits	22,894	32,834
Hereof deposits restricted		
Connected to the bond loan in Petrolia SE	5,880	
Connected to the sale of shares in Deepwater Driller Ltd	3,002	3,000
Connected to sale of equipment	2,200	2,200
Connected to legal claims	3,589	3,317
Sum non-current	14,671	8,517
Connected to the bond loan in Petrolia SE		5,320
Employees' tax deduction	396	77
Sum current	396	5,397
Total restricted capital	15,067	13,914
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash and bank deposits in NOK	11,932	18,670
Cash and bank deposits in USD	8,757	11,638
Cash and bank deposits in AED	46	8
Cash and bank deposits in GBP	35	48
Cash and bank deposits in EUR	-150	810
Cash and bank deposits in NZD	136	48
Cash and bank deposits in RON	651	379
Cash and bank deposits in AZN	20	50
Cash and bank deposits in ZAR	615	
Cash and bank deposits in GHS	147	
Cash and bank deposits in AUD	705	1,182
Total	22,894	32,834

NOTE 6 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1 000)	2012	2011
Trade receivables *	38,968	27,251
Other current receivables **	29,726	11,619
Total	68,694	38,870

^{*)} Trade receivables were impaired with USD 30,016 in 2010. In 2011 impairment was reversed with USD 7,584 and in 2012 impairment was increased with USD 547. Refer also to note 8.

^{**)} 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 of the receivable due by the third party. Refer to Note 22.

Aging of trade receivables	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	11,090	6,335	15,760	1,771	4,012	38,968
Total	•	•				38,968

Other current receivables have been exempted in the above profile.



NOTE 7 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, 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)	2012	2011
Total liabilities	137,364	115,111
Equity of majority	87,447	81,483
Debt ratio	1.57	1.41

NOTE 8 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The Group uses financial instruments such as bond 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 2011 and 2012 the Group has invested in shares listed on the Oslo Stock Exchange.

Profit and loss effects from financial instruments are interest income and expenses on Impairment on financial instruments conin note 6 and under Credit risk below. The Group's activities expose it to a va-

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 15. cerns trade receivables and are disclosed

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 6.

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 6.

Interest rate risk

The Group is exposed to interest rate risk through its financing activities (refer to notes 9 and 10). 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 31.12.2012 the Group's bond loan has fixed interest, while the lease obligation is subject to floating rate of interest.

riety of financial risks: interest rate risk,

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
2012	+50	+73	+73
2011	+50	+36	+36

Further information regarding the interest rate conditions of the Group's financing is given in note 9.

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 credit risk is to have sufficient liquidities 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 31.12.2012.

As at 31st of December 2011	< 1 year	1-5 years	> 5 years	Total
Trade payables	24,099	0	0	24,099
Bond loans (incl interest)	60,936	0	0	60,936
Other long-term debt (incl interest)	7,485	9,000	0	16,485
Provisions and other liabilities	19,755	0	0	19,755
Total	112,275	9,000	0	121,275
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 is currently exploring various fund raising alternatives in order to secure sufficient cash flow for servicing its working capital needs and other financial liabilities arising mainly from its bond loan obligations and legal obligations as described in Note 11. Financing alternatives currently explored

include: (i) obtaining additional banking facilities and/or reviewing existing ones including the re-finance of the IOT group, (ii) the sale and leaseback of assets (refer to note 22, where it is stated that on 24 April 2013 the Group proceeded with the sale and leaseback of its work-over rig for USD 5.5m), (iii) the sale of certain equipment, such as the equipment related to the drillship Venture Drilling (expected to bring additional liquidity of USD 7.8m), (iv) sale of own bonds by offering secured put options to the prospective buyers and (v) take specific actions to free up restricted cash earlier.

The Board of Directors remains positive to the Group's ability to obtain sufficient financing and believe that it is appropriate that the financial statements be prepared on a going concern basis.

The Group's long term financing is mainly related to bond loan of NOK 344.5 million which falls due in June 2015.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NOK. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the Group has mainly income and operating expenses in USD while parts of the financing is nominated in NOK.

As at31 December 2012 the Group had

NOK 344.5 million (of which NOK 23 million is owned by the Group, leaving NOK 321.5 million as net) in bond loan nominated in NOK. As at 31 December 2011 the Group had NOK 344.5 million (NOK 205 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. The revenues and the operating costs in the OilService segment are mainly in USD and the leasing debt raised to finance the equipment is therefore also nominated in USD.

As at 31December 2012, the Group had USD 61.1 million net debt nominated in NOK, while the corresponding figure for 2011 was USD 35.8 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
2011	5 %	1,629	1,629
	-5 %	-1,800	-1,800
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 2012 was USD 12.5 million.

Bond loan - fair value	2012	2011
Net outstanding, mNOK	321.5	205
Book value	57,757	34,208
Fair value	56,602	32,498
www.nfmf.no	98%	95%

NOTE 9 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	2012	2011
Gross outstanding, mNOK Bond loan	ISIN: NO 001044025.8 - 12% Petrolia Drilling ASA	12.00%	13.27%	344.5 61,889	344.5 57,487
Of which Group owns	(mNOK 23.0 / 139.5)			4,132	23,278
Book value 31.12.	Net (mNOK 321.5 / 205.0)	•	•	57,757	34,208

Split between long term and short term portion of bond loan 31.12.2011:	Long term portion	Short term portion	Total bond loan
Net Bond loan (mNOK 205)	0	34,208	34,208
Book value 31.12.	0	34,208	34,208

Split between long term and short term portion of bond loan 31.12.2012:	Long term portion	Short term portion	Total bond loan
5 () () () () ()	50.005	4.400	
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 PDR 04. $(http://www.osloabm.no/abm_eng/markedsaktivitet/bondOverviewPro?newt_ticker=PDR04+PRO)\\$

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

Exchange rate as at 31 December 2012 for NOK/USD was 5.5664 compared to 5.9927 as at 31 December 2011.



BOOK VALUE OF MORTGAGE

Bond loan mNOK 344.5 is subject to security in bank deposit.	2012	2011
Bond Ioan mNOK 344.5		
Restricted bank deposit (9 months interests)	5,570	5,320
Total book value of mortgage	5,570	5,320

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

MATURITY

Maturity structure gross bond loans:	2013	2014	2015	Total
Instalment (mNOK 321.5)			49,493	49,493
Committed repurchase (mNOK 23.0)	4,132	4,132		8,264
Interest	6,683	6,187	2,970	15,840
Tota1	10,815	10,319	52,463	73,597

The Group has committed to re-purchase NOK 23 million on 20 June 2013 and 20 June 2014, both at 99% of par value. The remaining instalment on the bond loan is due in June 2015.

BORROWING TERMS

Bond loan mNOK 344.5 in Petrolia SE

Petrolia has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 20th June 2011 till the expiry of the term of the loan	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. There is no breach in the borrowing terms as at 31.12.2012.

NOTE 10 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2012	2011
Liability connected to financial leasing of drilling equipment	2,784	7.485
Other	2,043	7,403
Total other non-current liablities	4,827	7,485

FINANCIAL LEASING LIABILITY ON DRILLING EQUIPMENT

The payment schedule is (amounts in USD 1 000):	2012	2011
Falling due within 1 year	6,688	9,000
Falling due between 1 and 5 years	2,784	7,485
Total	9,472	16,485

Book value of assets financed through financial leasing amounts to USD 9.5 million. Refer also to note 4. Petrolia SE has given security towards the leasing company at a value of USD 65.5 million.

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1 000)	Minimum pay- ments	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 11 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Current liabilities (amounts in USD 1 000)	2012	2011
Trade payables	22,132	24,099
Total trade payables	22,132	24,099
Other current liabilities and provisions		
Provisions	11,848	3,948
Public duties	843	819
Bank loan	3,827	0
Other current liabilities	13,387	14,988
Total other current liabilities and provisions	29,905	19,755
Total trade payables, other current liabilities and provisions	52,037	43,854
Changes in Provisions		
As at 01.01	3,948	9,500
Used	0	-4,293
Reversed	0	-2,500
Added	7,900	1,240
As at 31.12	11,848	3,948

DISPUTED ITEMS

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

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 NOK 245 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 will appeal against the decision to the Court of Appeal.

In the dispute with the Petrojack estate, Petrolia SE received a writ of summons on 8 March 2011 in which the estate submits a claim of up to NOK 32.9 million related to an agreement dated 31 July 2009 between Petrojack and Petrolia Services pursuant to which Petrolia Services purchased certain drilling equipment from Petrojack. The estate challenges Petrolia Services' acquisition based on its view that the transaction was in reality settlement for older debt Petrojack had to Petrolia, and alleges that the transferred drilling equipment is subject to claw back. The writ of summons is addressed to Petrolia SE even though Petrolia Services AS was the purchaser of the equipment. Court hearings were held in October 2011 and according to a ruling of the Oslo Office of the City Recorder (in Norwegian: Oslo Byfogdembete), Petrolia was ordered to pay NOK 18 million to the Petrojack estate. Both parties have appealed the ruling. New hearings will be held on 29 October 2013 before the Borgarting Appeal Court.

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

In the opinion of the management the maximum exposure of the claims is USD 11.8 million as at 31 December 2012 and this has been fully provided for.

BANK LOAN

Petrolia Invest AS has entered into a short term bank facility of NOK 21.3 million (USD 3.8 million). The bank facility is secured by (i) bonds of NOK 23 million has been mortgaged and (ii) 5,800 DNO shares (reduced to 3,800 shares after the reporting date) have been mortgaged. The loan is repayable on 26 September 2013 and its interest rate is NIBOR +4% per annum.

NOTE 12 SPECIFICATION OF OTHER OPERATING EXPENSES

The amounts are exclusive of value added tax.

r operating expenses comprise the following main items Note		2012	2011
(amounts in USD 1 000):			
Fees to external advisors, lawyers, auditors		3,894	351
Cost of goods sold		7,937	9,694
Impairment customers	6	547	-7,584
Other operating expenses		45,973	31,890
Total other operating expenses		58,351	34,351

AUDITORS FEE

Other services Total auditor's fee	• • • • • • • • • • • • • • • • • • • •	142	131
Tax assistance		33	18
Audit		900	566
Recognised fee for auditors of the group and other auditors (amounts in USD 1 000):		2012	2011

NOTE 13 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earnings per share)	2012	2011*
Average no. of shares (weighted using Brreg date)	24,284,310	10,874,152
No. of shares at period end	27,235,867	15,044,700
Fully diluted no. of shares	27,235,867	15,044,700
Basic earnings per average no. of shares		
From continuing operations	-0.33	-1.60
*) 2011: adjusted for the Cyprus merger (reverse split 11.10547)	-0.33	-1.60

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

On 2 September 2011 the Board of Directors resolved to use its proxy to issue 15,188,951 new shares as a private placement towards employees and board. The new capital was recorded at www.brreg.no on 10 October 2011.

On 27 June 2011 the Board of Directors resolved to use its proxy to issue 50,629,837 new shares as a Rights Issue. The new capital was recorded at www.brreg.no on 6 September 2011.



NOTE 14 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1 000)	2012	2011
Result before tax charges	-20,397	-41,517
Tax calculated at domestic tax rates applicable to profits in respective countries (10% for parent company)	0	0
Non-taxable impairment	1,500	-2,124
Tax on non deductable differences	150	729
Change deferred tax asset	0	-20,297
Tax refund, exploration costs	-13,199	-2,199
Other	-1,650	-963
Tax refundable	-13,199	-24,854

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.

Calculation of deferred tax asset (amounts in USD 1 000)	2012	2011
Non-current assets	-1,401	-9,239
Current assets	-23,728	-22,876
Pension	-286	-267
Profit and loss account	-14,678	-17,042
Net temporary differences	-40,093	-49,423
Carry forward loss	-88,269	-100,579
Basis for deferred tax asset	-128,362	-150,002
Deferred tax asset at nominal tax rates	35,941	42,001
Carried tax asset	15,727	20,297
Carried tax liability	15,727	20,297

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

The Group expect to utilise tax losses carried forward of USD 56,168 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 15 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2012	2011
Interest income		
	207	554
Interest income from current bank deposits	367	554
Other interest income	1,886	
	2,253	554
Financial income		
Foreign exchange gain - net	1,470	0
Profit from own Bonds	0	2,310
Other financial income	40	0
Value change shares at fair value through profit and loss	3,771	0
	5,281	2,310
Interest expenses		
Interest expenses bonds	5,960	8,914
Other interest expense	0	442
Interest financial leasing	674	1,284
	6,634	10,640
Financial expenses		
Value change shares at fair value through profit and loss	0	896
Fee 1%, extended maturity bond loan	639	0
Foreign exchange loss - net	0	5,785
Other financial expenses	1,569	1,528
	2,208	8,209
Net finance	-1 308	-15,985

NOTE 16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 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

Financial assets at fair value through profit or loss (amounts in USD 1 000)	2012	2011
DNO, shares	6,968,200	11,176,126
DNO, total shares	1,023,279,255	949,856,912
DNO, % owned	0.68%	1.18%
RGT, shares	2,831,315	32,452,490
RGT, total shares	87,055,500	348,221,787
RGT, % owned	3.25%	9.32%
DNO, market value (NOK 9.47 / USD 1.7012) (NOK 7.575 / USD 1.264)	11,855	14,127
RGT, market value (NOK 1.18 / USD 0.2119) (NOK 0.305 / USD 0.051)	600	1,652
Fair Value / Carried value	12,455	15,779

NOTE 17 BUSINESS COMBINATION

In 2012 two business combinations took place: (1) Catch acquisition and (2) Rig merger. The table on the next page 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 4. 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 deductable 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 Enterprices, 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 18 ASSOCIATED COMPANIES AND OTHER FINANCIAL **ASSETS**

PETRORESOURCES LTD

Petrolia has invested USD 13 million in Petroresources Ltd and controlled 47.08 % of the company as at 31.12.2012.

TM DRILL

Petrolia has invested USD 5.5 million in Foraj Sonde SA Ernei (forst Foraj Sonde TG. Mures), "TM Drill", and as at 31.12.2012 owns 19.66%. In 2011 Petrolia had an option to acquire more shares increasing the holding up to a total of 49%. Consequently the investment was reported as an associated

company in 2011. In 2012 the company is reported as a non-current financial asset.

The company is listed on the Romanian stock exchange:

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

TM Drill is the operator of the drilling land rigs recently acquired by the Group and is also a customer in the oilfield services segment.

OTHER FINANCIAL ASSETS

The Group has invested USD 1.2 million in Exai AS in 2011. Exai 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 interests at 6% per annum and is accrued to the balance. Final maturity is 31 December 2015.

Calculation of values in the balance sheet	Other	TM Drill	Total	TM Drill	Petroresources Ltd	Total
(amounts in USD 1 000)	Other financial asset	Other financial asset	Other financial asset	Associated	Associated	Associated
Book value per 01.01.2011				0	2,674	37,174
Addition of the year	1,202		1,202	5,542	5,914	11,456
Disposal of the year				0		34,500
Share of result of the year				0	-6,802	-6,802
Impairment of shares				-1,600	0	1,600
Book value per 31.12.2011	1,202		1,202	3,941	1,786	5,727
Addition of the year	976		976	0	1,498	1,498
Share of result of the year				-709	-38	-747
Reversal of impairment					1,000	1,000
Transfered to Other finan- cial assets		3,232	3,232	-3,232		-3,232
Book value per 31.12.2012	2,178	3,232	5,410	0	4,246	4,246

Petroresources Ltd has in 2011 made impairments of USD 21 million primarily connected to its economic interests in E&P assets in Aftica.

Company	Incorporated in	Assets	Liabilities	Revenue	Profit /(Loss)	Shareholding
Petroresources Ltd	Limassol, Cyprus					
2012 2011		9,823 10,923	526 44	0	-84 -21,114	47.08% 46.43%
TM Drill	Ernei, Romania					
2011		50,728	32,692	33,613	792	19.66%

NOTE 19 RELATED PARTIES

LARSEN OIL & GAS AS (LOG AS)

The Company has an office-support agreement with LOG AS, controlled by Mr. Berge Gerdt Larsen, Chair of the Board. The annual cost coverage is NOK 2.5 million.

As at 31 December 2012 the Group had a short term loan of USD 0.7 million from LOG AS. The loan carries no interest and is included in other current liabilities.

KVER AS

An office-lease agreement has been signed with Kver AS, controlled by Mr. Berge Gerdt Larsen. Annual office rent is NOK 1.1 million.

ERIK FRYDENBØ

The Company has entered into a consultancy agreement with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 108.000 with 2 months termination to assist with legal matters.

INDEPENDENT OIL & RESOURCES ASA (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. It is not expected that the acquisition will result in any recognition of goodwill. Upon completion of the merger IOTA's ownership in the Company will increase 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 General manager 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.

NOTE 20 WAGES

Wage costs (amounts in USD 1 000)	2012	2011
Salary (incl social security)	24,137	19,378
Pension costs (Norway)	302	230
Other contributions	474	1,397
Total	24,913	21,005

The Group had 339 employees as at the end of 2012. No loan or guarantees have been granted to the Board of Directors, employees or other related parties.

Demos Demou (14 September 2012), Finance Manager, Cyprus	SU	
Pierre Godec (14 September 2012-), General Manager, Cyprus	37	
Sølve Nilsen (1st October 2010 -), Finance Manager, Norway	240	185
Kjetil Forland (18th of January 2011 -), General Manager, Norway	473	385
Ørnulf Samdal, invoiced (21st of April 2010 to 18th of January 2011)		26
Remuneration and benefits General Manager and Finance Manager (amounts in USD 1 000)	2012	2011

The following fee has been paid to the members of the board (amounts in USD $1\ 000$):	2012	2011
Unni Tefre - Board member	34	36
Erik Frydenbø - Board member, Audit committee	42	36
Berge Gerdt Larsen- Chairman of the board	34	36
Marit Kristin Instanes - Board member (19th of April 2010 - 20th of October 2011)	11	36
Sjur Storaas - Board member (includes advance for 2012/2013, Audit committee)	29	70
Total	150	214

NOTE 21 SHARE CAPITAL

Share capital of Petrolia SE as at 31.12.2012: (amounts in USD 1 000)	Number	Nominal value	Book value 2012	Book value 2011
Shares	27,235,867	USD 1.00	USD 27,236	USD 1,226

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.

On 2 September 2011 the Board of Directors resolved to use its proxy to issue 15,188,951 new shares. The new capital was recorded at www.brreg.no on 10 October 2011.

On 27 June 2011 the Board of Directors resolved to use its proxy to issue 50,629,837 new shares. The new capital was recorded at www.brreg.no on 6 September 2011.

As at 31 December actual number of shares was:

2011: 167,078,463 • 2012: 27,235,867

TREASURY SHARES

As at 31 December 2012 and 2011 (adjusted) 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 4,189 shareholders as at 31 December 2012. The tables below shows the Company's 20 largest shareholders as at 31 December 2012 and as at 25 April 2013 according to the VPS (shares with nominal value USD 1.00):

	Shareholders 31 December 2012	No. of shares	Shareholding
			42.42.4
1	INDEPENDENT OIL & RESOURCES ASA	13 381 639	49.13 %
2	LARSEN OIL & GAS AS	5 691 097	20.90 %
3	Ф. H. HOLDING AS	1 416 492	5.20 %
4	NET AS	508 816	1.87 %
5	OLE TROMMESTAD	283 113	1.04 %
6	ELEKTROLAND NORGE AS	170 893	0.63 %
7	SERIOUS AS	164 971	0.61 %
8	SILVERCOIN INDUSTRIES AS	148 752	0.55 %
9	KETIL TOSKA	116 145	0.43 %
10	ONYX AS	91 846	0.34 %
11	VIDAR BERGO LARSEN	90 045	0.33 %
12	ASKELADDEN INVEST AS	74 740	0.27 %
13	FORLAND HOLDING	70 134	0.26 %
14	JON HANSTVEIT	66 361	0.24 %
15	HEDEN HOLDING AS	64 646	0.24 %
16	HAAKON MORTEN SÆTER	64 577	0.24 %
17	DANSKE BANK A/S	60 251	0.22 %
18	TORBEN HALVORSEN	54 027	0.20 %
19	ROLF ARILD OLSEN	51 263	0.19 %
20	STANDARD ELEKTRO AS	50 000	0.18 %
	Others	4 568 785	16.77%
Total no	o. of shares before treasury shares		99.83%
	ry shares		
	o. of shares		4.00.000/

	Shareholders 25 April 2013	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	1 267 536	4,65 %
4	OLE TROMMESTAD	264 729	0,97 %
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	VIDAR BERGO LARSEN	105 156	0,39 %
10	FORLAND HOLDING	101 464	0,37 %
11	ROLF ARILD OLSEN	100 075	0,37 %
12	ONYX AS	91 846	0,34 %
13	JON HANSTVEIT	81 803	0,30 %
14	ASKELADDEN INVEST AS	74 740	0,27 %
15	DANSKE BANK A/S	70 888	0,26 %
16	HEDEN HOLDING AS	64 646	0,24 %
17	SIX-SEVEN AS	58 650	0,22 %
18	KETIL TOSKA	56 145	0,21 %
19	TORBEN HALVORSEN	54 027	0,20 %
20	NORDEA BANK DENMARK AS	50 438	0,19 %
	Others	4 436 967	16,29 %
Total no	of shares before treasury shares	27 188 593	99.83%
	y shares	17 271	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	Shares	Options
Members of the board and management as at:	31 December 2012	31 December 2012	25 April 2013	25 April 2013
Berge Gerdt Larsen, Chairman of the Board 1)	0	0	0	0
Unni F. Tefre, Board member	9,004	0	9,004	0
Erik Johan Frydenbø, Board member	45,202	0	45,202	0
Sjur Storaas, Board member	0	0	0	0
Pierre Godec, General manager (Cyprus)	0	0	0	0
Demos Demou, Finance manager (Cyprus)	0	0	0	0
Kjetil Forland, General manager (Norway)	70,134	40,930	101,464	40,930
Sølve Nilsen, Finance manager (Norway)	164,971	40,930	164,971	40,930
Total	289,311	81,860	320,641	81,860

1) Berge Gerdt Larsen, together with his son, controls Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 21,04 % of the shares.

 $Increased\ Oil\ Recovery\ AS\ is\ a\ 43\%\ shareholder\ in\ Independent\ Oil\ \&\ Resources\ ASA,\ which\ holds\ 49.13\%\ of\ the\ shares.$



NOTE 22 EVENTS AFTER THE BALANCE SHEET DATE

- · 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.
- 30 January: Petrolia completed bond buy back of NOK 101.1 million of ISIN NO 0010440258. Following the transaction Petrolia holds own bonds of NOK 124.1 million
- 28 January: The Company's name is now changed from Petrolia E&P Holdings SE to Petrolia SE.
- 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 favor of the PetroMena ASA estate for USD 14 million. Oil Tool Supplier AS is in the process of filing an appeal.
- 25 March 2013: Cyprus and the Eurogroup reached an agreement on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years. Cyprus and the Troika (i.e. the EU, the International Monetary Fund and the European Central Bank) reached an agreement on the final terms of a memorandum of understanding in order to implement the agreement. The financial assistance that Cyprus will be receiving is up to EUR 10 billion and is subject to a bank restructuring program. The memorandum was approved on 12 April 2013 and, subject to the completion of national procedures, the first inflow of funds will be in mid May. The package of measures is aimed to restore the soundness of the Cypriot banking sector, to correct the general government deficit, to increase the efficiency of public spending, to improve the functioning of the public sector and to support competiveness and sustainable and balanced growth. As of 31 December 2012
- and the date of the approval of these financial statements, the Group's bank assets domiciled in Cyprus are not significant. On this basis, management does not anticipate any material impact on the future recovery of the Group's bank assets from the implementation of the agreed measures.
- 10 April: Petrolia SE has sold NOK 10 million of outstanding bonds at par value plus accrued interests.
- 24 April: IO&R Ltd has sold the workower rig for USD 5.5 million and at the same time hired it back under a 3 year bareboat charter.
- 29 April: regarding the Storbarden well. The drilling rig "Borgland Dolphin" has completed drilling of the main reservoir and the secondary target in the Storbarden well in PL 506S in the North Sea. The well has not encountered hydrocarbons. Final data acquisition and analysis is currently ongoing after which the well will be plugged and ahandoned



FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2012

PETROLIA SE

STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2012

	Note	2012 USD 000
Revenue	4	347
Administration expenses	_	(4,503)
Operating loss Finance income Finance costs	5 7 7 _	(4,156) 1,109 (1,326)
Loss before tax		(4,373)
Tax	8 _	
Net loss for the period		(4,373)
Other comprehensive income	_	
Total comprehensive loss for the period	<u>=</u>	(4,373)

STATEMENT OF FINANCIAL POSITION At 31 December 2012

	Note	2012 USD 000
ASSETS		
Non-current assets Property, plant and equipment Investments in subsidiary companies Restricted cash Loans due from subsidiary companies	9 10 13 18.3	60 111,694 9,468 24,444 145,666
Current assets Loans receivable Trade and other receivable Cash at bank and in hand	11 12 14	19,425 330 388 20,143
Total assets	=	165,809
EQUITY AND LIABILITIES		
Equity and reserves Share capital Treasury shares Merger reserve Accumulated losses	15	27,236 (47) 67,093 (4,373)
Total equity	_	89,909
Non-current liabilities Borrowings Loans due to subsidiary companies Loan due to shareholder	16 18.5 18.5	57,757 8,398 719 66,874
Current liabilities Borrowings Trade and other payables	16 17 _	4,359 4,667
Total liabilities	_ _	9,026 75,900
Total equity and liabilities	=	165,809

On 29 April 2013 the Board of Directors of Petrolia SE authorised these financial statements for issue.

Berge Gerdt Larsen Director

Unni F. Tefre Director

Erik Johan Frydenbø Director

Est Etychalo

Sjur Storaas Director

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2012

	Note	Share capital USD 000	Treasury shares USD 000	Merger <i>I</i> reserve USD 000	Accumulated losses USD 000	Total USD 000
Issue of share capital	15	35	-	-	-	35
Net loss for the period		-	-	-	(4,373)	(4,373)
Merger transaction	3 _	27,201	(47)	67,093		94,247
Balance at 31 December 2012	_	27,236	(47)	67,093	(4,373)	89,909

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES Loss before tax Adjustments for:		(4,373)
Depreciation of property, plant and equipment Unrealised exchange loss	9	9 271
Interest income Interest expense	7 7	(1,109) 1,052
Cash flows used in operations before working capital changes Decrease in trade and other receivables Increase in trade and other payables		(4,150) 142 3,169
Cash flows used in operations		(839)
CASH FLOWS FROM INVESTING ACTIVITIES Loans granted to subsidiary companies		(169)
Net cash flows used in investing activities		(169)
CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issue of share capital Proceeds from loans from subsidiary companies Proceeds from loans granted to subsidiary companies Proceeds from loans from shareholders Interest paid		35 2,941 1,097 719 (3,688)
Net cash flows from financing activities		1,104
Net increase in cash and cash equivalents Cash and cash equivalents: At beginning of the period Additional cash from merger	3	96 - 292
At end of the period	14	388

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. In furtherance of a shareholder approved plan to redomicile to Cyprus, on 30 December 2011, Petrolia ASA was 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"). The conversion into an SE was effected through a merger between Petrolia ASA and Petrolia E&P Holdings Plc (the "Merger"). Effective 26 October 2012, the survivor of the merger, Petrolia E&P Holdings SE, transferred its registered office to Cyprus in accordance with Article 8 of the SE Regulation and Section 7 of the SE Act (the "redomiciliation").

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 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 parent accounts less impairment. The notes to the consolidated accounts provide additional information to the parent company's 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 USD35,000.

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 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 USD35,000. 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.

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 USD1 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 Treasury shares	2,175 (2,153)
Share premium	12,093
Retained earnings	82,132
Total equity	94,247
Petrolia E&P Holdings Plc	25
Share capital Total combined equity following the merger	35 94,282
Share capital after the merger Treasury shares	(27,236) 47
·	
Merger reserve created on merger	<u>67,093</u>
2) Assets acquired and liabilities assumed to the date of Merger	25/42/2242
Petrolia ASA Statement of financial position as at 26 October 2012 ASSETS	26/10/2012 USD 000
Non-current assets	
Property, plant and equipment Investments in subsidiaries	69 111,694
Restricted cash	9,206
Loans due from subsidiary companies	24,151
Current assets	145,120
Trade and other receivable	490
Loans receivable	18,522
Cash at bank and in hand	292
Total assets	19,304 164,424
EQUITY AND LIABILITIES	
Equity and reserves	2.175
Share capital Treasury shares	2,175 (2,153)
Share premium	12,093
Retained earnings Total equity	82,132 94,247
Total equity	

3. Merger transaction (continued)	26/10/2012 USD 000
Non-current liabilities	
Borrowings Loans due to subsidiaries	60,607 5,426
	66,033
Current liabilities Trade and other payable	1,498
Borrowings	2,646
Total liabilities	<u>4,144</u> 70,177
Total equity and liabilities	164,424
4. Revenue	
	2012 USD 000
Rendering of management services (Note 18.2)	347
	<u> 347</u>
5. Operating loss	
	2012
	USD 000
Operating loss is stated after charging the following items:	_
Depreciation of property, plant and equipment (Note 9) Directors' fees (Note 18.1)	9 23
Staff costs (Note 6)	400
Auditors' remuneration for the statutory audit of annual accounts Auditors' remuneration for non-audit services	123 42
6. Staff costs	
	2012
	USD 000
Salaries	318
Other staff costs Social insurance costs and other funds	79 3
Social insulance costs and other funds	400
7. Finance income	
	2012
	USD 000
Interest income	1,109
Finance income	1,109
Net foreign exchange transaction losses	(271)
Interest expense Sundry finance expenses	(1,052) (3)
Finance costs	(1,326)
Net finance income	(217)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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:

	2012 USD 000
Loss before tax	<u>(4,373)</u>
Tax calculated at the applicable tax rates Tax effect of expenses not deductible for tax purposes Tax effect of allowances and income not subject to tax Tax effect of tax loss for the period	(437) 238 (63) 262
Tax charge	

The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all companies are taxed at the standard corporation tax rate of 10% (12,5% as from 1 January 2013).

Interest income is subject to Income Tax at the standard rate of 10% 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 15%.

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 period, 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 following five years. No deferred tax asset has been recognised in the statement of financial position for tax losses which are available for offset against future taxable profits as at the year end.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. Property, plant and equipment

				Drilling Monitoring System USD 000
Cost Additions from Merger				169
Balance at 31 December 2012				169
Depreciation Accumulated depreciation Charge for the period				100 9
Balance at 31 December 2012				109
Net book amount				
Balance at 31 December 2012				60
10. Investments in subsidiary companies	.			
At cost				2012 USD 000
Additions from Merger Accumulated impairment			_	604,385 (492,691)
Balance at 31 December			=	111,694
The details of the subsidiaries are as follows:				
<u>Name</u>	Country of incorporation	Principal activities	Holding <u>%</u>	2012 USD 000
Petrolia Drilling II AS	Norway	Holding company of IOT Group	100	16,050
Petrolia Invest AS	Norway	Holding	100	34,500
Petrolia Drilling Ltd	British Virgin Islands	company Dormant	100	-
Petrolia Norway AS Petrolia Tool Pool AS	Norway Norway	Oil & Gas Holding	100 100	188 17
Ted olid Tool Fool A5	INDIWay	company (Catch fishing Group)	100	17
Venture Drilling AS	Norway	Oil service	100 _	60,939
			_	111,694

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. Loans receivable

	2012 USD 000
Loans receivable	19,425
	19,425
On 15 May 2012 Petrolia ASA sold 100% of its own-held portion of the 12% Callable bond lo NOK139,5 million (USD 25,1 million) to a third party. During 2012, 12% interest was charged outstanding. As at 31 December 2012 the balance outstanding amounted to NOK 108,1 million (USD)	d on the amoun
Subsequent to the year end, on 30 January 2013, the Company proceeded with the buy back of the netting off the amount due by the third party.	e above bonds by
The fair value of loans receivable approximates to their carrying amounts as presented above.	
12. Trade and other receivable	
	2012 USD 000
Trade receivables Deposits and prepayments Other receivables Refundable VAT	31 39 72 188
	330
13. Restricted cash	
	2012 USD 000
Balance at 31 December	9,468
Refer also to Note 5 in the Group accounts.	
14. Cash at bank and in hand	
Cash balances are analysed as follows:	
	2012 USD 000
Cash at bank and in hand	388

388

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. Share capital

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

Authorised capital

Under its Memorandum of Association the Company fixed its share capital at 10,000 ordinary shares of nominal value of USD1 each. On 10 October 2011 the Company increased its authorized share capital to 35,000 ordinary shares of USD1 each. Further to the Merger, 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 USD1 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 USD35,000 divided into 35,000 ordinary shares of USD1 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 USD1 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 2012 the total number of shares issued by the Company amounted to 27,235,867.

16. Borrowings

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

Refer also to Note 9 in the Group accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. Trade and other payable

	2012 USD 000
Trade payable Social insurance and other taxes Holiday allowance Accruals Provision for legal cases Amounts due to related companies (Note 18.4)	464 343 28 507 3,300 25
Refer also to Note 11 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)	
	2012 USD 000
Directors' fees	23 23
18.2 Rendering of management services (Note 4)	2012 USD 000
Petroresources Ltd (Group associated company) IO&R Ltd (Group subsidiary company)	21 326
	<u>347</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18.3 Loans due from subsidiary companies

	2012
	USD 000
Petrolia Norway AS (1)	23,177
Petrolia Invest AS	666
Oil Tools Supplier AS	88
Petrolia Drilling Ltd	120
IO&R Ltd	393
	<u> 24,444</u>

(1) On 3 June 2011, Petrolia ASA entered into a loan facility agreement with its subsidiary company Petrolia Norway AS for an amount of NOK 100 million (USD 18 million). The loan bears interest of three months NIBOR plus a margin of 2,25% for 2011 and 10% from 1 January 2012 per annum. The loan does not have a fixed maturity date and is repayable within 60 days after notice has been given by the lender. The outstanding loan principal amounted to USD 22,5 million (NOK 123 million). Interest expense and interest accrued for the year amounted to USD 0,7 million.

The inter-company loans do not have a fixed maturity date. Interest is calculated at NIBOR/LIBOR + 2.25%.

18.4 Amounts due to related parties (Note 17)

		2012 USD 000
<u>Name</u>	Nature of transactions	
TOT Drilling Ltd	Trade	25
		25
18.5 Loans due to related parties		
		2012 USD 000
	<u>Terms</u>	
Petrolia Rigs AS (subsidiary company)	Inter-company loan	(4,347)
Venture Drilling AS (subsidiary company)	Inter-company loan	(4,051)
Larsen Oil & Gas AS (Shareholder)	Inter-company loan	(719)
		(9 117)

The inter-company loans do not have a fixed maturity date. Interest is calculated at NIBOR/LIBOR + 2.25%.

19. Events after the reporting period

Refer to Note 22 in the Group accounts.



AUDITORS REPORT



Ernet & Young Cypnus Limited Nicosia Tower Centre 36 Byron Avenue, P.O. Box 21656 1511 Nicosa, Cypnus

Tell: +357 2220 9999 Fax: +357 2220 9996

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 (the "Company") and its subsidiaries (the "Group"), and the Company's separate financial statements, which comprise the statement of financial position of the Group and the Company as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement of the Group and 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.



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 2012, 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.

Emphasis of matter

We draw attention to the "Basis of Preparation" note included in the "Accounting Policies and General Information" section where it is stated that the Group continued to report negative results during the year ended 31 December 2012 and that the Group's operating loss and net loss after tax for the year amounted to USD 19.3m and USD 7.2m respectively. These conditions, along with other matters as set forth in the "Basis of Preparation" note and in Note 8 to the consolidated financial statements, indicate the existence of a material uncertainty which may east significant doubt as to the Group's and the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our
- In our opinion, proper books of account have been kept by the Company.
- 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 Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Stavros Pantzaris

Certified Public Accountant and Registered Auditor for and on behalf of

Ernst & Young Cyprus Ltd Certified Public Accountants and Registered Auditors

Nicosia 29 April, 2013



RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1st of January to 31st of December 2012 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 entity 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 entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Limassol, 29th of April 2013

Berge Gerdt Larsen Chairman of the Board

Unni F. Tefre Board member

Mmi F. Tefre

Erik Johan Frydenbø Board member

Evil Etychalo

Board member



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 an account outlining how Petrolia has implemented the Code of Practice. This account follows the same structure as the Code of Practice and covers all sections thereof. Petrolia complies with the Code of Practice. Any deviations from the Code of Practice are discussed under the relevant sections

Through a cross-border merger, the holding company Petrolia SE was formed in Cyprus in October 2012. Consequently, various associated policies can be updated and revised in 2013. 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.

Guidelines on corporate social responsibility have not vet been implemented.

2. BUSINESS GOALS AND STRATEGY

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

As of April 2013, the Company is publicly presenting itself with the following boilerplate: Petrolia SE has three business segments: Exploration & Production (E&P), Drilling & Well Technology and OilService and is listed on Oslo Stock Exchange under the ticker code PDR. The core activity includes Petrolia Norway AS, an independent oil & gas company approved as a licensee on the Norwegian Continental Shelf. In addition, Petrolia SE owns Independent Oil Tools Group, a leading rental equipment company for the global oil industry. The Group employs a staff of 339 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. EOUITY 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 2012 were to refinance the Company's debt and to improve the balance sheet, restructure Petrolia Services and to grow Petrolia Norway AS. Dividends to shareholders are consequently not prioritized short term. Dividends are in the bond loan agreement restricted to max 30% of the Group's profit after taxes, refer to note 9.

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 2012, the Company had equity of USD 90.6 million, representing an equity ratio of 40 per cent.

Following the cross-border merger, the Board of Directors as of 30 April 2013, holds no authorizations with regards to increasing the share capital or the holding of own shares.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSELY RELATED

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 preemption 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 22 September 2011, the Company announced to have entered into a letter of intent to acquire two land rigs from Independent Oil & Resources ASA for NOK 74 million. Independent Oil & Resources ASA is the largest shareholder in Petrolia and partly (indirectly) owned by chairman of the Board of Directors, Berge Gerdt Larsen. Mr. Larsen did not attend the board of directors' voting and discussions related to the transaction.

The merger consideration was set equal to the acquisition cost for the rigs and equipment Independent Oil & Resources ASA has had. The price of the Petrolia ASA shares was set after considering the recent share price and the latest equity increases and at the same time considering that the volume of shares required is significant.

The completion of the transaction and the issue of new shares was subject to, among others, the approval of the Company's extraordinary general meeting. External fairness opinions were obtained and a prospectus was filed with the Financial Supervisory Authority of Norway (FSA), for inspection and review in accordance with the Norwegian Securities Trading Act.

The shares were issued and registered 30 March 2012.

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 Arcticles 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 2012. The current composition of the board of directors is described on page 7 in the Petrolia SE Annual Report 2012

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 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 Erik Johan Frydenbø and Sjur Storaas. Mr. Frydenbø's consultancy agreement with the Company in 2012 is not considered to imply that he is a material business contact of the Company.

None of the executive personnel of the Company are directors thereof. Members of the Board of Directors, or persons closely connected with them, shall not be employed by or have any other agreements of economic significance with any such companies. 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.

All the directors are encouraged to hold shares in Petrolia, however not to an extent which can encourage a shortterm approach which is not in the best interest of Petrolia and its shareholders over the longer term. The shareholdings of the directors as per 31 December 2012 are set out in Note 21 to the consolidated annual statements.

9. THE WORK OF THE BOARD OF DIRECTORS

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

- Lead Petrolia's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- · Ensure that all instructions given by the Board of Directors are complied with;
- · Ensure that the Board of Directors are well informed about the Company's and the Group's financial position,
- · Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's executive management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the executive management and the Board of Directors. New Board and executive management instructions were implemented in 2012, on the basis of the experiences from the cooperation between the new management and the new Board of Directors in 2011.
- 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, in case a nomination committee is being established, be made available to such committee. The Board of Directors did not evaluate its own work in 2012;
- · Ensure that a system of direction and internal control is established and maintained as to ensure that the Group activities are conducted in accordance with all rules and regulation applicable to the Group, Petrolia's Articles of Association, its corporate values and its ethical guidelines, as well as 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 Erik Johan Frydenbø 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 2012 and reviewed all interim reports prior to publication. The committee works closely with the 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 General Manager is responsible for the daytoday management of the Company. Further, the General Manager is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are

monthly managed.

The General Manager 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 from the Group companies and reports to the Board. The annual accounts for all Group companies are audited by the Group's external auditor.

The Company's risk management systems are described in Note 8 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 reward 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 parts in incentive programs available for the executive management and/ or other employees.

More detailed information about the reward of individual directors in 2012 is provided in

Note 20 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 dis closed 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 any remuneration paid in addition to normal director's fees included.

The Company has entered into a consultancy agreement for 2012 with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 108 000 with two months termination to assist with legal matters.

12. REMUNERATION OF **EXECUTIVE MANAGEMENT**

The General Manager'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 General Manager 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 2012, 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 20 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.no. 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 nonauditing 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 ac counting 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.

PETROLIA SE: 27 Spyrou Kyprianou / 4001 Limassol / Republic of Cyprus

Tel: +357 25 725 777 Fax: +357 25 356 500 E-mail: pdr@petrolia.no

