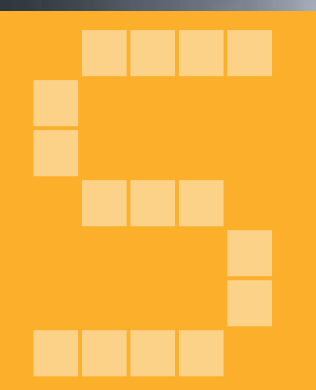






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START

MENT

RESPONSIBILITY STATEMENT

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF PETROLIA SE FOR THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 2016

In accordance with Article 9, sections (3) (c) and (7) of the Cyprus Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law"), we the members of the Board of Directors and the other responsible persons for the consolidated and separate financial statements of Petrolia SE for the year ended 31 December 2016, confirm that, to the best of our knowledge:

(a) the annual consolidated and separate financial statements that are presented on pages 10 to 70:

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

(b) the Management Report gives a fair review of the developments and performance of

the business and the financial position of Petrolia SE and the undertakings included in the consolidated accounts taken as a whole together with a description of the principal risks and uncertainties that they are facing.

Limassol, 27th of April 2017

Berge Gerdt Larsen
Chairman of the Board

Judith Parry
Board member

Erwin Joseph Pierre Godec
Board member
Managing director

Sjur Storaas
Board member

Demos Demou
Finance manager



MANAGEMENT



MANAGEMENT REPORT

INTRODUCTION AND STRATEGY

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

The core activities include Independent Oil Tools AS, a well-established international equipment rental company for the global oil industry.

In addition the Group owns 49.9% of Petrolia NOCO AS, an independent oil & gas company qualified as a licensee on the Norwegian Continental Shelf (NCS).

The Group also owns two land rigs.

IMPORTANT EVENTS 2016

- 26 January: The bond loan was re-financed. (i) Maturity was extended from June 2017 to July 2019. (ii) Denomination was changed from NOK to USD. (iii) Interest was changed from 12% to 6%.
- 4 November: The Ministry of Petroleum and Energy confirmed that Petrolia NOCO AS has been prequalified as an operator on the NCS.
- 8 and 12 December: Bondholders and shareholders approved a conversion of bonds to shares. The transaction was completed on 23 January 2017 and USD 13.3 was converted from debt to equity. Price per share was USD 0.50

MARKET

Some of the key market drivers for the OilService division are the oil companies' exploration and production investments and global rig activity. The significant fall in the oil price has led to a challenging environment for the oil and gas industry. The result of this is a decrease in margins and drop in the level of activities of this division. Precautionary cost cutting measures and business improvement programmes have been implemented in both the OilService and the E&P divisions which will continue during 2017. Overall, the Board

expects revenues for the OilService division to remain depressed during 2017 as levels of activity are reduced and margins are under increased downward pressure.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

Financial information, Group

Total revenue amounted to USD 38.8 million for the fiscal year 2016 (2015: USD 59.4 million), mainly related to the OilService segment. The reduction in 2016 is a consequence of the reduced activity levels in the industry following the reduced oil price.

Operating result for the Group in 2016 amounted to USD -11.9 million, after deduction of depreciation of USD 12.3 million and net reversal of impairment of fixed assets of USD 0.2 million. Operating result for the Group for 2015 amounted to USD 53.5 million after deduction of USD 15.9 million in depreciation and USD 18.9 million in impairment of fixed assets. Result after tax for the Group amounted to USD -12.7 million in 2016 (2015: USD -54.1 million).

As at 31 December 2016 the total assets of the Group amounted to USD 69.3 million of which OilService and other equipment was USD 25.3 million. Total equity of the Group amounted to USD 31.4 million as at 31 December 2016, including a minority interest of USD 0.8 million. Total equity as at 31 December 2015 was USD 48.8 million, including a minority interest of USD 1.6 million. As at 31 December 2016, 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 0.3 million in 2016 (2015: USD -10.0 million). Cash flow from investments was USD 10.5 million in 2016 (2015: USD -0.6 million). Cash flow from financing activities in 2016 was USD -2.5 million (2015: USD -11.3 million) mainly related to interest on bond loan and lease instalments. Total cash position at 31 December 2016 was USD 16.8 million (2015: USD 8.3 million).

Financial information, Parent

Total revenue amounted to USD 507 thousand

for the fiscal year 2016 (2015: USD 1.18 million), mainly related to management (USD 0.2 million) and consultancy (USD 0.3 million) fees for the rendering of services to the Group by the branch.

Operating loss for the parent company amounted to USD 16.1 million (2015: USD 10.0 million), after deduction of impairment of the investments in subsidiary companies of USD 15.3 million (2015: USD 4.7 million) and impairment of the accounts receivable from related parties amounting to USD 0.3 million (2015: USD 1.1 million).

Loss after tax for the parent amounted to USD 16.5 million in 2016 (2015: USD 12.7 million).

As at 31 December 2016 the total assets of the Parent amounted to USD 123.7 million of which Investments in Subsidiaries was USD 113.6 million, Investment in Associate was USD 1.4 million and USD 5.8 million in Trade and other receivable.

Total equity of the Parent amounted to USD 21.2 million as at 31 December 2016 (2015: USD 37.7 million).

As at 31 December 2016, 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 -1.4 million in 2016 (2015: USD -2.6 million). Cash flow from financing was USD 3.6 in 2016 (2015: USD 6.5 million). Cash flow from investments was USD nil in 2016 (2015: USD -0.3 million). Total cash position at 31 December 2016 was USD 2.8 million (2015: USD 0.9 million).

FINANCIAL AND LIQUIDITY RISK

At the year end the Group had a cash balance of USD 16.8 million.

The Group's long term financing is mainly one bond loan of USD 32.8 million, of which the Group owns USD 15.1 million which falls due in July 2019. According to the bond loan agreement the Group has to maintain a ratio of total equity to total assets of more than 40% on each quarterly reporting date ("financial covenant").

GOING CONCERN

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

Following (i) the refinancing of the bond loan in January 2017 whereby USD 13.3 million of the bond loan was converted to equity, (ii) the continuing cost-cutting projects and (iii) the forecasted cash flows from the OilService segment, the Group has secured sufficient cash flows and expects to be in a position to serve its working capital needs and other obligations as and when they fall due.

The Board expects a challenging environment for the OilService segment in 2017, however, it remains confident that the Group will maintain a sufficient financial return to enable it to continue as a going concern for the foreseeable future.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia SE has seven employees, three men and four women.

In total, the Group has 184 highly competent employees worldwide. The Group is an equal opportunity employer and will not tolerate discrimination. Recruitment, promotion and reward are entirely based on merit.

There have not been any serious accidents reported in the Group in 2016.

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

ENVIRONMENT REPORTING

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

CORPORATE GOVERNANCE

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

EXISTENCE OF BRANCHES

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

CHANGES IN SHARE CAPITAL

There have been no recorded changes to the share capital during 2016.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2016 and at the date of this report are the following:

Berge Gerdt Larsen
Erwin Joseph Pierre Godec
Sjur Storaas
Judith Parry

The General Meeting on 25 May 2016 re-elected Ms Judith Parry, Mr Berge Gerdt Larsen, Mr Erwin Joseph Pierre Godec and Mr Sjur Storaas as directors of the Board.

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

The Directors' interests in shares of the Company is disclosed in note 17 of the financial statements.

INDEPENDENT AUDITOR

The independent auditors of the Company, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing the firm's re-appointment and authorising the Directors to set the remuneration for audit services will be proposed at the Annual General Meeting of the Company.

EVENTS AFTER THE REPORTING PERIOD

21 January: the resolutions by the bondholders on 8 December and by the shareholders on 15 December were implemented and the Registrar of Companies in the Republic of Cyprus has updated the following capital changes:

(i) the authorised and the issued share capital were both reduced from USD 27,235,867 to USD 2,723,586.70 by reducing the par value from USD 1.00 to USD 0.10. The capital reduction was used to reduce accumulated losses.

(ii) the authorised share capital was increased back to USD 27,235,867 by increasing the authorised number of shares from 27,235,867 to 272,358,670

(iii) the issued capital was increased to USD 5,375,798.80 by issuing 26,522,121 new shares. The new shares were valued at USD 0.50 per share and used as payment for the conversion of USD 13.3 million bonds into equity.

The equity thus increased by USD 13.3 million and the bond loan was reduced by the same amount to a net outstanding of USD 4.4 million. The shares are subject to a 1-year lock-up period. The shares were listed from Tuesday 24 January 2017. The number of issued shares has increased from 27.2 million to 53.8 million and the old shareholders have been diluted from 100% to 50.7%.

Limassol, 27th of April 2017



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member



Erwin Joseph Pierre Godec
Board member, Managing Director



Judith Parry
Board member

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE – Group

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

(Amounts in USD 1,000)	Note	2016	2015
Continuing operations			
Revenue	5	38,783	59,403
Wage cost	6	-13,138	-19,842
Other operating expenses	7	-25,409	-44,724
EBITDA excluding exploration cost		236	-5,163
Exploration cost		-4	-13,496
EBITDA		232	-18,659
Depreciation	11	-12,318	-15,921
Net impairment reversal (charge) of fixed assets	11	209	-18,895
Operating result		-11,877	-53,475
Result from associated companies	12	-932	-1,567
Impairment of other financial assets	13	0	-4,173
Interest income	8	1,060	921
Financial income	8	1,438	1,749
Interest expenses	8	-1,362	-2,922
Financial expenses	8	-67	-1,967
Result before income taxes		-11,740	-61,434
Tax on result	9	-994	7,310
Result for the year		-12,734	-54,124
Attributable to:			
Equity holders of the parent		-12,068	-53,520
Non-controlling interests		-666	-604
		-12,734	-54,124
Attributable to the equity holders (USD per share)			
Basic earnings per share	10	-0.44	-1.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

(Amounts in USD 1,000)	Note	2016	2015
Result for the year		-12,734	-54,124
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		-4,742	2,449
Total comprehensive (loss) for the year, net of tax		-17,476	-51,675
Attributable to:			
Equity holders of the parent		-16,745	-50,691
Non-controlling interests		-731	-984
Total comprehensive (loss) for the year		-17,476	-51,675

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

ASSETS (Amounts in USD 1,000)	Note	2016	2015
Non-current assets			
Land and buildings	11	2,970	3,071
Land rigs	11	0	438
OilService and other equipment	11	25,291	35,680
Investment in associated companies	12	3,192	1,130
Other financial assets	13	3,480	16,631
Deferred tax assets	9	278	6,268
Restricted cash	16	19	19
Total non-current assets		35,230	63,237
Current assets			
Inventory		860	947
Tax receivables		295	857
Trade receivables	14	13,154	15,799
Other current receivables	14	2,516	2,989
Financial assets at fair value through profit and loss	15	409	285
Free cash	16	16,525	8,005
Restricted cash	16	303	312
Total current assets		34,062	29,194
TOTAL ASSETS		69,292	92,431

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

EQUITY AND LIABILITIES (Amounts in USD 1,000)	Note	2016	2015
Equity			
Share capital	17	27,236	27,236
Other equity		3,284	20,029
Equity attributable to equity holders of the parent		30,520	47,265
Non-controlling interests		836	1,567
Total equity		31,356	48,832
Liabilities			
Non-current liabilities			
Bond loans	18	17,681	17,672
Other non-current liabilities	19	3,069	4,327
Deferred tax liabilities	9	278	6,268
		21,028	28,267
Current liabilities			
Short term portion of non-current liabilities	19	1,368	1,650
Trade payables	20	8,856	11,643
Other current liabilities	20	6,213	1,979
Bank overdraft	21	274	60
Payable tax		197	0
		16,908	15,332
Total liabilities		37,936	43,599
TOTAL EQUITY AND LIABILITIES		69,292	92,431

Limassol, 27th of April 2017



Erwin Joseph Pierre Godec
Board member
Managing director



Judith Parry
Board member



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

Equity attributable to the Company's shareholders. Refer also to note 17.

(Amounts in USD 1,000)	Attributable to equity holders of the parent					Non-controlling interests	Total equity
	Share capital	Reorganisa- tion reserve	Other reserves	Currency translation	Subtotal		
Equity 1st of January 2015	27,236	-15,075	80,196	4,960	97,317	4,227	101,544
(Loss) for the year			-53,520		-53,520	-604	-54,124
Other comprehensive income							
Exchange differences on translation of foreign operations				2,829	2,829	-380	2,449
Total comprehensive income	0	0	-53,520	2,829	-50,691	-984	-51,675
Acquisition of non-controlling interests*			639		639	-1,676	-1,037
Equity 31st of December 2015	27,236	-15,075	27,315	7,789	47,265	1,567	48,832
(Loss) for the year			-12,068		-12,068	-666	-12,734
Other comprehensive income							
Exchange differences on translation of foreign operations				-4,677	-4,677	-65	-4,742
Total comprehensive income	0	0	-12,068	-4,677	-16,745	-731	-17,476
Equity 31st of December 2016	27,236	-15,075	15,247	3,112	30,520	836	31,356

As at 31 December 2016 and 2015 the Company did not own any of its own shares.

*) Refer to note 26.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

(Amounts in USD 1,000)	Note	2016	2015
Operating activities			
Losses before taxes		-11,740	-61,434
(Gain) on disposal of equipment		66	-112
Depreciation of drilling equipment, land rigs and buildings	11	12,318	15,921
Impairment of drilling equipment, land rigs, land and buildings	11	-209	18,895
Interest income	8	-1,060	-921
Change in financial assets at fair value through profit or loss	8	-137	390
Interest expense on financial leasing	8	208	576
Interest expense on bonds	8	1,102	2,206
Other interest expenses	8	52	140
Change in inventory		87	-20
Change in trade receivables		2,645	16,248
Change in other current receivables		473	2,803
Change in trade payables		-2,787	-5,041
Change in provisions		0	0
Change in other current liabilities		4,234	-6,798
Change in other non-current liabilities		-1,258	-1,095
Result from investment in associated companies	12	932	1,567
Impairment of other financial assets	13	0	4,173
Tax (paid) received		-99	0
Other, incl unrealised foreign currency gain/loss		-4,482	2,484
Net cash (used in) / generated from operating activities		345	-10,018
Investing activities			
Purchase of fixed assets	11	-2,197	-11,339
Disposal of equipment		0	336
Repayment loans		14,552	6,219
Loan granted		0	-491
Investment in associates		-2,994	67
Net proceeds from investments in listed shares		12	3,694
Interest received		1,060	921
Net cash (used in) investing activities		10,433	-593
Financing activities			
Repurchase and repayment of bond loan		0	-7,985
Release of restricted cash		9	4,011
Leasing instalments		-1,691	-2,738
New leasing		0	2,659
Interest paid on bond loans (net)	8	-530	-2,206
Other interests paid	8	-52	-140
Interest paid on financial leasing	8	-208	-576
Increased (repaid) bank loan	21	0	-4,390
Net cash (used in) financing activities		-2,472	-11,365
Net cash flow of the period		8,306	-21,976
Free cash and cash equivalents at the beginning of the period	16	7,945	29,975
Cash of subsidiary which became an associate entity		0	-54
Free cash and cash equivalents balance at December 31	16	16,251	7,945

NOTES - GROUP

to the consolidated financial statements

NOTE 1 GENERAL INFORMATION

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

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

The annual financial statements were adopted by the Board of Directors on the 27th of April 2017 and will be passed to the Annual General Meeting for approval.

Petrolia SE was established on the 26th of October 2012 as a result of the merger between Petrolia ASA (established on the 13th of March, 1997) and Petrolia E&P Holdings Plc. The consolidated financial statements for the accounting year 2016 comprise the Company and its subsidiaries and the Group's share of associated companies. The Company is listed on the Oslo Stock Exchange with ticker "PDR" and ISIN "CY 010 263 0916".

NOTE 2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

The accounting year follows the calendar year.

GOING CONCERN

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

Following (i) the refinancing of the bond loan in January 2017 whereby USD 13.3 million of the bond loan was converted to equity, (ii) the continuing cost-cutting projects and (iii) the forecasted cash flows from the OilService segment, the Group has secured sufficient cash flows and expects to be in a position to serve its working capital needs and other obligations as and when they fall due.

The Group's management expects a challenging environment for the OilService segment in 2017, but remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going-concern for the foreseeable future.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016.

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS AND GOODWILL

a) Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in

stages, the previously held equity interest is remeasured at its acquisition date and fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Investment in associates

The Group's investment in associated en-

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying

amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

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

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under financial income / financial expenses.

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

Group companies

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

- assets and liabilities in each statement of financial position presented are translated

at the closing rate.

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

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

REVENUE RECOGNITION

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

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

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

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

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

Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur



when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

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

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

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

INTEREST INCOME

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

loans is recognised using the original effective interest rate.

MOBILISATION INCOME AND EXPENSE

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

CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income

tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Sales tax

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

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

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

RIGS AND DRILLING EQUIPMENT

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

LEASES

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

Group as a lessee

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

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

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

Group as a lessor

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

OIL AND NATURAL GAS EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

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

(i) Pre-licence costs

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

(ii) Licence and property acquisition costs

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

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

(iii) Exploration and evaluation costs

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

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

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

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

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

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

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

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

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

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

(v) Development costs

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

OTHER INTANGIBLE ASSETS

Goodwill

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

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

Borrowing costs

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

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

FINANCIAL ASSETS CLASSIFICATION

i) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

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

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

Derecognition

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

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

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

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

ii) Impairment of financial assets

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

is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in areas or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

Available for sale financial investments

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

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

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

iii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of financial instruments

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

INVENTORIES

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

CASH AND SHORT TERM DEPOSITS

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

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

SHARE CAPITAL AND PREMIUM

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

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

PROVISIONS

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

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

PENSION OBLIGATIONS

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

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

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

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

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

SEGMENT REPORTING

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

RELATED-PARTY TRANSACTIONS

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

CASH FLOW STATEMENT

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

three months from purchase date.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the result of the Group with the weighted 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 27.

2.4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2016. The nature and the impact of each new standard or amendment are described below:

IFRS 10 ("Consolidated Financial Statements"), IFRS 12 ("Disclosure of Interests in Other Entities") and IAS 28 ("Investments in Associates and Joint Ventures") – "Amendments regarding the application of the consolidation exception by investment entities". This amendment has no impact to the Group as it is not an investment entity.

IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation". Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of

the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group did not have any such transactions in the current period.

IAS 1 ("Presentation of Financial Statements") – "Amendments resulting from the disclosure initiative". The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The application of these amendments has not resulted in any impact on the Group. IAS 16 ("Property plant and equipment") and IAS 38 ("Intangibles") – "Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment". This amendment has no impact to the Group.

Annual Improvements to IFRSs 2012–2014 Cycle

The "September 2014 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2016 and have no material impact on the Group. It includes the following amendments:

- IFRS 5 "Non-current assets held for sale and Discontinued Operations" – "Changes in methods of disposal"
- IFRS 7 "Financial Instruments: Disclosures" – "Servicing contracts" and "Applicability of the amendments to IFRS 7 to condensed interim financial statements"
- IAS 19 "Employee Benefits" – "Discount rate: regional market issue"
- IAS 34 "Interim Financial Reporting" – "Disclosure of information 'elsewhere in the interim financial report'".

New and revised IFRSs in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective. The Group does not

intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date. The Group is currently assessing the impact from the application of IFRS 9 ("Financial Instruments") – "Classification and Measurement", IFRS 11 ("Joint Arrangements") – "Amendments regarding the accounting for acquisitions of an interest in a joint operation", IFRS 15 ("Revenue from Contracts with Customers") and IFRS 16 ("Leases") on its consolidated financial statements.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements.

(i) Issued by the IASB and adopted by the European Union

IFRS 9 ("Financial Instruments") – "Classification and Measurement". The final version of IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 ("Revenue from Contracts with Customers"). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after 1 January 2018).

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

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit

an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception" (when IFRS 9 will be applied – see below).

IFRS 7 ("Financial Instruments: Disclosures") – "Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9" (when IFRS 9 will be applied – see below).

IAS 7 ("Statement of Cash flows") – "Amendments resulting from the disclosure initiative" The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2017).

IFRS 16 ("Leases"), IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

IFRS 10 ("Consolidated Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute

a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 12 ("Income Taxes") – Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings

and other components of equity (effective for annual periods beginning on or after 1 January 2017).

IFRS 2 ("Share Based Payment") – Classification and Measurement of Share-based Payment Transactions. The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met (effective for annual periods beginning on or after 1 January 2018).

IAS 40 ("Investment Property") – Amendments to clarify transfers of property to, or from investment property (effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 ("Foreign Currency Transactions

and Advance Consideration"). Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income (effective for annual periods beginning on or after 1 January 2018).

Annual Improvements to IFRSs 2014–2016 Cycle

The "December 2016 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to two standards. These improvements are effective from 1 January 2017 and 1 January 2018.

It includes the following amendments:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – "Removal of short term exemptions"
- IFRS 12 "Disclosures of Interests in Other Entities" – "Clarifying scope".

The Company is assessing the impact of the amendments on its financial statements after it is endorsed by the European Union.

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Impairment of property, plant and equipment

Refer also to note 11.

The Group tests annually whether the drilling equipment, land rigs and land and buildings have suffered any impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

ii) Income taxes

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

iii) Disputes

Provisions and impairments have been made regarding certain claims made against the Group. There is a significant difference in opinions regarding the validity of the claims and the final outcome may thus deviate substantially from today's best estimate.

iv) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic

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

v) Recovery of deferred tax assets

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

vi) Useful lives for depreciation of fixed assets

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

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

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

viii) Recoverability of trade and other receivables

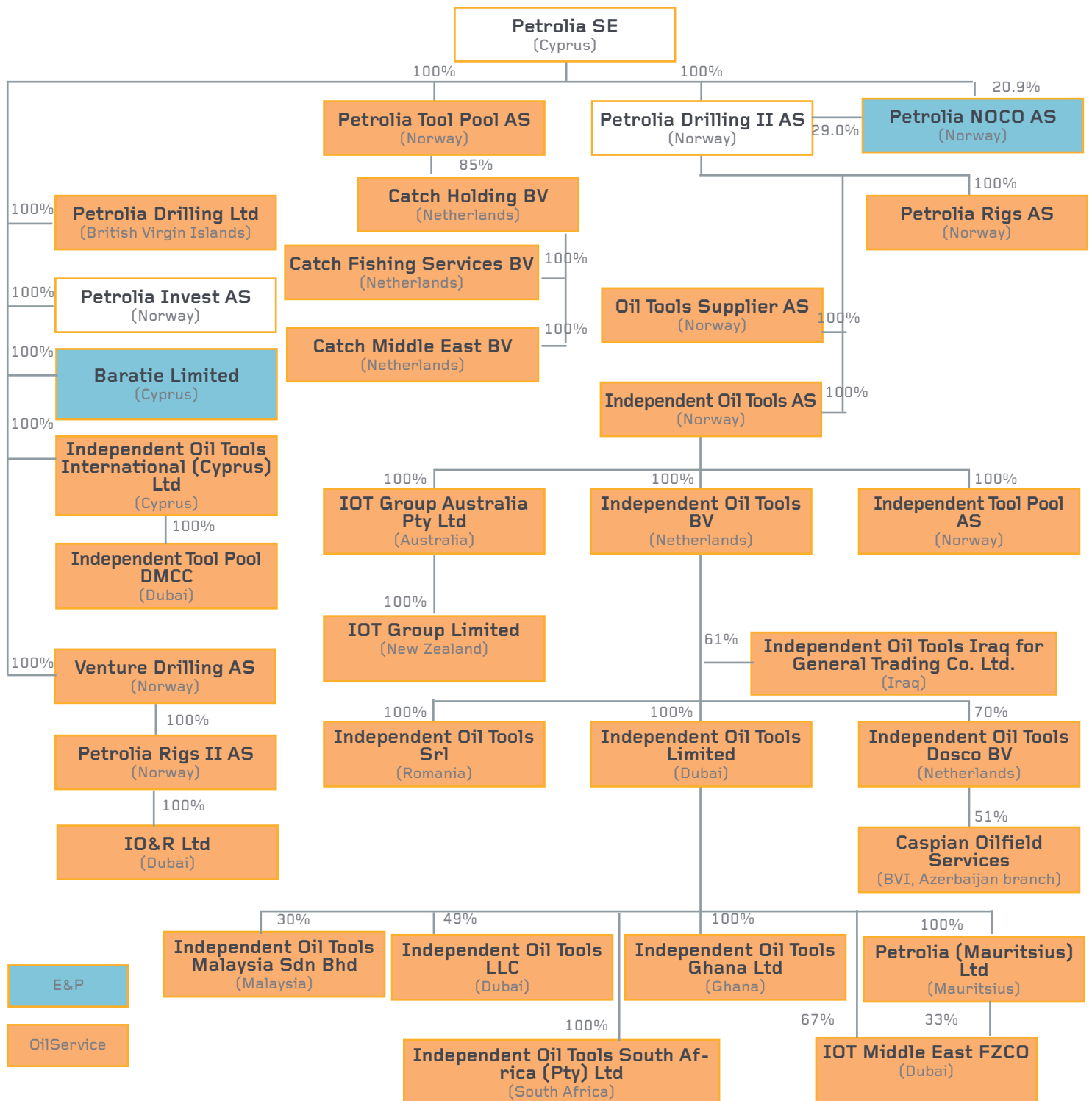
The Group reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of recoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

NOTE 4 ORGANISATION

Summary of the companies of the Group:

As at 31.12.2016 the following companies are presented in the consolidated statement of financial position:

Company	Business office , activity, objective
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. OilService.
Independent Oil Tools AS	Norway. OilService.
Independent Tool Pool AS	Norway. OilService.
IOT Group Australia Pty Ltd	Australia. OilService.
Independent Oil Tools BV	Netherlands. OilService.
Independent Oil Tools Dosco BV	Netherlands. OilService.
Independent Oil Tools Srl	Romania. OilService.
Caspian Oilfield Services Inc.	British Virgin Islands, Azerbaijan branch. OilService.
IOT Group Limited	New Zealand. OilService.
Venture Drilling AS	Norway. OilService.
Independent Oil Tools Limited Ltd	Jebel Ali Free Zone (Dubai). OilService.
Independent Tool Pool DMCC	Jebel Ali Free Zone (Dubai). OilService.
Independent Oil Tools LLC	Dubai. OilService.
Petrolia (Mauritius) Limited	Mauritius. OilService.
Petrolia Tool Pool AS	Norway. OilService.
Petrolia Rigs II AS	Norway. OilService.
Catch Holding BV	Netherlands. OilService.
Catch Fishing Services BV	Netherlands. OilService.
Catch Middle East BV	Netherlands. OilService.
IO&R Ltd	Dubai. OilService
Independent Oil Tools South Africa (Pty) Ltd	South Africa. OilService.
Independent Oil Tools Ghana Limited	Ghana. OilService.
IOT Middle East FZCO	Jebel Ali Free Zone (Dubai). OilService.
Petrolia E&P International Ltd	Cyprus, E&P.
Independent Oil Tools International (Cyprus) Ltd	Cyprus, OilService.
Independent Oil Tools Iraq for General Trading Co. Ltd	Iraq, OilService.
Associated companies (equity method)	
Petrolia NOCO AS	Norway. Exploring for oil and gas on the NCS.
Independent Oil Tools Malaysia Sdn Bhd	Malaysia. OilService.



NOTE 5 SEGMENT INFORMATION

The Group operates in two segments: Exploration & Production (E&P) and OilService.

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

Revenue (amounts in USD 1,000)	2016	2015
Norway	11,094	13,965
Europe outside Norway	10,545	22,117
Asia and Australia	11,857	19,916
Other	5,287	3,405
Total	38,783	59,403

Non-current tangible assets (amounts in USD 1,000)	2016	2015
Norway	6,715	8,306
Europe outside Norway	4,813	5,989
Asia and Australia	6,132	10,933
Tool pools	10,601	13,961
Total	28,261	39,189

Revenue

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

Geographic allocation

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

Major customers

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

2016 KEY FIGURES PER SEGMENT

Amounts in USD 1,000	E&P	OilService	Total
Revenue	0	38,783	38,783
EBITDA	0	232	232
Depreciation	0	-12,318	-12,318
Impairment reversal	0	209	209
Result from associated companies	0	-932	-932
Tax	0	-994	-994
Result	0	-12,734	-12,734
Rental equipment, land rigs, exploration cost and licences	0	25,291	25,291
Property	0	2,970	2,970
Addition (Capex)	0	2,197	2,197

2015 KEY FIGURES PER SEGMENT

Amounts in USD 1,000	E&P	OilService	Total
Revenue	0	59,403	59,403
EBITDA	-15,759	-2,900	-18,659
Depreciation	-62	-15,859	-15,921
Impairment charge	0	-18,895	-18,895
Result from associated companies	0	-1,567	-1,567
Tax	11,921	-4,611	7,310
Result	-4,793	-49,331	-54,124
Rental equipment, land rigs, exploration cost and licences	0	36,118	36,118
Property	0	3,071	3,071
Addition (Capex)	0	11,339	11,339

OilService includes unclassified entities.

Following the dilution from 100% to 49.9% in Petrolia NOCO AS in August 2015, the group no longer reports the E&P segment. Refer also to note 12.

NOTE 6 WAGES

Wage costs (amounts in USD 1,000)	2016	2015
Salaries (incl social security)	11,803	18,169
Pension costs	612	974
Other contributions	723	699
Total	13,138	19,842

The Group had 184 employees as at the end of 2016 (2015: 267 employees).

Average number of employees was 226 in 2016 (2015: 295).

Remuneration and benefits General Manager and Finance Manager (amounts in USD 1,000)	2016	2015
Pierre Godec (14 September 2012 -), Managing director, Cyprus	84	168
Demos Demou (14 September 2012 -), Finance manager, Cyprus	51	55
Kjetil Forland (18 January 2011 - 31 July 2015), Managing Director, Norway	0	373
Sølve Nilsen (1 October 2010 -), General manager, Norway	82	137
Total	217	567

The following fee has been paid to the members of the board (amounts in USD 1,000) :	2016	2015
Berge Gerdt Larsen - Chairman of the board, Remuneration committee (re-elected on 27 May 2016)	0	0
Pierre Godec - Board member (re-elected on 27 May 2016)	0	0
Sjur Storaas - Board member, Audit & Remuneration committees (re-elected on 27 May 2016)	43	43
Judith Parry - Board member, Audit & Remuneration committees (re-elected on 27 May 2016)	43	43
Total	86	86

NOTE 7 SPECIFICATION OF OTHER OPERATING EXPENSES

The amounts are exclusive of value added tax.

Other operating expenses comprise the following main items (amounts in USD 1,000) :	2016	2015
Fees to external advisors, lawyers, auditors	988	4,219
Cost of goods sold	15,553	20,604
(Reversal) impairment current assets	-1,227	4,633
Other operating expenses	10,095	15,268
Total other operating expenses	25,409	44,724

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1,000) :	2016	2015
Audit	447	724
Tax assistance	81	3
Other services	85	746
Total auditor's fee	613	1,473

NOTE 8 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1,000)	2016	2015
Interest income		
Interest income from current bank deposits	192	101
Other interest income	868	820
	1,060	921
Financial income		
Foreign exchange gain - net	1,164	0
Profit on shares at fair value through profit and loss (refer to note 15)	137	0
Other financial income	137	1,749
	1,438	1,749
Interest expenses		
Interest expense on bonds	1,102	2,206
Other interest expense	52	140
Interest expense on financial leasing	208	576
	1,362	2,922
Financial expenses		
Loss on shares at fair value through profit and loss (refer to note 15)	0	390
Foreign exchange loss - net	0	1,139
Other financial expenses	67	438
	67	1,967
Net finance cost	1,069	-2,219

NOTE 9 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1,000)	2016	2015
Result before tax charges	-11,740	-61,434
Tax calculated at domestic tax rates applicable to profits in respective countries (12.5% for parent company)	200	55
Change in deferred tax asset/liability	0	5,120
Tax refund, exploration costs	0	-11,485
Prior year tax	794	0
Other	0	-1,000
Tax on result (credit)	994	-7,310

In Cyprus there is a time limit of 5 years for the use of carry-forward tax losses. There is no time limit for the use of carry-forward tax losses in Norway.

Calculation of deferred tax asset (amounts in USD 1,000)	2016	2015
Non-current assets	5,649	5,558
Current assets	-62,892	-8,498
Profit and loss account	7,214	8,824
Net temporary differences	50,029	5,884
Carry forward loss	-5,648	-5,940
Basis for deferred tax asset	-55,677	-56
Deferred tax asset at nominal tax rates	13,363	6,692
Carried tax asset	278	6,268
Carried tax liability	278	6,268

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

The Group expects to utilise tax losses carried forward of USD 6.8 million through group contribution. The tax liability and the corresponding deferred tax asset is recognised gross in the

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

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

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

NOTE 10 EARNINGS PER SHARE

(amounts in USD 1,000, with the exception of earnings per share)		2016	2015
Average no. of shares		27,235,867	27,235,867
No. of shares at period end		27,235,867	27,235,867
Fully diluted no. of shares		27,235,867	27,235,867
Basic earnings per average no. of shares			
From continuing operations		-0.44	-1.97
Basic earnings per share (USD per share)		-0.44	-1.97

The Company has no outstanding or authorised stock options, or warrants. As at 31 December 2016, the Company held no treasury shares.

On 26 October 2012 the cross-border merger of Petrolia ASA and Petrolia E&P Holdings Plc (resulting in Petrolia SE) was completed. The merger implies a reverse split of 11.10547.

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(amounts in USD 1,000)	OilService and other equipment	Land and buildings	Land rigs	Total
Per 31 December 2014				
Acquisition cost	304,019	3,632	14,243	321,894
Accumulated impairment	-18,749	0	-3,852	-22,601
Accumulated depreciation	-231,049	-69	-1,991	-233,109
Book value 31.12.14	54,221	3,563	8,400	66,184
Accounting year 2015				
Book value 01.01.15	54,221	3,563	8,400	66,184
Currency differences	-2,488	-599	0	-3,087
Additions including leased equipment	10,877	462	0	11,339
Disposal	-1,593	0	0	-1,593
Depreciation of the year	-15,267	-50	-604	-15,921
Impairment	-11,232	-305	-7,358	-18,895
Disposal of depreciation	1,162	0	0	1,162
Book value 31.12.15	35,680	3,071	438	39,189
Per 31 December 2015				
Acquisition cost	310,815	3,495	14,243	328,553
Accumulated impairment	-29,981	-305	-11,210	-41,496
Accumulated depreciation	-245,154	-119	-2,595	-247,868
Book value 31.12.15	35,680	3,071	438	39,189
Accounting year 2016				
Book value 01.01.16	35,680	3,071	438	39,189
Currency differences	-549	-56	0	-605
Additions including leased equipment	2,169	0	28	2,197
Disposal	-3,982	0	0	-3,982
Depreciation of the year	-11,807	-45	-466	-12,318
Net reversal of impairment	209	0	0	209
Disposal of impairment	1	0	0	1
Disposal of depreciation	3,570	0	0	3,570
Book value 31.12.16	25,291	2,970	0	28,261
Per 31 December 2016				
Acquisition cost	308,453	3,439	14,271	326,163
Accumulated impairment	-29,771	-305	-11,210	-41,286
Accumulated depreciation	-253,391	-164	-3,061	-256,616
Book value 31.12.16	25,291	2,970	0	28,261
Depreciation period	7-12 year	33 year	12 year	
Residual value	0	0	0	

Impairment of property, plant and equipment

The Group performs impairment tests when there are indicators for impairment in accordance with the relevant accounting policy. The Group compares the carrying amount of fixed assets with the recoverable amount, being the higher of the fair value less costs to sell and the value in use calculation. Management estimates the fair value less costs to sell by obtaining either third party professional valuations or by reference to recent transactions of similar items. The market value of certain rental equipment was lower than value in use calculations since the market values are affected by the current market conditions.

In 2015, following impairment assessment which concluded that the fair value less cost to sell was lower than the book value due to low utilisation, the land rigs were impaired by USD 7.4 million. The drilling equipment was impaired by USD 2.5 million based on fair value less cost to sell and USD 8.7 million based on value in use calculations (total USD 11.2 million). The discounting factor used in the value in use calculations was 15%.

In 2015, based on external valuation and management estimates, land was impaired by USD 0.3 million.

In 2016, following impairment assessment on drilling equipment, a net reversal of impairments of USD 0.2 million was made.

As at the end of 2016 the market capitalisation of the Group was significantly lower than its equity indicating that impairments could be required. Rental equipment is the largest asset group where impairment could be expected. However, impairment tests do not indicate the need for additional impairment charges and the low market capitalisation is considered to be due to reasons other than impairment issues.

OilService and other equipment include fixed assets for own use of USD 3.3 million.

LEASED EQUIPMENT (INCLUDED IN NON-CURRENT ASSETS ABOVE)

Drilling equipment and rig acquired through financial leases amount to: (amounts in USD 1,000)			
	Land rig*	Drilling equipment	Total
Accounting year 2015			
Book value 01.01.2015	1,700	6,092	7,792
Addition	0	2,903	2,903
Exercise of purchase option	-1,700	0	-1,700
Depreciation of the year	0	-2,645	-2,645
Disposal	0	-105	-105
Disposal of depreciation	0	44	44
Translation differences	0	-673	-673
Book value 31.12.2015	0	5,616	5,616
Accounting year 2016			
Book value 01.01.2016	0	5,616	5,616
Addition	0	124	124
Depreciation of the year	0	-1,435	-1,435
Disposal	0	-105	-105
Disposal of depreciation	0	35	35
Book value 31.12.2016	0	4,235	4,235

Refer also to notes 19 and 24.

*) The Land rig is no longer leased following the exercise of the purchase option in September 2015. The purchase price was USD 2.5 million and it was settled by transferring bonds of same amount valued at par value.

NOTE 12 ASSOCIATED COMPANIES

The Group's interest in associated entities is accounted for using the equity method.

PETRORESOURCES LTD

Petrolia has invested USD 14 million in Petroresources Ltd and controlled 47.39 % of the company as at 31.12.2014. In 2015 the investment has been sold to Independent Oil & Resources Plc for USD 90 000 resulting in a loss on disposal of USD 217 615. (Refer to note 24.)

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

PETROLIA NOCO AS

Following a share issue in Petrolia Noco AS in August 2015, Petrolia SE's ownership was diluted from 100% to 49.9%. The company was deconsolidated and is now reported as an Associated Company.

Calculation of values in the balance sheet (amounts in USD 1,000)	Petroresources Ltd	Petrolia NOCO AS	Total
Book value per 31.12.2014	344	0	344
Subsidiary became an associate	0	2,420	2,420
Addition of the year	23	0	23
Share of result of the year	-277	-1,290	-1,567
Divestment	-90	0	-90
Book value per 31.12.2015	0	1,130	1,130
Addition of the year	0	2,994	2,994
Share of result of the year	0	-932	-932
Book value per 31.12.2016	0	3,192	3,192

KEY NUMBERS FROM THE ACCOUNTS

Company	Incorporated in	Assets	Liabilities	Revenue	Profit / (Loss)	Shareholding
Petroresources Ltd	Limassol, Cyprus					
2015		332	189	0	-588	0.00%
Petrolia NOCO AS	Bergen, Norway					
2016		10,897	4,504	192	-1,767	49.90%
2015		19,576	17,312	135	-5,466	49.90%

NOTE 13 OTHER FINANCIAL ASSETS

LOAN TO PETROLIA NOCO AS

As a result of deconsolidating Petrolia NOCO AS in 2015, the loan is now reported under other financial assets. During 2016 the loan from Petrolia SE was fully repaid and a new loan from Petrolia Drilling II AS was granted. The loan is denominated in NOK and carried an annual interest of 6% in 2016. No payment plan is made.

Calculation of values in the balance sheet (amounts in USD 1,000)				
	TM Drill	Petrolia NOCO AS	Other	Total
Book value per 31.12.2014	2,250	0	1,923	4,173
Subsidiary becoming associate	0	22,374	0	22,374
Addition	0	1,630	0	1,630
Repayment	0	-6,219	0	-6,219
Impairment	-2,250	0	-1,923	-4,173
Translation difference	0	-1,154	0	-1,154
Book value per 31.12.2015	0	16,631	0	16,631
Addition	0	12,167	0	12,167
Repayment	0	-25,134	0	-25,134
Translation difference	0	-184	0	-184
Book value per 31.12.2016	0	3,480	0	3,480

NOTE 14 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1,000)	2016	2015
Trade receivables	13,154	15,799
Other current receivables	2,516	2,989
Total	15,670	18,788

Aging of trade receivables 2016	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	3,929	1,097	1,004	363	6,761	13,154
Total						13,154

Aging of trade receivables 2015	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	5,859	1,219	2,553	1,579	4,589	15,799
Total						15,799

Movement of accumulated impairments

(amounts in USD 1,000)	2016	2015
Opening balance	26,592	21,959
Charge for the year	0	4,633
Reversals	-1,227	0
Closing balance	25,365	26,592

NOTE 15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2016 and 2015 Petrolia Invest AS has invested liquid reserves in shares listed on the Oslo Stock Exchange. The table below presents details for shares in DNO International ASA, ticker DNO. The change of fair value amounting to USD 0.1 million (2015: loss of USD 0.4 million) is shown in note 8.

Financial assets at fair value through profit or loss (amounts in USD 1,000)	2016	2015
DNO, shares	416,254	416,254
DNO, total shares	1,083,814,161	1,083,814,161
DNO, % owned	0.04%	0.04%
DNO, market value (NOK 8.48 / USD 0.9838) (NOK 6.03 / USD 0.6845)	409	285
Fair Value / Carried value	409	285

NOTE 16 CASH AND CASH EQUIVALENTS

(amounts in USD 1,000)	2016	2015
Bank deposits	16,847	8,336
Hereof deposits restricted		
Other	19	19
Sum non-current	19	19
Other	195	191
Employees' tax deduction	108	121
Sum current	303	312
Total restricted capital	322	331
Free cash	16,525	8,005
Cash and bank deposits per currency (amounts in USD 1,000)		
Cash and bank deposits in NOK	10,704	2,470
Cash and bank deposits in USD	5,100	4,240
Cash and bank deposits in AED	41	27
Cash and bank deposits in GBP	2	32
Cash and bank deposits in EUR	433	816
Cash and bank deposits in NZD	53	139
Cash and bank deposits in RON	150	139
Cash and bank deposits in AZN	1	13
Cash and bank deposits in ZAR	54	16
Cash and bank deposits in GHS	77	5
Cash and bank deposits in AUD	232	439
Total	16,847	8,336
Restricted cash	-322	-331
Bank overdraft	-274	-60
Total as per cash flow statement	16,251	7,945

NOTE 17 SHARE CAPITAL

Share capital of Petrolia SE as at 31.12.2016: (amounts in USD 1,000)	Number	Nominal value	Book value 2016	Book value 2015
Shares	27,235,867	USD 1.00	USD 27,236	USD 27,236

CHANGES TO SHARE CAPITAL

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

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

- 2016: 27,235,867
- 2015: 27,235,867

As at 31 December the number of shares authorised was:

- 2016: 27,235,867
- 2015: 27,235,867

TREASURY SHARES

As at 31 December 2016 and 2015 Petrolia SE held no treasury shares.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia SE had a total of 2,977 shareholders as at 31 December 2016. The tables below shows the Company's 20 largest shareholders as at 31 December 2016 and as at 27 April 2017 according to the VPS (shares with nominal value USD 1.00 in 2016 and USD 0.10 in 2017):

	Shareholders 31 December 2016	No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC	13,381,639	49.13 %
2	LARSEN OIL & GAS AS	6,269,447	23.02 %
3	Ø. H. HOLDING AS	1,381,882	5.07 %
4	DNB NOR MARKETS, AKSJEHAND/ANALYSE	527,225	1.94 %
5	SIX-SEVEN AS	444,856	1.63 %
6	OLE ANDREAS BAKSAAS	215,000	0.79 %
7	SILVERCOIN INDUSTRIES AS	192,360	0.71 %
8	ELEKTROLAND NORGE AS	170,893	0.63 %
9	SERIOUS AS	164,971	0.61 %
10	HEDEN HOLDING AS	134,788	0.49 %
11	TOKLA AS	118,000	0.43 %
12	LARSEN, VIDAR BERGO	105,156	0.39 %
13	FORLAND HOLDING AS	101,464	0.37 %
14	OLSEN, ROLF ARILD	100,075	0.37 %
15	ONYX AS	97,846	0.36 %
16	JON HANSTVEIT	83,303	0.31 %
17	EGD CAPITAL AS	74,740	0.27 %
18	TORBEN HALVORSEN	65,816	0.24 %
19	ARNE VEIDUNG	64,974	0.24 %
20	CLEARSTREAM BANKING S.A.	64,974	0.21 %
	Others	3,482,925	12.79 %
	Total no. of shares before treasury shares	27,235,867	100.00 %
	Treasury shares	0	0.00%
	Total no. of shares	27,235,867	100.00%

	Shareholders 27 April 2017	No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC	24,711,429	45.97 %
2	LARSEN OIL & GAS AS	9,932,459	18.48 %
3	INTERNATIONAL OILFIELD SERVICES	3,730,486	6.94 %
4	TOT DRILLING LTD.	3,709,888	6.90 %
5	INCREASED OIL RECOVERY AS	3,446,624	6.41 %
6	Ø. H. HOLDING AS	1,400,341	2.60 %
7	TOKLA AS	629,118	1.17 %
8	DNB NOR MARKETS, AKSJEHAND/ANALYSE	523,095	0.97 %
9	SIX-SEVEN AS	444,856	0.83 %
10	SILVERCOIN INDUSTRIES AS	192,360	0.36 %
11	HEDEN HOLDING AS	184,788	0.34 %
12	ELEKTROLAND NORGE AS	170,893	0.32 %
13	JANEM AS	170,372	0.32 %
14	OLE ANDREAS BAKSAAS	165,000	0.31 %
15	SERIOUS AS	164,971	0.31 %
16	SPECTER INVEST AS	140,000	0.26 %
17	LARSEN, VIDAR BERGO	105,156	0.20 %
18	FORLAND HOLDING AS	101,464	0.19 %
19	OLSEN, ROLF ARILD	100,075	0.19 %
20	ONYX AS	97,846	0.18 %
	Others	3,636,767	6.77 %
Total no. of shares before treasury shares		53,757,988	100.00 %
Treasury shares		0	0.00%
Total no. of shares		53,757,988	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 in 2016 and USD 0.10 in 2017 each)

Name	Shares		Options ²⁾	
Members of the board and management as at:	31 December 2016	31 December 2016	27 April 2017	27 April 2017
Berge Gerdt Larsen, Chairman of the Board ¹⁾	0	0	0	0
Pierre Godec, Board member, Managing director	47,274	0	47,274	0
Solve Nilsen, General manager (Norway)	172,971	40,930	172,971	40,930
Total	220,245	40,930	220,245	40,930

¹⁾ Berge Gerdt Larsen owns 44.95% of Increased Oil Recovery AS and his son owns the remaining 55.05%. Larsen Oil & Gas AS is a 100% owned subsidiary of Increased Oil Recovery AS. Together the two companies hold 24.89% of the shares. Increased Oil Recovery AS is a 49.81% shareholder in Independent Oil & Resources Plc, which holds 45.97% of the shares in Petrolia SE. Berge Gerdt Larsen also controls Time Critical Petroleum Resources AS which holds 14.60% in Independent Oil & Resources Plc. Independent Oil & Resources Plc is a 39.25% shareholder in TOT Drilling Ltd. Increased Oil Recovery AS indirectly owns 38.42% in TOT Drilling Ltd.

²⁾ Refer to note 24.

NOTE 18 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	2016	2015
Gross outstanding, mUSD	ISIN: NO 001075576.2	6.00%	6.00%	32,768	0
Gross outstanding, mNOK	ISIN NO 001068359.2 ("PDR05 PRO")	12.00%	12.00%	0	288.5
Gross outstanding, mUSD	(mUSD 32.8 / mNOK 288.5)			32,768	32,751
Of which Group owns	(mUSD 15.1 / mNOK 132.8)			15,087	15,079
Book value 31.12.	Net (mUSD 17.7 / mNOK 155.7)			17,681	17,672

Split between long term and short term portion of bond loan 31.12.2016:	Long term portion	Short term portion	Total bond loan
ISIN: NO 001075576.2 (net mUSD 17.7)	17,681	0	17,681
Book value 31.12. (mUSD 17.7)	17,681	0	17,681

Split between long term and short term portion of bond loan 31.12.2015:	Long term portion	Short term portion	Total bond loan
ISIN NO 001068359.2 ("PDR05 PRO") (net mNOK 155.7)	17,672	0	17,672
Book value 31.12. (mNOK 155.7)	17,672	0	17,672

There are no pledges or securities on the bonds.

One bond loan was listed on the Nordic ABM marked with ticker PDR05 PRO.

The existing bond, ISIN: NO 001075576.2, is not listed.

In March 2015, the Company purchased 30,500,000 bonds at 55% of nominal value, thus generating a profit of USD 1.7 million which is included in other financial income.

In January 2016, all bondholders accepted an offer to exchange the bond loan with a new bond loan. The new bond loan is denominated in USD and matures on 21 July 2019. The interest rate is changed from 12% to 6% annually. Interest is paid on 21 January and on 21 July every year. In January 2017 75% of the net bond loan (mUSD 13.3) was converted to shares resulting in a net outstanding bond loan of mUSD 4.4.

Exchange rate as at 31 December 2016 for NOK/USD was 8.6200 compared to 8.8090 as at 31 December 2015.

MATURITY

Maturity structure gross bond loans (IFRS):	2017	2018	2019	2020	Total
Instalment	0	0	32,768	0	32,768
Interest	1,966	1,966	1,147	0	5,079
Total	1,966	1,966	33,915	0	37,847
Of which to Group (Borrower's Bonds)	-905	-905	-15,615	0	-17,425
Net	1,061	1,061	18,300	0	20,422

Maturity structure gross bond loans (after conversion in January 2017):	2017	2018	2019	2020	Total
Instalment	0	0	19,507	0	19,507
Interest	1,170	1,170	683	0	3,023
Total	1,170	1,170	20,190	0	22,530
Of which to Group (Borrower's Bonds)	-905	-905	-15,615	0	-17,425
Net	265	265	4,575	0	5,105

ISIN NO 001075576.2 - USD 32,768,361.

On 21 January 2017 75% (mUSD 13.3) of the net outstanding loan was converted to shares. After the conversion the gross outstanding loan is mUSD 19.5 and the net outstanding loan is mUSD 4.4. Petrolia SE owns USD 15,086,947 bonds.

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

Covenants

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

In addition Petrolia must ensure that the Group maintains an equity ratio (ratio of total equity to total assets) of 40% or higher on each Balance Sheet Reporting Date, which is every quarter ("financial covenant").

The covenant has been met during 2016 and as at 31 December 2016.

NOTE 19 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1,000)	2016	2015
Liability connected to financial leasing of drilling equipment	2,716	3,704
Other	353	623
Total other non-current liabilities	3,069	4,327

FINANCIAL LEASING LIABILITY ON DRILLING EQUIPMENT AND LAND RIG

The payment schedule is (amounts in USD 1,000) :	2016	2015
Falling due within 1 year	1,368	1,650
Falling due between 1 and 5 years	2,716	3,704
Total	4,084	5,354

Book value of assets financed through financial leasing amounts to USD 4.2 million. Refer also to note 11.

2016

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1,000)	Minimum payments	Present value of payments
Within one year	1,495	1,368
After one year but not more than 5 years	2,830	2,716
More than 5 years	0	0
Total minimum lease payments	4,325	4,084
Less amounts representing finance charges	-241	0
Present value of minimum lease payments	4,084	4,084

2015

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1,000)	Minimum payments	Present value of payments
Within one year	1,820	1,650
After one year but not more than 5 years	4,106	3,704
More than 5 years	0	0
Total minimum lease payments	5,926	5,354
Less amounts representing finance charges	-572	0
Present value of minimum lease payments	5,354	5,354

NOTE 20 TRADE AND OTHER PAYABLES

Current liabilities (amounts in USD 1,000)	2016	2015
Trade payables	8,856	11,643
Total trade payables	8,856	11,643
Other current liabilities		
Other current liabilities	6,213	1,979
Total other current liabilities	6,213	1,979
Total trade payables, other current liabilities	15,069	13,622

NOTE 21 BANK OVERDRAFT

Current liabilities (amounts in USD 1,000)	2016	2015
Overdraft facility	274	60
Total	274	60

NOTE 22 CAPITAL MANAGEMENT

CAPITAL STRUCTURE AND EQUITY

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

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

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

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

(amounts in USD 1,000)	2016	2015
Total liabilities	37,936	43,599
Equity of majority	30,520	47,265
Debt ratio	1.24	0.92

NOTE 23 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The Group uses financial instruments such as bond loans, bank overdrafts, 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 from the financial assets at fair value, all the financial assets are categorised as loans and receivables and are measured at amortised cost. Available for sale investments are measured at cost, and all financial liabilities are categorised as financial liabilities measured at amortised cost. In 2016 and 2015 the Group has invested in shares listed on the Oslo Stock Exchange.

Profit and loss effects from financial instruments measured at fair value through profit and loss are disclosed in note 15. Impairment on financial instruments concerns trade receivables and are disclosed in note 14 and under Credit risk below. The Group's activities expose it to a variety of

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

The Group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The Group is subject to a balanced exposure through income and expenses in USD and NOK and financing in USD and NOK. The Group has a fixed rate on the major part of interest bearing liabilities, which limits the interest rate 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, loans receivable and prepayments for equipment. The maximum risk exposure is represented by the carrying value of trade receivables and other receivables referred to in note 14 and loan receivable shown in note 13.

The Group's revenues arise from a limited number of transactions and customers and therefore credit risk is transparent. Management has assessed the collectability of receivables overdue and do not expect losses for other than balances that have already been impaired. Refer also to note 14.

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

Interest rate risk

The Group is exposed to interest rate risk through its financing activities (refer to notes 18, 19 and 21). Part of the interest-bearing liabilities is based on floating rates which imply 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 31.12.2016 the Group's bond loan has fixed interest, while the lease obligations are subject to floating rates of interest.

Sensitivity for changes in interest rate level (amounts in USD 1,000)	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2016	+50	+39	+39
2015	+50	+63	+63

Further information regarding the interest rate conditions of the Group's financing is given in notes 13, 18, 19 and 21.

Liquidity risk

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

The table below states the maturity profile of the financial liabilities recognised as at 31.12.2016 and 31.12.2015.

As at 31st of December 2016	< 1 year	1-5 years	> 5 years	Total
Trade payables	8,856	0	0	8,856
Bond loans (incl interest) (*)	265	4,840	0	5,105
Leasing (incl interest)	1,495	2,830	0	4,325
Bank overdraft	274	0	0	274
Other liabilities	6,213	0	0	6,213
Total	17,103	7,670	0	24,773

As at 31st of December 2015	< 1 year	1-5 years	> 5 years	Total
Trade payables	11,643	0	0	11,643
Bond loans (incl interest) (**)	530	20,864	0	21,394
Leasing (incl interest)	1,820	4,106	0	5,926
Bank overdraft	60	0	0	60
Other liabilities	1,979	0	0	1,979
Total	16,032	24,970	0	41,002

Retirement benefit obligations have been exempted in the above profiles.

(*) mUSD 13.3 of the bond loan was converted to equity in January 2017 resulting in net outstanding bond loan of mUSD 4.4.

(**) as per the terms of the new bond loan issued in January 2016.

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 and some assets are denominated in NOK.

As at 31 December 2016 the bond loan was

denominated in USD.

As at 31 December 2015 the Group had NOK 288.5 million (NOK 155.7 million net) in bond loan denominated in NOK.

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

The table below illustrates the Group's sensitivity related to reasonable changes in the currency rate between USD and NOK. Changes in other currencies will not have

material impact on the profit & loss or equity.

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2016	5 %	33	33
	-5 %	-30	-30
2015	5 %	700	700
	-5 %	-773	-773

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 value of bonds is based on Norwegian Securities Dealer Association assessment of value for tax purpose at year end, available on the website <http://www.vpff.no/>. The table on the next page shows a comparison of book values and fair values of the bond.

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

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.

- 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). The carrying amount per 31st of December 2016 was USD 0.4 million.

Bond loan - fair value	2016	2015
Net outstanding, mNOK		155.7
Book value	17,681	17,672
Fair value	15,559	16,788
http://www.vpff.no/	88%	95%

NOTE 24 RELATED PARTIES

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

IOR AS is the 100% owner of LOG AS. Mr. Berge Gerdt Larsen, Chairman of the Board has economic interest of 44.95% in IOR AS and LOG AS and is the chairman of the board in IOR AS and LOG AS.

The Company has an office support agreement with LOG AS. The annual cost coverage was NOK 1.6 million in 2016.

During September 2016 the Group had a short term loan of NOK 25 million (USD 2.9 million) from IOR AS. The loan carried no interest and was in its entirety repaid in September 2016.

KVER AS

An office lease agreement has been signed with Kver AS, controlled by Mr. Berge Gerdt Larsen. Annual office rent is NOK 0.7 million. In 2016 shared costs amounted to NOK 0.3 million.

INDEPENDENT OIL & RESOURCES PLC (IOTA)

IOTA is the largest shareholder of the Company.

In 2015 IOTA purchased the shares in Petroresources Ltd for USD 90 000.

The General Manager of the Group's operations in Norway has purchased 40,930 options in the Company's shares from IOTA. Strike price is NOK 12.60 and the options expire on 28 October 2017.

TOT DRILLING LTD

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

In the same agreement the rig was hired back on a three year bareboat charter with purchase options. The charter is USD 147,284 per month reflecting a four-year annuity at 12% annual interest. In September 2015 the purchase option was executed and in February 2016 the payment was completed when bonds of USD 2.5 million were transferred to TOT Drilling. The bonds were valued at par value.

Mr. Berge Gerdt Larsen, Chair of the Board, and a party related to him have non-controlling interests in TOT Drilling Ltd., Aberdeen, Scotland. Neither are on the Board of Directors of TOT Drilling Ltd.

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

JUDITH PARRY

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

PETROLIA NOCO AS

The Group has granted a loan to Petrolia NOCO AS (owned 49.9%). The loan is

denominated in NOK and carried an interest rate of 6% in 2016. No repayment plan has been made.

NOTE 25 MATERIAL PARTLY OWNED SUBSIDIARIES

Independent Oil Tools DOSCO BV The Netherlands	2016	2015
Proportion of equity interest held by non-controlling interest	30%	30%
Accumulated balances of material non-controlling interest	1,266	1,806
Profit/ (loss) allocated to material non-controlling interest	-493	-529
Comprehensive income allocated to material non-controlling interest	-542	-806
Effect from increased ownership	0	-1,655

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

Summarised statement of profit or loss	2016	2015
Revenue	7,328	15,744
Cost of sales	5,479	11,486
Administrative and other expenses	2,593	4,855
Depreciation	951	906
Impairments	0	141
Finance costs	-96	0
Profit before tax	-1,599	-1,644
Income tax	47	137
Profit for the year	-1,646	-1,765
Exchange differences	-159	-906
Total comprehensive income	-1,805	-2,687
Attributable to non-controlling interest	-542	-806
Dividends paid to non-controlling interest	0	0

NOTE 26 ACQUISITION OF NON-CONTROLLING INTERESTS

On 8 July 2015 the Group acquired an additional 19% of its subsidiary Independent Oil Tools Dosco BV, increasing its ownership from 51% to 70%. A cash consideration of EUR 380 000 was paid and a deferred payment of an additional EUR 570 000 agreed. Total consideration agreed was EUR 950 000 (USD 1 037 000). Following is a schedule of the additional interest acquired:

Independent Oil Tools DOSCO BV The Netherlands	USD 1,000
Cash consideration paid to non-controlling shareholders	1,037
Carrying value of the additional interest	-1,676
Difference recognised in retained earnings	-639

NOTE 27 EVENTS AFTER THE BALANCE SHEET DATE

- 21 January: the resolutions by the bondholders on 8 December and by the shareholders on 15 December were implemented and the Registrar of Companies in the Republic of Cyprus has updated the following capital changes:

(i) the authorised and the issued share capital were both reduced from USD 27,235,867 to USD 2,723,586.70 by reducing the par value from USD 1.00 to USD 0.10. The capital reduction was used to reduce accumulated losses.

(ii) the authorised share capital was increased back to USD 27,235,867 by increasing the authorised number of shares from 27,235,867 to 272,358,670

(iii) the issued capital was increased to USD 5,375,798.80 by issuing 26,522,121 new shares. The new shares were valued at USD 0.50 per share and used as payment for the conversion of USD 13.3 million bonds into equity.

The equity thus increased by USD 13.3 million and the bond loan was reduced by the same amount to a net outstanding of USD 4.4 million. The shares are subject to a 1-year lock-up period. The shares were listed from Tuesday 24 January 2017. The number of issued shares has increased from 27.2 million to 53.8 million and the old shareholders have been diluted from 100% to 50.7%.

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2016

PETROLIA SE

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 USD 000	2015 USD 000
Revenue	3	507	1.176
Other income		137	-
Gain on buyback of own bond		-	1.749
Administration expenses		(2.049)	(3.699)
Impairment charge on investments in subsidiary companies	9	(15.310)	(4.747)
Loss on disposal of associate companies	10	-	(218)
Reversal of impairment/(impairment charge) on investments in associates	10	209	(1.329)
Reversal of impairment/(impairment charge) of loan receivable from related parties - net	17.3	742	(1.807)
Impairment charge on accounts receivable from related parties	11	(325)	(1.087)
Operating loss	4	(16.089)	(9.962)
Finance income	6	2.280	2.594
Finance costs	6	(2.668)	(5.225)
Loss before tax		(16.477)	(12.593)
Tax	7	(40)	(55)
Net loss for the year		(16.517)	(12.648)
Other comprehensive income		-	-
Total comprehensive loss for the year		(16.517)	(12.648)

PETROLIA SE**STATEMENT OF FINANCIAL POSITION**

At 31 December 2016

	Note	2016 USD 000	2015 USD 000
ASSETS			
Non-current assets			
Investments in subsidiary companies	9	113.615	138.543
Investments in associate companies	10	1.339	1.130
Restricted cash	12	20	26
Loans due from related parties	17.3	40	17.233
		115.014	156.932
Current assets			
Loans due from related parties	17.3	60	60
Trade and other receivables	11	5.824	6.208
Cash at bank	13	2.840	852
		8.724	7.120
Total assets		123.738	164.052
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	14	27.236	27.236
Merger reserve		67.093	67.093
Accumulated losses		(73.128)	(56.611)
Total equity		21.201	37.718
Non-current liabilities			
Borrowings	15	17.682	17.672
Loans due to related parties	17.5	84.019	108.061
		101.701	125.733
Current liabilities			
Borrowings	15	474	67
Trade and other payables	16	322	479
Taxation	7	40	55
		836	601
Total liabilities		102.537	126.334
Total equity and liabilities		123.738	164.052

On 27 April 2017 the Board of Directors of Petrolia SE authorised these financial statements for issue.



Berge Gerdt Larsen
Chairman of the Board



Sjur Storaas
Board member



Erwin Joseph Pierre Godec
Board member, Managing Director



Judith Parry
Board member

PETROLIA SE**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2016

	Share capital USD 000	Merger reserve USD 000	Accumulated losses USD 000	Total USD 000
At 1 January 2015	27.236	67.093	(43.963)	50.366
Net loss for the year	-	-	(12.648)	(12.648)
Balance at 31 December 2015/ 1 January 2016	27.236	67.093	(56.611)	37.718
Net loss for the year	-	-	(16.517)	(16.517)
Balance 31 December 2016	27.236	67.093	(73.128)	21.201

PETROLIA SE**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2016

	Note	2016 USD 000	2015 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(16.477)	(12.593)
Adjustments for:			
Unrealised exchange gain	6	(1.543)	(400)
Interest income	6	(737)	(2.194)
Interest expense	6	2.662	5.177
Gain on buyback of own bond		-	(1.749)
Loss on disposal of associate	10	-	218
(Reversal)/impairment charge – investment in associates	10	(209)	1.329
Impairment charge - investments in subsidiaries	9	15.310	4.747
(Reversal)/impairment charge – loans from related parties	17.3	(742)	1.807
Impairment charge – accounts receivable from related parties	11	325	1.087
Cash flows used in operations before working capital changes		(1.411)	(2.571)
Decrease/(increase) in trade and other receivables		59	(4.622)
(Decrease) in trade and other payables		(157)	(326)
Cash flows used in operations		(1.509)	(7.519)
Tax paid		(55)	-
Net cash flows used in operating activities		(1.564)	(7.519)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment in associates	10	-	(347)
Proceeds from disposal of associates	10	-	90
Net cash flows used in investing activities		-	(257)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from loans from related parties		18.672	29.250
Net payments from loans granted to related parties		(14.409)	(7.236)
Interest paid		(717)	(5.229)
Reduction in restricted cash		6	1.034
Purchases of own bonds		-	(11.364)
Net cash flows from financing activities		3.552	6.455
Net decrease in cash and cash equivalents		1.988	(1.321)
Cash and cash equivalents:			
At beginning of the year		852	2.173
At end of the year	13	2.840	852

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. Corporate information

Country of incorporation

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

Change of Company name

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

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

Principal activities

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

2. Basis of preparation

These 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 notes to the consolidated financial statements provide additional information to the parent financial statements. The accounting policies applied to the Group accounts have also been applied to the parent company, Petrolia SE. The parent financial statements should be read in conjunction with the consolidated financial statements. Investments in subsidiaries and associates are carried at cost in these separate financial statements less impairment. In case of impairment, the investment is written down to its recoverable amount. The Company's functional currency is US dollars (USD) and the financial statements are presented in USD.

3. Revenue

	2016 USD 000	2015 USD 000
Management fees (Note 17.2)	249	986
Consultancy fees (Note 17.2)	<u>258</u>	<u>190</u>
	<u>507</u>	<u>1.176</u>

4. Operating loss

	2016 USD 000	2015 USD 000
Operating loss is stated after charging the following items:		
Directors' fees (Note 17.1)	89	87
Staff costs (Note 5)	668	1.416
Auditor's remuneration	165	201
Auditor's remuneration prior year	5	10
Auditor's remuneration for non-audit services	8	2
Legal and professional fees	<u>469</u>	<u>1.136</u>

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

5. Staff costs

	2016 USD 000	2015 USD 000
Salaries	607	1.286
Other staff costs	11	19
Social insurance costs and other funds	50	111
	668	1.416

The average number of employees during the year was 3 (2015: 3).

6. Finance income/(costs)

	2016 USD 000	2015 USD 000
Interest income – loans with related parties (Note 17.3)	730	2.181
Other interest income	7	13
Net foreign exchange transaction gains	1.543	400
Finance income	2.280	2.594
Bond loan interest	(1.119)	(2.674)
Interest expense – loans with related parties (Note 17.5)	(1.524)	(2.503)
Other interest expense	(19)	-
Sundry finance expenses	(6)	(48)
Finance costs	(2.668)	(5.225)
Net finance cost	(388)	(2.631)

7. Tax

Statement of Comprehensive Income	2016 USD 000	2015 USD 000
Corporation tax	40	55
Statement of Financial Position	2016 USD 000	2015 USD 000
Corporation tax	40	55

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

	2016 USD 000	2015 USD 000
Loss before tax	(16.477)	(12.593)
Tax calculated at the applicable tax rates	(2.060)	(1.574)
Tax effect of expenses not deductible for tax purposes	2.272	1.759
Tax effect of allowances and income not subject to tax	(176)	(37)
Tax effect of losses carried forward	-	(98)
Additional tax	4	5
Tax charge	40	55

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. Tax (continued)

The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all companies are taxed at the standard corporation tax rate of 12,5%.

Interest income is subject to Income Tax at the standard rate of 12,5% if the interest is considered to be generated in the ordinary carrying on of a business or closely connected to it. If the interest income is neither generated in the ordinary carrying on of a business nor closely connected to it, it is subject to Defence Tax at a rate of 30%.

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 17% 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.

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.

8. Property, plant and equipment

Cost	Office equipment USD 000
Balance at 1 January 2015	169
Balance at 31 December 2015/1 January 2016	169
Balance at 31 December 2016	169
Depreciation	
Balance at 1 January 2015	169
Charge for the year	-
Balance at 31 December 2015/1 January 2016	169
Charge for the year	-
Balance at 31 December 2016	169
Net book value	
Balance at 31 December 2016	-
Balance at 31 December 2015	-

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

9. Investments in subsidiary companies

At cost	2016 USD 000	2015 USD 000
Balance at 1 January	138.543	137.977
Additions	-	7.733
Reclassification to investments in associates (note 10)	-	(2.420)
Impairment charge	(15.310)	(4.747)
Adjustment on prior year additions	(34)	-
Reduction of paid in Share Capital	(9.584)	-
Balance at 31 December	<u>113.615</u>	<u>138.543</u>

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2016 Holding %	2015 Holding %	2016 USD 000	2015 USD 000
Petrolia Drilling II AS (1)	Norway	Holding company of IOT Group	100	100	48.551	43.340
Petrolia Invest AS (2)	Norway	Holding company	100	100	43.265	45.308
Petrolia Tool Pool AS	Norway	Holding company (Catch fishing Group)	100	100	17	17
Venture Drilling AS (3)	Norway	Oil service	100	100	20.721	42.174
Baratie Limited (formerly Petrolia E&P International Ltd)	Cyprus	Dormant	100	100	1	1
Independent Oil Tools International (Cyprus) Ltd (4)	Cyprus	Dormant	100	100	<u>1.060</u>	<u>7.703</u>
					<u>113.615</u>	<u>138.543</u>

The Company performs an impairment test of its subsidiaries when there are indicators for impairment in accordance with the relevant accounting standard. When estimating the recoverable amount of the subsidiaries, the Management has considered mainly the profitability and financial position of each subsidiary.

- (1) A reversal of impairment was recognised during 2016 for an amount of USD 8.556 thousand (accumulated impairment is USD 115.915 thousand).
- (2) An impairment provision was recognised during 2016 for an amount of USD 2.043 thousand (accumulated impairment is USD 8.783 thousand).
- (3) An impairment provision was recognised during 2016 for an amount of USD 15.214 thousand (accumulated impairment is USD 33.980 thousand).
- (4) An impairment provision was recognised during 2016 for an amount of USD 6.609 thousand (accumulated impairment is USD 6.641 thousand).

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. Investment in associate companies

At cost	2016 USD 000	2015 USD 000
Balance at 1 January	1.130	-
Reclassification from investments in subsidiaries (note 9)	-	2.420
Additions	-	347
Disposals	-	(308)
Reversal of impairment/(impairment charge)	209	(1.329)
Balance at 31 December	<u>1.339</u>	<u>1.130</u>

The details of the associates are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2016 Holding %	2015 Holding %	2016 USD 000	2015 USD 000
Petrolia Noco AS (1)	Norway	Oil & Gas	20,93	49,90	<u>1.339</u>	<u>1.130</u>
					<u>1.339</u>	<u>1.130</u>

- (1) Following a share issue in Petrolia NOCO AS (formerly Petrolia Norway AS) in June 2016, in which the Company has not participated, the Company's ownership was diluted from 49,9% to 20,93%. A reversal of impairment was recognised during 2016 for an amount of USD 209 thousand. (Accumulated impairment is USD 24.319 thousand).
- (2) During 2015, the investment in Petroresources Ltd, was impaired by USD 39 thousand. In September 2015, Petrolia sold its shares in Petroresources Ltd to IO&R PLC for a total consideration USD 90 thousand incurring a loss on disposal of USD 218 thousand.

11. Trade and other receivables

	2016 USD 000	2015 USD 000
Trade receivables	39	11
Deposits and prepayments	10	83
Refundable VAT	165	167
Receivables from related parties (Note 17.6)	<u>5.610</u>	<u>5.947</u>
	<u>5.824</u>	<u>6.208</u>

During the year the receivables from related parties were impaired by USD 325 thousand (2015: USD 1.087).

12. Restricted cash

	2016 USD 000	2015 USD 000
Bank deposits	<u>20</u>	<u>26</u>

Refer also to Note 16 in the Group accounts.

13. Cash at bank and in hand

Cash balances are analysed as follows:

	2016 USD 000	2015 USD 000
Cash at bank and in hand	<u>2.840</u>	<u>852</u>
	<u>2.840</u>	<u>852</u>

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

14. Share capital

	2016	2016	2015	2015
	Number of shares	USD 000	Number of shares	USD 000
Authorised				
Ordinary shares of USD1 each	<u>27.235.867</u>	<u>27.236</u>	<u>27.235.867</u>	<u>27.236</u>
Issued and fully paid				
Balance at 1 January 2016	<u>27.235.867</u>	<u>27.236</u>	<u>27.235.867</u>	<u>27.236</u>
Balance at 31 December	<u>27.235.867</u>	<u>27.236</u>	<u>27.235.867</u>	<u>27.236</u>

Authorised capital

Petrolia SE fixed its authorised share capital to 27.235.867 ordinary shares of nominal value of USD1 each.

Issued capital

Upon incorporation on 9 August 2011 the Company issued to the subscribers of its Memorandum of Association 1.000 ordinary shares of USD 1 each at par. On 10 October 2011 the Company issued an additional 34.000 ordinary shares of USD1 each increasing, therefore, its issued share capital to USD 35.000 divided into 35.000 ordinary shares of USD 1 each.

As consideration to the shareholders of Petrolia ASA as at the time of completion of the cross-border merger, Petrolia E&P Holdings Plc issued a total of 27.200.867 shares with a nominal value of USD 1 each (the "Consideration Shares"), the exchange ratio between the shares of Petrolia ASA and the shares of Petrolia E&P Holdings Plc thus being 0,090045702 (rounded down to 0,09004), or approximately 1 new share in the capital of the Petrolia E&P Holdings Plc for 11 shares in Petrolia ASA.

As of 31 December 2016 the total number of shares issued by the Company amounted to 27.235.867.

Refer also to Note 17 in the Group accounts.

15. Borrowings

	2016 USD 000	2015 USD 000
Current borrowings		
6% Callable bond loan - interest due, not yet paid	<u>474</u>	<u>67</u>
	<u>474</u>	<u>67</u>
Non current borrowings		
6% Callable bond loan- principal	<u>17.682</u>	<u>17.672</u>
Total	<u>18.156</u>	<u>17.739</u>
Maturity of borrowings:		
Within one year	<u>474</u>	<u>67</u>
Between one and five years	<u>17.682</u>	<u>17.672</u>
	<u>18.156</u>	<u>17.739</u>

Refer also to Note 18 in the Group accounts.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. Trade and other payables

	2016 USD 000	2015 USD 000
Trade payable	68	185
Social insurance and other taxes	61	134
Holiday allowance	4	16
Accruals	189	106
Amounts due to related companies (Note 17.4)	-	38
	<u>322</u>	<u>479</u>

17. Related party balances and transactions

The following transactions were carried out with related parties:

17.1 Directors' remuneration (Note 4)

	2016 USD 000	2015 USD 000
Directors' fees	<u>89</u>	<u>87</u>
	<u>89</u>	<u>87</u>

17.2 Rendering of services (Note 3)

Name	Nature of transactions	2016 USD 000	2015 USD 000
Petroresources Ltd (ex-group associated company)	Management fees	-	26
Oil Tools Supplier AS (Group associated company)	Management fees	56	331
Petrolia Noco AS (subsidiary company)	Management fees	74	200
Petrolia Tool Pool AS (Group subsidiary company)	Management fees	-	84
Petrolia Drilling II AS (subsidiary company)	Management fees	40	41
Petrolia Invest AS (subsidiary company)	Management fees	33	94
Venture Drilling AS (subsidiary company)	Management fees	28	116
Petrolia Rigs II AS (Group subsidiary company)	Management fees	18	32
Petrolia Rigs AS (Group subsidiary company)	Management fees	-	62
		<u>249</u>	<u>986</u>

Name	Nature of transactions	2016 USD 000	2015 USD 000
Larsen Oil & Gas AS (Shareholder)	Consultancy fees	164	-
Independent Oil Tools Dosco BV (Group subsidiary company)	Consultancy fees	-	6
Independent Oil Tools SRL (Group subsidiary company)	Consultancy fees	-	6
Catch Fishing Services BV (Group subsidiary company)	Consultancy fees	<u>94</u>	<u>178</u>
		<u>258</u>	<u>190</u>

PETROLIA SE**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016

17.3 Loans due from related parties

	2016 USD 000	2015 USD 000
Petrolia NOCO AS (associate company) (1)	-	16.631
IO&R Ltd (Group subsidiary company) (2)	-	508
Kjetil Forland (Chief Executive Officer of Petrolia NOCO AS) (3)	100	154
	100	17.293
Of which classified as current assets	(60)	(60)
Non-current assets	40	17.233

- (1) The loan principal with Petrolia NOCO AS (formerly Petrolia Norway AS) was settled in 2016 (2015: USD 16.631 thousand). The interest income for 2016 amounted to USD 728 thousand (2015: USD 2.148 thousand).
- (2) The outstanding loan principal with IO&R Ltd amounted to USD Nil (2015: USD 500 thousand) whereas the accrued interest amounted to USD Nil (2015: USD 8 thousand / NOK 59 thousand). Interest income for the year amounted to USD 2 thousand (2015: USD 14 thousand). The amount was fully impaired in 2016 by USD 513 thousand.
- (3) The outstanding loan principal with the Chief Executive Officer of Petrolia NOCO AS amounted to USD 100 thousand. The loan bears interest of 2,25% per annum and is repayable by monthly deductions from salary within five years.
- (4) The outstanding loan balance of Catch Fishing Services BV (Group subsidiary company) as at 31 December 2016 amounted to USD Nil (2015: USD Nil). The loan was repayable within 24 months from the received day. Interest income for the year amounted to USD Nil thousand (2015: USD 3 thousand). The amount was fully impaired in 2015. An additional impairment was made during 2016 of USD 36 thousand.
- (5) The outstanding loan balance of Independent Oil Tools S.R.L (Group subsidiary company) as at 31 December 2016 amounted to USD Nil (2015: USD Nil). The loan was repayable within 12 months from the received day. Interest income for the year amounted to USD Nil thousand (2015: USD 16 thousand). Amount was fully impaired during 2015 for an amount of USD 1.516 thousand. An impairment reversal was recognised during 2016 for an amount of USD 1.291 thousand which has been fully settled in the year.

The loans to related companies were provided at three months Libor plus a margin of 2,25% p.a., and with no specified repayment date. The Company does not intend to request payment during 2017 (except the monthly payment from Kjetil Forland), therefore, the rest loans due from related parties are classified as non-current assets in the Company's statement of financial position.

17.4 Amounts due to related parties (Note 16)

<u>Name</u>	<u>Nature of transactions</u>	2016 USD 000	2015 USD 000
Independent Oil Tools S.R.L (Group subsidiary company)	Current account	-	14
Berge Larsen (chairman)	Current account	-	24
		-	38

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17.5 Loans due to related parties

		2016 USD 000	2015 USD 000
	<u>Terms</u>		
Petrolia Rigs AS (Group subsidiary company) (1)	Inter-company loan	-	42.115
Venture Drilling AS (subsidiary company) (2)	Inter-company loan	10.134	35.338
Petrolia Invest AS (subsidiary company) (3)	Inter-company loan	30.983	30.608
Petrolia Drilling II AS (subsidiary company) (1)	Inter-company loan	24.043	-
Oil Tools Supplier AS (subsidiary company) (2)	Inter-company loan	18.859	-
		84.019	108.061

- (1) The outstanding loan of USD 24.043 (including accrued interest) with Petrolia Rigs AS Ltd was transferred to Petrolia Drilling II AS in 2016 (2015: USD 42.115 thousand). Interest expense for the year amounted to USD 595 thousand (2015: USD 1.022 thousand).
- (2) The outstanding loan principal with Venture Drilling AS Ltd amounted to USD 9.969 thousand (2015: USD 35.115 thousand) whereas the accrued interest amounted to USD 165 thousand (2015: USD 223 thousand). In 2016 USD 18.859 thousand were reassigned to Oil Tools Supplier AS. Interest expense for the year amounted to USD 497 thousand (2015: USD 838 thousand).
- (3) The outstanding loan principal with Petrolia Invest AS amounted to USD 30.631 thousand (2015: USD 30.413 thousand) whereas the accrued interest amounted to USD 352 thousand (2015: USD 195 thousand). Interest expense for the year amounted to USD 432 thousand (2015: USD 643 thousand).

The loans from related companies were provided at three months Libor plus a margin of 2,25% p.a. and with no specified repayment date. The related companies will not request payment during 2017, therefore, the loans due to related parties are classified as non-current liabilities in the Company's statement of financial position.

17.6 Receivables from related parties (Note 11)

	2016 USD 000	2015 USD 000
IO & R Ltd (Group subsidiary company)	66	67
Petroresources Ltd (ex-associate company)	-	5
Independent Tool Pool DMCC (Group subsidiary company)	-	5.431
Increased Oil Recovery Ltd (indirect shareholder)	5.469	331
Petrolia Rigs II AS (Group subsidiary company)	24	7
Petrolia Drilling II AS (subsidiary company)	2	9
Independent Oil Tools Limited (Dubai) (Group subsidiary company)	-	3
Venture Drilling AS (Group subsidiary company)	1	-
Oil Tool Suppliers AS (Group subsidiary company)	3	-
Independent Oil Tools Iraq (Group subsidiary company)	-	1
Independent Oil Tools AS (Group subsidiary company)	44	92
Petrolia Invest AS (Group subsidiary company)	1	-
Petrolia NOCO AS (associate company)	-	1
	5.610	5.947

18. Events after the reporting period

Refer to Note 27 in the Group accounts.

AUDITOR'S



AUDITOR'S REPORT



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Independent Auditor's Report

To the Members of Petrolia SE

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

Opinion

We have audited the accompanying consolidated financial statements of Petrolia SE and its subsidiaries (the "Group"), and the separate financial statements of Petrolia SE (the "Company"), which comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows and the statements of comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes to the consolidated and the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Ernst & Young Cyprus Ltd is a member firm of Ernst & Young Global Ltd.

Ernst & Young Cyprus Ltd is a limited liability company incorporated in Cyprus with registration number HE 222520. A list of the directors' names is available at the company's registered office, Jean Nouvel Tower, 6 Stasinou Avenue, 1500 Nicosia, Cyprus.

Offices: Nicosia, Limassol



Impairment – Recoverability of investments in subsidiaries, Valuation of oil-service and other drilling equipment and Recoverability of trade receivables

Recoverability of investments in subsidiaries (Parent Company only)

The key audit matter

Investments in subsidiaries represent 92% of the Company's total assets. An analysis of the investments in subsidiaries is presented in note 9 to the Company's separate financial statements. The most significant subsidiaries operate in the oil service industry and continue to incur losses, resulting in the value of their net assets being lower than the carrying amount of the investment, which are impairment indicators. Management's assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around assumptions used. Changes to assumptions could lead to material changes in the estimated recoverable amount, impacting both potential impairment charges and also potential reversals of impairment recorded in prior years.

How the matter was addressed in our audit

We have considered management's identification of indicators of impairment under accounting standards. We have assessed the methodology used by management to estimate the recoverable amount of each investment, in conjunction with any intra-group balances, and considered its consistency with accounting standards.

We have assessed the assumptions used in management's estimates of the recoverable amount of the investments.

Valuation of oil-service and other drilling equipment

The key audit matter

Oil-service and other drilling equipment represent 36% of the Group's total assets. A history of recent losses and the fact that the value of the shareholders' equity materially exceeds the Group's market capitalisation, have resulted in an indication of impairment of oil-service and other drilling equipment. For this reason, the Group subjected the various cash-generating units to an impairment test.

These impairment tests were significant for our audit, since the estimation process is complex and highly subjective and is based on assumptions.

How the matter was addressed in our audit

Our audit procedures included, among others, an assessment of the assumptions and methods used at subsidiary level. In doing so, in certain cases, we involved our internal valuation experts. Our evaluation was focused on the principal assumptions used such as the discount rate, the expected trend in turnover, utilization rates, EBITDA and recent selling prices of drilling equipment. We also considered the identification of cash generating units and the Group's disclosures as regards the assumptions that have the most significant effect on the determination of the recoverable amount of its assets. In doing so, we tested whether these disclosures are adequate and provide sufficient insight into the choice of the assumptions. The Group provides details on the impairment tests in note 11 to the consolidated financial statements.

Recoverability of trade receivables

The key audit matter

Trade receivable balances represent 19% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by both Group and local management.

The determination as to whether a trade receivable is collectable involves management judgement. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.



We focused on this area because it requires a high level of management judgement and due to the materiality of the amounts involved. The Group's disclosures on trade receivables are provided in note 14 to the consolidated financial statements.

How the matter was addressed in our audit

We assessed the assumptions used to calculate the trade receivables impairment amount, notably through detailed analyses of ageing of receivables, assessment of significant overdue individual trade receivables and assessing specific local risks, combined with legal documentation, where applicable. In our trade receivable recoverability evaluation, we also considered the results from the other audit procedures which include but are not limited to test of details on sales transactions, sending trade receivable confirmations and subsequent receipt testing of bank payments.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and the Board of Directors' report on Corporate Governance, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements 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.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and the separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated and 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 separate financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated and the separate financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated and separate financial statements.



- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other Matters

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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.

The engagement partner on the audit resulting in this independent auditor's report is Stavros Pantzaris.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia, 28 April 2017

CORPORATE



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 ("the Board") and the executive management. The purpose of this document is to outline the current status of Petrolia's Corporate Governance Policy.

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

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

The holding company Petrolia SE is domiciled in Cyprus and adheres to Cypriot law, consequently various associated policies can be subject to updates and revisions. Any updates and changes in the Company's Corporate Governance Policy will be published on www.petrolia.eu.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Petrolia believes that maintaining solid standards of Corporate Governance will improve the quality of discussions and work to be carried out by the corporate bodies. 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 over time.

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

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 2017, the Company is described as follows in Stock Exchange Notices: Petrolia SE has two business segments: Exploration & Production ("E&P"), and OilService and is listed on Oslo Stock Exchange under the ticker code PDR. The activity includes investments in Petrolia NOCO AS, an independent oil & gas company approved as a licensee and pre qualified as an operator on the Norwegian Continental Shelf, and a group of leading rental equipment companies for the global oil industry.

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

3. EQUITY AND DIVIDENDS

Petrolia shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile. The Board of Directors' principal policy as regards to the payment of dividends is to maximise returns on equity primarily in terms of increase in the share price. Dividend payments will depend

on Petrolia's earnings, financial situation and cash flow, where the possibilities for further value creation through investments are taken into account.

The Company's key targets for 2016 were to improve the Company's financial position, prepare the rental equipment business for a more challenging market and to develop Petrolia NOCO AS. Dividends to shareholders are consequently not prioritised in the short term. Dividends are restricted to a maximum of 30% of the Group's profit after taxes according to the bond loan agreement, refer to note 18.

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

As of 31 December 2016, the Company had equity of USD 31.4 million, representing an equity ratio of 45 per cent. Following the increase in share capital and conversion of bonds in January 2017 this ratio is now 64 per cent.

At the Extraordinary General Meeting on 24 June 2015, the Board of Directors was granted authorisations relating to increasing the share capital and acquiring the Company's own shares. The details of these authorisations are provided in the minutes to the Extraordinary General Meeting, published 25 June 2015 on the Company's website www.petrolia.eu.

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

Petrolia has one class of shares and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable. No shareholder shall be treated unequally unless it is in the Company's

and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in Petrolia's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

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

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

A disclosure of any related party transaction is presented in Note 24 in the Annual Report. At the Extraordinary Annual General Meeting on 24 June 2015 the Board of Directors was granted authorisations relating to increasing the share capital and to acquiring its own shares. The details of the authorisations are provided in the minutes to the Extraordinary General Meeting, published 25 June 2015 on the Company's website www.petrolia.eu.

5. FREELY NEGOTIABLE SHARES

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

6. GENERAL MEETING

Through the General Meeting the shareholders exercise the highest authority in Petrolia. General Meetings are convened by written notice to all shareholders with known addresses and 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 website, and not normally be sent physically by post to the shareholders unless required by law. In order to ensure that the General Meeting is an effective forum for the views of the shareholders and the Board of Directors, the Board shall ensure that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

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

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

it advisable to recommend the introduction of electronic attendance. The Company will contemplate the introduction of such arrangements on an on-going basis in view of, inter alia, the security and ease of use offered by available systems.

The General Meetings shall be organised 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. In addition, 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 26 August 2016 Rob Arnott, Tove Kate Larsen and Andros Constantinou were elected as members of the nomination committee.

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

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

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

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

The Board of Directors comprised four directors as per 31 December 2016. The current composition of the Board of Directors is described in note 6 in the Petrolia SE Annual Report 2016. The Board shall attend to the common interests of all shareholders, and its members shall meet the Company's need for expertise, capacity and diversity. Attention should be paid to the fact that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

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

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

Five board meetings were held during 2016, with a near complete attendance among the

board members.

All the directors are encouraged to hold shares in Petrolia, however not to an extent that can encourage a short-term approach that is not in the best interest of Petrolia and its shareholders. The shareholdings of the directors as per 31 December 2016 are set out in Note 17 to the consolidated annual statements.

9. THE WORK OF THE BOARD OF DIRECTORS

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

- Lead Petrolia's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- Ensure that all instructions given by the Board of Directors are complied with;
- Ensure that the Board of Directors are well informed about the Company's and the Group's financial position,
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's executive management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the executive management and the Board of Directors;
- Agree on dividend policy;
- Annually evaluate its work, performance, composition, expertise, and that of the managing director (the MD"). The evaluation of the Board's work should be made available to the Nomination Committee. The Board of Directors did not evaluate its own work in 2016;
- Ensure that a system of direction and internal control is established and maintained as to ensure that the Group activities are conducted in accordance with all rules and regulation applicable to the Group, Petrolia's Articles of Association, its corporate values and its ethical guidelines, as well as authorisations and

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

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

The Board of Directors has appointed an Audit Committee. The committee, which is composed of Judith Parry and Sjur Storaas, shall prepare the Board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the Group's auditor on a regular basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the Group may jeopardise the independence. The Audit Committee held regular meetings in 2016 and reviewed all interim reports prior to publication. The committee works closely with the auditor.

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

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

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

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

10. RISK MANAGEMENT AND INTERNAL CONTROL

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

The most important risk factors applicable to the Group are thoroughly considered in connection with yearly budgeting. The Audit Committee reviews quarterly reports from the Group companies and reports to the Board. The annual accounts for all Group companies are audited by the Group's external auditor. The Company's risk management systems are described in Note 23 of this Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

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

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

More detailed information about the reward of individual directors in 2016 is provided in Note 6 to the consolidated financial statements for the Group.

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 unless instructed by the Board. If such assignments are taken on, they shall be disclosed to the full Board, and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board and any remuneration paid in addition to normal director's fees. Details regarding Erwin Joseph Pierre Godec's remuneration are disclosed in Note 6 to the consolidated financial statements.

12. REMUNERATION OF EXECUTIVE MANAGEMENT

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

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

The Company has no bonus schemes or incentives in place. As of 31 December 2016, executive management held common shares in the Company following the rights issue offered to key employees and the Board of Directors on 2 September 2011, in addition to shares and options bought in the market. Details regarding management remuneration can be found in Note 6 to the consolidated financial statements.

13. INFORMATION AND COMMUNICATION

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

- Each year, Petrolia publishes a Financial Calendar detailing key events.

- Information to shareholders is distributed through stock exchange notices and/or on www.petrolia.eu. To the extent required by law, information is also sent by regular post to shareholders.

- All information is available in English, and, when required, Norwegian.

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

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

14. TAKE-OVERS

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

independent expert.

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

15. AUDITORS

Petrolia's auditor is Ernst & Young Cyprus Limited.

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

Excessive non auditing work assigned to the auditor may jeopardise his position and diminish the public confidence in the auditor's integrity and independence from Petrolia.

The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards. The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

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

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

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