



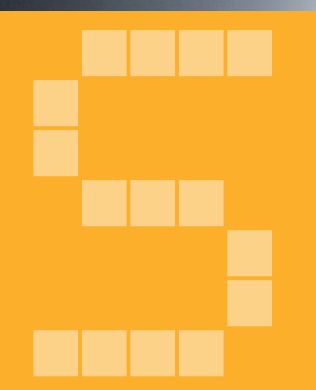




# CONTENT

<b>STATEMENT OF DIRECTORS AND RESPONSIBILITY STATEMENT</b>	<b>05</b>
<b>MANAGEMENT REPORT</b>	<b>07</b>
<b>CORPORATE SOCIAL RESPONSIBILITY</b>	<b>10</b>
<b>FINANCIAL STATEMENTS – GROUP</b>	
Consolidated Income Statement	12
Consolidated Statement of Comprehensive Income	13
Consolidated Statement of Financial Position – Assets	14
Consolidated Statement of Financial Position – Equity and Liabilities	15
Consolidated Statement of Changes in Equity	16
Consolidated Statement of Cash Flows	17
Notes to the consolidated financial statements	18
<b>FINANCIAL STATEMENTS – PARENT COMPANY</b>	
Statement of profit or loss and other Comprehensive Income	55
Statement of Financial Position	56
Statement of Changes in Equity	57
Statement of Cash Flows	58
Notes to the financial statements	59
<b>AUDITOR’S REPORT</b>	<b>76</b>
<b>CORPORATE GOVERNANCE</b>	<b>83</b>





START

MEET



# 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 31 DECEMBER 2020

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 2020, confirm that, to the best of our knowledge:

(a) the annual consolidated and separate financial statements that are presented on pages 12 to 74:

- (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, 30th of April 2021



Berge Gerdt Larsen  
Chairman of the Board



Sjur Storaas  
Board member



George Hadjineophytou  
Board member



Polycarpus Protopapas  
Board member  
Managing director



Sølve Nilsen  
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 PSE.

The core activities include Independent Oil Tools AS, a well-established international oil service company.

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

The Group also owns two land rigs.

## IMPORTANT EVENTS 2020

The Covid-19 pandemic had a profound negative effect on the global economy in 2020. For the Group, the reduced oil prices and consequential reduced activity in our industry had the largest effect. Most operations were less affected directly by the pandemic, although some locations were worse affected than others. The Group was able to reduce operating costs and net cash generated from operating activities actually increased as compared to 2019.

In August, Petrolia Noco AS announced its first commercial oil discovery, Dugong.

## ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

### Financial information, Group

Total revenue amounted to USD 43.6 million for the fiscal year 2020 (2019: USD 66.1 million), mainly related to the OilService segment.

Operating profit for the Group in 2020 amounted to USD 1.5 million, after deduction of depreciation of USD 7.9 million and impairment of fixed assets of USD 0.5 million. Operating profit for the Group in 2019 amounted to USD 6.9 million, after deduction of depreciation of USD 8.3 million and

impairment of fixed assets of USD 0.3 million. Loss after tax for the Group amounted to USD 210 thousand in 2020 (2019: Loss of USD 36 thousand).

As at 31 December 2020, the total assets of the Group amounted to USD 71.4 million of which OilService and other equipment was USD 14.8 million. Total equity of the Group amounted to USD 40.9 million as at 31 December 2020, including a minority interest of USD 1.5 million. Total equity as at 31 December 2019 was USD 41.4 million, including a minority interest of USD 2.1 million. As at 31 December 2020, the total number of shares outstanding in Petrolia SE was 59,133,786 with par value USD 0.10 each.

Cash flows from operations was USD 11.6 million in 2020 (2019: USD 10.5 million). Cash flows from investments was USD 48 thousand in 2019 (2019: USD -8.5 million). Cash flows from financing activities in 2020 was USD -3.3 million (2019: USD -3.5 million) mainly related to interest on bond loan and lease instalments.

Total cash position at 31 December 2020 was USD 16.2 million (2019: USD 7.8 million).

### Financial information, Parent

Total revenues amounting to USD 152 thousand for 2020 (2019: USD 54 thousand), related mainly to management (USD 7 thousand) and consultancy (USD 145 thousand) fees for the rendering of services to the Group by the branch.

Operating loss for the parent company amounted to USD 1.2 million (2019: USD 1.4 million).

Profit after tax for the parent amounted to USD 10.7 million in 2020 (2019: loss of USD 3.1 million).

As at 31 December 2020, the total assets of the Parent amounted to USD 45.5 million of which investments in subsidiaries were USD 40.2 million, investment in associates was USD 0.7 million and USD 4.4 million in trade and other receivables.

Total equity of the Parent amounted to USD 40.2 million as at 31 December 2020 (2019: USD 29.5 million).

As at 31 December 2020, the total number of shares outstanding in Petrolia SE was 59,133,786, with par value USD 0.10 each.

Cash flows from operations were USD 62 thousand in 2020 (2019: USD -1.5 million). Cash flows from investing were nil in 2020 (2019: nil). Cash flows from financing were USD -0.3 million in 2019 (2019: USD -0.1 million).

Total cash position at 31 December 2020 was USD 0.1 million (2019: USD 0.3 million).

## FINANCIAL AND LIQUIDITY RISK

As at 31 December 2020, the Group had a cash balance of USD 16.2 million.

The Group's long-term financing is mainly one bond loan of USD 19.5 million, of which the Group owns USD 14.9 million which falls due in July 2022. 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 reporting date ("financial covenant").

## GOING CONCERN

Management has conducted a review of the going concern assumption considering all relevant information available up to the date the consolidated and separate parent financial statements are issued and taking into account all available information about the future, for at least 12 months from the reporting date.

The forecast cash flows from the OilService segment provide sufficient cash flows and the Group expects to be in a position to serve its working capital needs and other obligations as and when they fall due. These forecasts have been made based on past experiences and detailed knowledge of the local markets. In making the going concern assessment, management continued to monitor the uncertainty caused by the ongoing Covid-19 pandemic and its effects on global economy,





while also noting the significant improvement in the oil price since the reporting date.

The Group's management expects a challenging environment for the OilService segment in 2021, but remains confident in the Group's ability to adapt cost levels to the activity and to maintain sufficient financial resources to enable it to continue as a going concern for the foreseeable future.

Following its review, management confirms that the requirements of the going concern assumption are met and that these financial statements have been prepared on that basis.

#### WORKING ENVIRONMENT AND PERSONNEL

Petrolia SE has four employees, two men and two women.

In total, the Group had 206 highly competent employees worldwide as at 31 December 2020. The Group is an equal opportunity employer and will not tolerate discrimination. Recruitment, promotion and reward are based entirely on merit.

There have not been any serious accidents reported in the Group in 2020.

Petrolia's Board of Directors consisted of 4 men as at 31 December 2020.

#### ENVIRONMENT REPORTING

The Group's objective is that all of its activities are carried out without risk to people or damage to the surroundings. The Group's activities during 2020 did not cause 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.

As Petrolia is listed on the Oslo Stock Exchange, it follows the Norwegian Code of Practice for Corporate Governance of 17 October 2018.

Significant shareholders are presented in note 17 to the consolidated financial statements.

As at 31 December 2020 and as at 28 April 2021, the directors who held shares in the Company are shown in note 17.

There are no restrictions in voting rights or special control rights in relation to the shares of the Company.

Any amendment or addition to the Articles of Association of the Company is only valid if approved by a special resolution at a shareholders' meeting.

The rules governing the composition of the Board of Directors, appointment and replacement of its members and holding of Company's shares are set out in Section 8 of the Corporate Governance Report for 2020.

The powers of the Board of Directors and its Audit and Remuneration Committees are also set out in the Corporate Governance Report in section 9.

The Company, through internal controls implemented by management and supervised by the Audit Committee, implemented effective procedures for the composition and preparation of financial statements and periodic information, as provided by the Laws and Regulations of listed companies. In addition to the above, the main features of these procedures, are as follows:

- The financial statements of the Group companies and the consolidated financial statements are prepared with the responsibility of the Chief Financial Officer and reviewed by the Audit Committee.
- The periodic announcements of the

Company and the detailed explanatory notes are prepared by the Chief Financial Officer and reviewed by the Audit Committee.

- The financial statements and the periodic announcements are approved by the Board of Directors prior to their publication.

#### EXISTENCE OF BRANCHES

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

#### CHANGES IN SHARE CAPITAL

There have been no changes to the share capital during 2020.

#### BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2020 and at the date of this report are Berge Gerdt Larsen, Sjur Storaas, George Hadjineophytou and Polycarpos Protopapas.

The General Meeting on 28 May 2020 re-elected Mr Berge Gerdt Larsen, Mr Sjur Storaas, Mr George Hadjineophytou and Mr Polycarpos Protopapas as directors of the Board. Ms Judith Parry resigned from the Board of Directors and did not seek re-election at the General Meeting.

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**

Please refer to note 28.

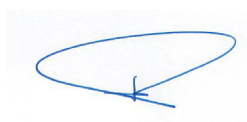
Limassol, 30th of April 2021



Berge Gerdt Larsen  
Chairman of the Board



Sjur Storaas  
Board member



George Hadjineophytou  
Board member



Polycarpus Protopapas  
Board member  
Managing director



Sølve Nilsen  
Finance manager



# THE BOARD OF DIRECTORS' REPORT ON CORPORATE SOCIAL RESPONSIBILITY

In this report, we disclose information relating to our CORPORATE SOCIAL RESPONSIBILITY ('CSR') policy and performance of this policy in 2020. This report relates to the period 1 January 2020 to 31 December 2020 and should be read as part of the Company's Annual Report for 2020. During 2020, the Group had operational activities in Cyprus, Norway, The Netherlands, The UK, Romania, Australia, New Zealand, Iraq, Malaysia, Papua New Guinea and Dubai, therefore the majority of the information in this CSR report relates to the Group's operations in these countries. Our approach to CSR focuses on the way in which we conduct relationships with all of our stakeholders and the wider impact that we can have on society and the environment. In this context, we continuously address the following key aspects of our business:

- health and safety;
- environment and sustainability;
- employees;
- community and human rights;
- business conduct; and
- corporate governance.

## HEALTH & SAFETY

The safety of our employees, contractors, partners and all of our stakeholders is of utmost importance to the Group. All our employees and contractors have the responsibility and the authority to stop unsafe work. Our contracts include health and safety requirements consistent with our code of conduct. Our main objective is that all of our activities are carried out without risk to people or damage to the environment and our safety and operational risk team works together to achieve this objective. We are pleased to report that during 2020, no incident of pollution to the environment was reported and the Group conformed with the safety and environmental demands of the prevailing authorities in its worldwide operations. We continued to have an excellent health and safety record with no major injuries or fatalities in 2020.

## ENVIRONMENT & SUSTAINABILITY

We recognise the potential to damage the environment through our operations and our responsibility to implement effective

management to safeguard the environment by minimising such an impact and we have capable people to manage such risks at every stage. We are committed to making a positive contribution to global sustainability and to protect the environment. We aim to operate to the highest international social, environmental and safety standards within the industry and believe that it is important to make a positive contribution to all of the geographical areas where we operate. Climate change and the transition to a lower carbon economy has been identified as a principal risk. Our subsidiary, CO<sub>2</sub> Management AS will aim to mitigate this risk by taking steps to reduce the Group's carbon footprint and in addition, will make investments aimed at reducing CO<sub>2</sub> emissions in the oil industry, including Carbon Capture & Storage (CCS) and Hydrogen Production technologies in Norway.

## EMPLOYEES

Our ability to create sustainable shareholder value is linked to our ability to recruit, motivate and retain highly competent employees. The Group is an equal opportunities employer and will not tolerate discrimination. We have a shared commitment with employees to create a safe working environment where there is respect for others. Employees are encouraged to speak up if they have any concerns through our Whistle Blowing Policy. Recruitment, promotion and reward are entirely based on merit. We believe in shared prosperity and wherever possible, we employ nationals of our host countries.

## COMMUNITY AND HUMAN RIGHTS

Our continued expansion into new territories brings new challenges, which we are confident of meeting through the application of our existing approach and policies. We aim to have a positive and enduring impact on the communities in which we operate. We invest in our relationships with the local communities and ensure that all of our activities are conducted with absolute respect to these communities. We contribute to these communities by employing local staff and cooperating with local suppliers. We respect internationally recognised human rights and we set our commitments in our human rights policy and our Code of Conduct. All of our initiatives

during 2020 were focused on health and social involvement across our operating regions.

## BUSINESS CONDUCT

CSR encompasses the Company's management of relationships with shareholders, employees, contractors, partners and the local communities where we work, together with the impact it has on society and the environment. In this respect, we have a responsibility to ensure that we deliver our business objectives in a way that benefits all of our stakeholders. In recognition of this responsibility, we have robust policies and systems in place, which are continuously reviewed.

We aim for the highest standards of business conduct across all of our worldwide operations. Our CSR policy aims to ensure a responsible and transparent performance of our business in all of the areas in which we operate. It reflects our commitment to generate and sustain long-term value growth for the Company whilst creating long lasting legacies in local communities. Operating to the highest international social, environmental and safety standards and maintaining high standards of corporate governance is a key requirement of our policy. Our Code of Conduct ensures that we compete fairly and explicitly prohibits engaging in any form of bribery or corruption whilst our Integrity Due Diligence procedures ensure that we select our business partners carefully and do not expose the Group to any reputational risk. We also prohibit the use of funds to support political parties.

## CORPORATE GOVERNANCE

We continue to operate with high standards of corporate governance, which helps us deliver our strategic objectives. We are committed to protecting the interests of all of our stakeholders through complete and absolute compliance with the relevant legal and regulatory environments and through the effective management of risk.

Every effort has been made to ensure that information contained in this report is accurate.

# FINANCIAL STATEMENTS





# FINANCIAL STATEMENTS

Petrolia SE – Group

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2020

(Amounts in USD 1,000)	Note	2020	2019
Revenue from contracts with customers	5	43,596	66,140
Wages cost	6	-10,855	-14,728
Other operating expenses	7	-22,855	-35,819
<b>Operating result before depreciation and impairments</b>		<b>9,886</b>	<b>15,593</b>
Depreciation	11	-7,888	-8,336
Net impairment of fixed assets	11	-470	-344
<b>Operating result</b>		<b>1,528</b>	<b>6,913</b>
Net loss from sale of subsidiaries		0	-2,186
Result from associated companies	12	-1,532	-1,286
Interest income	8	588	556
Financial income	8	1,160	6
Interest expenses	8	-808	-782
Financial expenses	8	-146	-1,266
<b>Result before income taxes</b>		<b>790</b>	<b>1,955</b>
Income tax	9	-1,000	-1,991
<b>Result for the year</b>		<b>-210</b>	<b>-36</b>
<b>Attributable to:</b>			
Equity holders of the parent		611	-866
Non-controlling interests		-821	830
		<b>-210</b>	<b>-36</b>
<b>Attributable to the equity holders (USD per share)</b>			
Basic and diluted earnings/(loss) per share	10	0.01	-0.01

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

(Amounts in USD 1,000)	Note	2020	2019
<b>Result for the year</b>		<b>-210</b>	<b>-36</b>
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		-332	116
<b>Total comprehensive (loss)/income for the year, net of tax</b>		<b>-542</b>	<b>80</b>
<b>Attributable to:</b>			
Equity holders of the parent		-23	-729
Non-controlling interests		-519	809
<b>Total comprehensive (loss)/income for the year</b>		<b>-542</b>	<b>80</b>



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

ASSETS (Amounts in USD 1,000)	Note	2020	2019
<b>Non-current assets</b>			
Right of use assets	11	12,047	9,330
Land and buildings	11	2,696	3,444
OilService and other equipment	11	14,771	14,348
Land rigs	11	1,902	2,728
Investment in associated companies	12	2,491	1,588
Other financial assets	13	6,417	10,791
Deferred tax assets	9	424	709
Restricted cash	16	29	27
<b>Total non-current assets</b>		<b>40,777</b>	<b>42,965</b>
<b>Current assets</b>			
Inventory	26	1,870	1,475
Trade receivables	14	10,325	15,816
Other current receivables	14	2,135	3,043
Financial assets at fair value through profit and loss	15	110	180
Free cash	16	15,942	7,653
Restricted cash	16	200	150
<b>Total current assets</b>		<b>30,582</b>	<b>28,317</b>
<b>TOTAL ASSETS</b>		<b>71,359</b>	<b>71,282</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

EQUITY AND LIABILITIES (Amounts in USD 1,000)	Note	2020	2019
<b>Equity</b>			
Share capital	17	5,913	5,913
Share premium		12,222	12,222
Other reserves		21,172	21,195
<b>Equity attributable to equity holders of the parent</b>		<b>39,307</b>	<b>39,330</b>
<b>Non-controlling interests</b>		<b>1,547</b>	<b>2,066</b>
<b>Total equity</b>		<b>40,854</b>	<b>41,396</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bond loans	18	4,620	4,620
Lease liabilities	19	9,338	6,609
Bank loan	21	438	0
Other non-current liabilities		93	91
		<b>14,489</b>	<b>11,320</b>
<b>Current liabilities</b>			
Lease liabilities	19	3,084	2,549
Trade payables	20	7,161	8,337
Other payables	20	4,591	6,252
Bank loan and overdraft	21	104	68
Income tax payable		1,076	1,360
		<b>16,016</b>	<b>18,566</b>
<b>Total liabilities</b>		<b>30,505</b>	<b>29,886</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>71,359</b>	<b>71,282</b>

Limassol, 30th of April 2021



Berge Gerdt Larsen  
Chairman of the Board



Polycarpus Protopapas  
Board member  
Managing director



Sjur Storaas  
Board member



George Hadjineophytou  
Board member



Sølve Nilsen  
Finance manager



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

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	Share premium	Reorganisa- tion reserve	Retained earnings	Currency translation	Subtotal		
<b>Equity 1 January 2019</b>	<b>5,913</b>	<b>12,222</b>	<b>-15,075</b>	<b>34,406</b>	<b>2,592</b>	<b>40,058</b>	<b>1,258</b>	<b>41,316</b>
(Loss)/profit for the year	0	0	0	-866	0	-866	830	-36
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			
Exchange differences on translation of foreign operations	0	0	0	0	138	138	-22	116
<b>Total comprehensive (loss)/income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-866</b>	<b>138</b>	<b>-728</b>	<b>808</b>	<b>80</b>
<b>Equity 31 December 2019</b>	<b>5,913</b>	<b>12,222</b>	<b>-15,075</b>	<b>33,540</b>	<b>2,730</b>	<b>39,330</b>	<b>2,066</b>	<b>41,396</b>
Profit/(loss) for the year	0	0	0	611	0	611	-821	-210
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			
Exchange differences on translation of foreign operations	0	0	0	0	-634	-634	302	-332
<b>Total comprehensive income/(loss)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>611</b>	<b>-634</b>	<b>-23</b>	<b>-519</b>	<b>-542</b>
<b>Equity 31 December 2020</b>	<b>5,913</b>	<b>12,222</b>	<b>-15,075</b>	<b>34,151</b>	<b>2,096</b>	<b>39,307</b>	<b>1,547</b>	<b>40,854</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

(Amounts in USD 1,000)	Note	2020	2019
<b>Operating activities</b>			
Profit before taxes		790	1,955
Allowance of expected credit losses	7	1,976	772
(Profit)/loss on disposal of property, plant and equipment		-113	27
Depreciation of property, plant and equipment and right of use assets	11	7,888	8,336
Impairment of property, plant, equipment	11	470	344
Interest income	8	-588	-556
Change in financial assets at fair value through profit or loss	8	70	17
Interest expense on lease liabilities	8	504	485
Interest expense on bonds	8	277	276
Other interest expenses	8	27	21
Change in inventory		-395	-539
Change in trade receivables		3,515	-4,385
Change in other current receivables		908	665
Change in trade payables		-1,176	1,131
Change in other payables		-1,662	672
Change in other non-current liabilities		2	-236
Result from investment in associated companies	12	1,532	1,286
Loss from sale of subsidiaries		0	2,186
Income tax paid		-839	-1,167
Other, incl unrealised foreign currency gain/loss		-1,544	-797
<b>Net cash generated from operating activities</b>		<b>11,642</b>	<b>10,493</b>
<b>Investing activities</b>			
Purchase of fixed assets	11	-3,411	-5,617
Disposal of equipment		602	163
Repayment of loans granted	13	4,563	3,417
Loan granted	13	0	-6,919
Investment in associates	12	-2,294	-46
Interest received		588	546
<b>Net cash generated from/used in investing activities</b>		<b>48</b>	<b>-8,456</b>
<b>Financing activities</b>			
Increase/release of restricted cash		-52	120
Sale of borrowers' bonds		0	200
Leasing instalments (capital)	23	-2,881	-2,884
Interest paid on bond loans (net)	8	-277	-276
Other interest paid	8	-27	0
Interest paid on lease liabilities	19	-504	-465
Bank loan, draw down	23	527	0
Bank loan, repaid	23	-119	-212
<b>Net cash used in financing activities</b>		<b>-3,333</b>	<b>-3,517</b>
<b>Net cash flow of the period</b>		<b>8,357</b>	<b>-1,480</b>
Free cash and cash equivalents at the beginning of the period	16	7,585	9,370
<b>Cash of subsidiaries sold</b>		<b>0</b>	<b>-305</b>
<b>Free cash and cash equivalents balance at 31 December</b>	<b>16</b>	<b>15,942</b>	<b>7,585</b>

# NOTES - GROUP

to the consolidated financial statements

## NOTE 1 GENERAL INFORMATION

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

The main activity of the Group is the sale and rental of drilling equipment and land rig rental

to the global oil industry.

The annual financial statements were adopted by the Board of Directors on the 30th of April 2021 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 financial year 2020 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 "PSE" and ISIN "CY 010 263 0916".

## NOTE 2 SIGNIFICANT 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 the income statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed in note 3 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.

### FAIR VALUE MEASUREMENT

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 in note 23.

### GOING CONCERN

Management has conducted a review of the going concern assumption considering all relevant information available up to the date the consolidated and separate parent financial statements are issued and taking into account all available information about the future, for at least 12 months from the reporting date.

The forecast cash flows from the OilService segment provide sufficient cash flows and the Group expects to be in a position to serve its working capital needs and other obligations as and when they fall due. These forecasts have been made based on past experiences and detailed knowledge of the local markets.

In making the going concern assessment, management continued to monitor the uncertainty caused by the ongoing Covid-19 pandemic and its effects on global economy, while also noting the significant improvement in the oil price since the reporting date.

The Group's management expects a challenging environment for the OilService segment in 2021, but remains confident in the Group's ability to adapt cost levels to the activity and



to maintain sufficient financial resources to enable it to continue as a going concern for the foreseeable future.

Following its review, management confirms that the requirements of the going concern assumption are met and that these financial statements have been prepared on that basis.

## 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or

disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated, in full, on consolidation.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

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

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

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

#### **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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated

in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

#### **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 FROM CONTRACTS WITH CUSTOMERS**

##### **Rental of equipment – Service transferred over time:**

The primary business function of the Group is the rental of equipment for upstream exploration & production activity, as such, the primary source of revenue is based on rental of equipment. The performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group. This performance obligation has two alternative payment options. The rental projects that continue throughout the month (more than 30 days) are invoiced in bulk at the end of each month, whereas the projects that terminate prior to the month end are invoiced ad hoc as the customer has confirmed the final rental day. The payment terms vary depending on the individual contract with customers, but due

dates normally range from 30 to 90 days from the invoice date.

On projects where the Group does not own the required equipment, there are contracts with customers to acquire, on their behalf, the required equipment from external suppliers. The Group is acting as principal in these arrangements.

#### Services:

Service and repairs:

All equipment returned from rental assignments are subject to inspection where it is determined whether service and/or repair is required. This performance obligation is satisfied upon completion of service and payment is generally due 30 to 90 days upon completion and acceptance by the customer. Hire of personnel:

Personnel services comprise casing & tubing running, drilling and make & brake services. These services have fixed daily rates in accordance with individual contracts. The performance obligation is satisfied over time, as the customer simultaneously receives and consumes the benefits provided. This performance obligation has two alternative payment options. The projects that continue throughout the month (more than 30 days) are invoiced in bulk at the end of each month, whereas the projects that terminate prior to the month's end are invoiced ad hoc upon completion of service. The payment terms vary, depending on individual contract with customers but due dates normally range from 30 to 90 days from the invoice date.

#### Sales of goods – Goods transferred at a point in time:

Procurement services:

There are contracts with customers to acquire, on their behalf, goods from external suppliers. The Group is acting as principal in these arrangements because it typically controls the goods before transferring them to the customer. The performance obligation is satisfied and payment is generally due 30 to 90 days upon receipt of the goods by the customer. Sales of equipment:

The Group distinguishes between two types of sales: equipment sold directly to customers and equipment on rental projects sold to customers when lost in hole. For direct sales,

the performance obligation is satisfied at delivery and payment is generally due 30 to 90 days upon this date. For lost equipment, the performance obligation is satisfied at the point in time when the equipment is finally considered lost, and payment is generally due 30 to 90 days from this date.

#### 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.

#### TAXES

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.

#### Current income tax

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

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.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation and impairment. 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 property, plant and 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 on sales of OilService equipment lost in hole or damaged by customers are determined by comparing the proceeds with the carrying amount and are recognised gross within 'revenue' in the income statement.

All other gains and losses are recognised as profit/loss on disposal of property, plant and equipment included in other operating expenses.

## 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

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use

assets representing the right to use the underlying assets.

### i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- OilService and other equipment, 7 years
- Land and buildings, 1 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

### ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the

Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense 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. The Group also gets into sub-lease agreements for its ROU assets. These sub-leases are short term and treated as operating leases.

## FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## i) Financial assets

### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI and fair value through the income statement.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and

losses (debt instruments);

- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through the income statement.

### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables and loan to an associate.

### Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and

computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to the income statement.

The Group does not have any debt instruments at fair value through OCI.

### Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have equity instruments designated at fair value through OCI.

### Financial assets at fair value through the income statement

Financial assets at fair value through the income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through the income statement, or financial assets mandatorily required to be measured at fair value. 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. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through the income statement, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost

or at fair value through OCI, as described above, debt instruments may be designated at fair value through the income statement on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through the income statement are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other financial income in the consolidated income statement when the right of payment has been established.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- 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.

#### Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Critical accounting judgements, estimates and assumptions (Note 3);
- Financial risk management, Credit risk (Note 23).

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through the income statement. ECLs are based on the difference between the contractual cash flows due in accordance with the contract

and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment as well as adjusted for specific provisions against particular customers.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### ii) Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through the income statement, loans and borrowings, payables or as derivatives

designated as hedging instruments in an effective hedge, as appropriate.

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

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

#### Subsequent measurement

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

##### Financial liabilities at fair value through the income statement

Financial liabilities at fair value through the income statement include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the income statement.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through the income statement are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability at fair value through the income statement.

##### Financial liabilities at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement 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 statement of the income statement.

This category mainly applies to bonds and



bank loan. For more information, refer to Notes 18 and 21.

### 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 statement of profit or loss.

### iii) 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 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.

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.

### 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 attributable to the shareholders of the parent with the weighted average number of ordinary shares of the period.

### EVENTS AFTER THE REPORTING DATE

New information about the position of the Group existing at the reporting date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the reporting date are referred to in note 28.

## 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 revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and adopted by the European Union that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2020. The nature and the impact of each amendment is described below.

#### Conceptual Framework

"Amendments to References to the Conceptual Framework in IFRS Standards". The amendments introduce new definitions of assets and liabilities, as well as amended definitions of income and expenses. These amendments had no material impact on the consolidated financial statements of the Group.

#### IFRS 3 ("Business Combinations")

"Amendments to clarify the definition of a business". The amendments enhance the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional concentration test that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. Since the amendments apply prospectively to transactions or other events after the date of first application, they had no impact on the Group's consolidated financial statements on the date of transition.

#### IAS 1 ("Presentation of Financial Statements") and IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors")

"Amendments regarding the definition of material". The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence

decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

#### IFRS 7 ("Financial Instruments: Disclosures"), IFRS 9 ("Financial Instruments") and IAS 39 ("Financial Instruments: Recognition and Measurement")

"Amendments regarding pre-replacement issues in the context of the IBOR reform". The amendments provide relief from certain requirements of hedge accounting, as their fulfilment can lead to discontinuation of hedge accounting due to uncertainty caused by the reform. These amendments had no material impact on the consolidated financial statements of the Group.

#### IFRS 16 ("Leases")

"Amendment to provide lessees with an exemption from assessing whether a Covid-19-Related Rent Concession is a lease modification". The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Group has early applied the amendment. The amendment had a material impact on the consolidated financial statements of the Group. The Group

has applied the practical expedient to all rent concessions that meet the conditions. The amount recognised in profit or loss to reflect changes in lease payments that arise from the rent concessions to which the Group has applied the practical expedient amounted to USD 166 thousand. The cash flow effect of rent concessions was USD 8 thousand less lease payments during the year.

#### New and revised IFRS in issue but not yet effective

The following Standards and Interpretations which are relevant to the Group's operations are 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.

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

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

IFRS 7 ("Financial Instruments: Disclosures"), IFRS 9 ("Financial Instruments"), IAS 39 ("Financial Instruments: Recognition and Measurement"), IFRS 4 ("Insurance contracts") and IFRS 16 ("Leases") "Amendments regarding replacement issues in the context of the IBOR reform – Phase 2" (effective for annual periods beginning on or after 1 January 2021). The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting. The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset

or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. The Group expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

#### **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. These amendments are not expected to have an impact on the Group's consolidated financial statements.

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

IFRS 3 ("Business Combinations") "Amendments updating a reference to the Conceptual Framework" (effective for annual periods beginning on or after 1 January 2022). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising

for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. Also, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. Since the amendments apply prospectively to transactions or other events after the date of first application, they will not have an impact on the Group's consolidated financial statements on the date of transition.

#### **IAS 1 ("Presentation of Financial Statements")**

"Amendments regarding the classification of liabilities as current or non-current" (effective for annual periods beginning on or after 1 January 2023). These amendments are not expected to have an impact on the Group's consolidated financial statements as the Group already applies the criteria set by the amendments.

#### **IAS 16 ("Property, Plant and equipment")**

"Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use" (effective for annual periods beginning on or after 1 January 2022). These amendments are not expected to have a material impact on the Group's consolidated financial statements.

#### **IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets")**

"Amendments regarding the costs to include when assessing whether a contract is onerous" (effective for annual periods beginning on or after 1 January 2022). These amendments are not expected to have a significant impact on the Group's consolidated financial statements.

#### **Annual Improvements to IFRS Standards 2018–2020**

The "May 2020 Annual Improvements to IFRSs" is a collection of amendment to IFRSs in response to four standards. These improvements are effective from 1 January 2022. It

includes the following amendments, which are not expected to have an impact on the Group's consolidated financial statements:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards (simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent);
- IFRS 9 – Financial Instruments (clarifies the fees to be included for the purpose of performing the '10 per cent test' for derecognition of financial liabilities);
- IFRS 16 – Leases (removes the illustration of payments from the lessor relating to leasehold improvements); and
- IAS 41 – Agriculture (removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 "Fair Value Measurement").

## 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 of disposal and value in use.

The value in use calculations are based on a discounted cash flow model. The cash flows are derived from the business plan for the next five years. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### ii) Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the oilservice sector, the historical default rates are adjusted. At

every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 14.

### iii) Determining the lease term of contracts with renewal options when the Group acts as a lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional periods. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. All relevant factors including economic incentive factors, are considered to exercise the renewal. In almost all of the cases, the Group assumes that the options to extend a lease will not be exercised, as on initial recognition it is not certain what will be the market conditions when the Group will need to decide whether to exercise an option to extend the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.



## NOTE 4 ORGANISATION

### Summary of the companies of the Group:

As at 31.12.2020 the following companies are presented in the consolidated statement of financial position:

Company	Business office , activity, objective
<b>Subsidiaries (fully consolidated)</b>	
Petrolia AS	Norway. OilService..
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.
Catch Oil Tools Pty Ltd	Australia. OilService.
Independent Oil Tools BV	Netherlands. OilService.
Independent Oil Tools Dosco BV	Netherlands. OilService.
Independent Oil Tools Srl	Romania. OilService.
IOT Group Limited	New Zealand. OilService.
Venture Drilling AS	Norway. OilService.
Independent Tool Pool DMCC	Jebel Ali Free Zone (Dubai). 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 International (Cyprus) Ltd	Cyprus. OilService.
Independent Oil Tools Iraq for General Trading Co. Ltd	Iraq. OilService.
Tubulars Energy Services (M) Sdn Bhd	Malaysia. OilService.
Independent Oil Tools (Pvt) Ltd	Pakistan. OilService
Independent Oil Tools (Scotland) Limited	UK. OilService
<b>Associated companies (equity method) (refer to note 12)</b>	
Petrolia Noco AS	Norway. Exploring for oil and gas on the NCS.
CO2 Management AS	Norway.

## NOTE 5 SEGMENT INFORMATION

The Group has two strategic segments: Exploration & Production (E&P) and OilService (including land rigs).

E&P activities are presently carried out through an investment in an associate company. Operating activities are carried out from one segment: OilService. OilService activities are described in the accounting policy "Revenue from contracts".

### THE GROUP'S OILSERVICE SEGMENT OPERATES IN THE FOLLOWING MAIN GEOGRAPHICAL AREAS:

2020 Revenue from OilService segment (amounts in USD 1,000)	Rental of equipment	Services	Sales of equipment and consumables	Total
Norway	9,326	2,954	971	13,251
Europe outside Norway	3,879	4,105	7,041	15,025
Asia and Australia	7,283	5,918	2,119	15,320
<b>Total</b>	<b>20,488</b>	<b>12,977</b>	<b>10,131</b>	<b>43,596</b>
<b>Result for the year from oil service segment</b>				<b>1,322</b>

2019 Revenue from OilService segment (amounts in USD 1,000)	Rental of equipment	Services	Sales of equipment and consumables	Total
Norway	9,636	1,351	796	11,783
Europe outside Norway	6,736	3,715	9,706	20,157
Asia and Australia	11,094	16,462	4,519	32,075
Other	1,173	732	220	2,125
<b>Total</b>	<b>28,639</b>	<b>22,260</b>	<b>15,241</b>	<b>66,140</b>
<b>Result for the year from oil service segment</b>				<b>1,250</b>

Non-current tangible assets (amounts in USD 1,000)	2020	2019
Norway	2,917	3,528
Europe outside Norway	7,022	4,379
Asia and Australia	7,081	11,363
Tool pools	5,620	1,250
<b>Total</b>	<b>22,640</b>	<b>20,520</b>

#### Revenue

The major part of the Group's revenues derive from short term rental of drilling equipment such as drill pipes and test tubings. There are no material contract asset balances.

#### 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.

#### Petrolia Noco AS (Note 12)

The associate company, Petrolia Noco AS, operates in the Exploration & Production (E&P) segment. The interest income from the E&P segment is shown in note 8.

## NOTE 6 WAGES COST

(amounts in USD 1,000)	2020	2019
Wages and salaries	8,981	12,710
Social security	825	732
Pension costs	607	656
Other contributions	442	630
<b>Total</b>	<b>10,855</b>	<b>14,728</b>

The Group had 206 employees as at the end of 2020 (2019: 297 employees).  
Average number of employees was 252 in 2020 (2019: 277).

Remuneration and benefits General Manager and Finance Manager (amounts in USD 1,000)	2020	2019
Pierre Godec ( 14 September 2012 - 27 November 2019), Managing director, Cyprus	8	94
Polycarpus Protopapas (27 November 2019 -), Managing director, Cyprus	57	5
Demos Demou (14 September 2012 -), Finance manager, Cyprus	24	57
Sølve Nilsen (1 October 2010 -), General manager of the Branch, Norway	185	88
<b>Total</b>	<b>274</b>	<b>244</b>

The following fee has been paid to the members of the board (amounts in USD 1,000) :	2020	2019
Berge Gerdt Larsen- Chairman of the board, Remuneration committee (re-elected on 28 May 2020)	0	0
George Hadjineophytou - Board member, Audit & Remuneration committees (re-elected on 28 May 2020)	42	4
Sjur Storaas - Board member, Audit & Remuneration committees (re-elected on 28 May 2020)	38	42
Polycarpus Protopapas - Board member (re-elected on 28 May 2020)	0	0
Judith Parry - Board member, Audit & Remuneration committees (resigned on 28 May 2020)	18	43
Pierre Godec - Board member (resigned on 27 November 2019)	0	0
<b>Total</b>	<b>98</b>	<b>89</b>

## 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) :	2020	2019
Fees to external advisors, lawyers, auditors	1,001	1,596
Cost of goods sold	17,019	27,595
Allowance of expected credit losses (Note 14)	1,976	772
Expenses relating to short-term leases	84	285
Expenses relating to leases of low value	4	39
Other operating expenses	2,771	5,325
<b>Total other operating expenses</b>	<b>22,855</b>	<b>35,819</b>

### AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1,000) :	2020	2019
Statutory audit	351	417
Tax services	99	26
Other non-audit services	11	11
<b>Total auditor's fee</b>	<b>461</b>	<b>454</b>



## NOTE 8 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1,000)	2020	2019
<b>Interest income</b>		
Interest income from current bank deposits	11	34
Interest income from associate (refer to note 13)	577	522
	<b>588</b>	<b>556</b>
<b>Financial income</b>		
Foreign exchange gain - net	1,159	0
Other financial income	1	6
	<b>1,160</b>	<b>6</b>
<b>Interest expenses</b>		
Interest expense on bonds	277	276
Other interest expense	27	41
Interest expense on lease liabilities (refer to note 19)	504	465
	<b>808</b>	<b>782</b>
<b>Financial expenses</b>		
Foreign exchange loss - net	0	1,155
Loss on shares at fair value through profit and loss (refer to note 15)	70	17
Other financial expenses	76	94
	<b>146</b>	<b>1,266</b>
<b>Net finance income/(cost)</b>	<b>794</b>	<b>-1,486</b>

## NOTE 9 INCOME TAX

The tax on the Group's results before tax differs from the theoretical amount that would arise using the applicable tax rates as follows: (amounts in USD 1,000)	2020	2019
Result before tax charges	790	1,955
Tax calculated at domestic tax rates applicable to profits in respective countries (12.5% for parent company)	-715	-1,337
Change in deferred tax asset	-285	-654
<b>Tax on result</b>	<b>-1,000</b>	<b>-1,991</b>

Change in deferred tax assets represent USD -141 thousand from tax losses (2019: USD -53 thousand) and USD -144 thousand from temporary differences (2019: USD -601 thousand). 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)	2020	2019
Non-current assets	5,213	1,584
Current assets	-5,764	-2,535
Net temporary differences	-551	-951
Carry forward loss	-2,045	-2,272
Basis for deferred tax asset	-2,596	-3,223
Deferred tax asset at nominal tax rates	424	709
Carried tax asset	424	709
Carried tax liability	0	0

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 2.0 million (2019: USD 2.3 million) and negative temporary differences of USD 0.6 million (2019: USD 1.0 million) through group contribution (moving tax positions between Group companies) and future taxable profits.

The Group has deductible temporary differences related to non-current assets of USD 15.1 million (2019: USD 22.8 million) with a tax value of USD 3.3 million (2019: USD 5.0 million) that are not carried as deferred tax assets since it is uncertain that these can be utilised.

## NOTE 10 EARNINGS PER SHARE

(amounts in USD 1,000, with the exception of earnings per share)		2020	2019
Result attributable to the equity holders of the parent		611	-866
Weighted average no. of shares		59,133,786	59,133,786
No. of shares at period end		59,133,786	59,133,786
<b>Basic earnings per average no. of shares</b>			
From continuing operations		0.01	-0.01
<b>Basic earnings / (loss) per share (USD per share)</b>		<b>0.01</b>	<b>-0.01</b>

The Company has no outstanding or authorised stock options, or warrants. As at 31 December 2020, the Company held no treasury shares.

## NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(amounts in USD 1,000)	OilService and other equipment	Land and buildings	Land rigs	Total
<b>Per 31 December 2018</b>				
Acquisition cost	295,293	3,646	14,271	313,210
Accumulated impairment	-26,323	-59	-7,656	-34,038
Accumulated depreciation	-252,023	-478	-3,061	-255,562
<b>Book value 31.12.18</b>	<b>16,947</b>	<b>3,109</b>	<b>3,554</b>	<b>23,610</b>
<b>Accounting year 2019</b>				
Book value 01.01.19	16,947	3,109	3,554	23,610
Transfer to Right of use assets	-2,183	0	0	-2,183
Currency differences	-488	183	0	-305
Additions	5,303	313	0	5,616
Disposal	-2,153	0	0	-2,153
Depreciation of the year	-4,738	-161	-826	-5,725
Impairment charge	-344	0	0	-344
Accumulated depreciation of assets disposed	2,004	0	0	2,004
<b>Book value 31.12.19</b>	<b>14,348</b>	<b>3,444</b>	<b>2,728</b>	<b>20,520</b>
<b>Per 31 December 2019</b>				
Acquisition cost	288,774	4,142	14,271	307,187
Accumulated impairment	-26,649	-59	-7,656	-34,364
Accumulated depreciation	-247,777	-639	-3,887	-252,303
<b>Book value 31.12.19</b>	<b>14,348</b>	<b>3,444</b>	<b>2,728</b>	<b>20,520</b>
<b>Accounting year 2020</b>				
Book value 01.01.20	14,348	3,444	2,728	20,520
Transferred cost from Right of use assets	2,926	0	0	2,926
Transferred depreciation from Right of use assets	-1,964	0	0	-1,964
Currency differences	1,159	-605	0	554
Additions	3,382	29	0	3,411
Disposal	-992	0	0	-992
Depreciation of the year	-4,266	-173	-826	-5,265
Impairment charge	-470	0	0	-470
Accumulated depreciation of assets disposed	648	1	0	649
<b>Book value 31.12.20</b>	<b>14,771</b>	<b>2,696</b>	<b>1,902</b>	<b>19,369</b>
<b>Per 31 December 2020</b>				
Acquisition cost	295,249	3,566	14,271	313,086
Accumulated impairment	-27,119	-59	-7,656	-34,834
Accumulated depreciation	-253,359	-811	-4,713	-258,883
<b>Book value 31.12.20</b>	<b>14,771</b>	<b>2,696</b>	<b>1,902</b>	<b>19,369</b>
Depreciation period	7-12 year	33 year*	12 year	
Residual value	0	0	0	
*) Land is not depreciated				

### 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.

Book value as at 1 January 2019 is reduced by USD 2.2 million as leased equipment previously reported as OilService and other equipment now is reclassified as right of use assets.

In 2019, drilling equipment at each location was tested for impairment as one cash generating unit and was impaired by USD 0.3 million based on value in use calculations. The main inputs and assumptions used by management in performing the value in use calculations as of 31 December 2019 are the Group's budgets discounted by 10.7%.

In 2020, drilling equipment at each location was tested for impairment as one cash generating unit and was impaired by USD 0.5 million based on value in use calculations. The main inputs and assumptions used by management in performing the value in use calculations as of 31 December 2020 are the Group's budgets discounted from 10.7% to 16.9% depending on the location. The main input used in the budgets were the expected trend in turnover, operating expenses and capital expenditure.

OilService and other equipment include fixed assets for own use of USD 4.1 million (2019: USD 2.3 million).

In 2020, the group had a profit from disposal of assets of USD 113 thousand (2019: loss of USD 27 thousand).



**RIGHT OF USE ASSETS**

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

(amounts in USD 1,000)	OilService and other equipment	Land and buildings	Total
<b>Book value 31.12.18</b>	<b>0</b>	<b>0</b>	<b>0</b>
IFRS 16 Adjustment	2,183	7,133	9,316
<b>Book value 01.01.19, adjusted</b>	<b>2,183</b>	<b>7,133</b>	<b>9,316</b>
<b>Per 1 January 2019</b>			
Acquisition cost	9,181	7,133	16,314
Accumulated impairment	-18	0	-18
Accumulated depreciation	-6,980	0	-6,980
<b>Book value 01.01.19</b>	<b>2,183</b>	<b>7,133</b>	<b>9,316</b>
Translation differences	293	-427	-134
Additions	2,088	0	2,088
Modifications	0	1,245	1,245
Disposal	-475	-99	-574
Depreciation of the year	-767	-1,844	-2,611
<b>Book value 31.12.19</b>	<b>3,322</b>	<b>6,008</b>	<b>9,330</b>
<b>Per 31 December 2019</b>			
Acquisition cost	11,087	7,852	18,939
Accumulated impairment	-18	0	-18
Accumulated depreciation	-7,747	-1,844	-9,591
<b>Book value 31.12.19</b>	<b>3,322</b>	<b>6,008</b>	<b>9,330</b>
Additions	2,212	0	2,212
Modifications	0	4,096	4,096
Disposal of cost	-620	0	-620
Disposal of depreciation	356	0	356
Transferred cost to Property, Plant and Equipment	-2,926	0	-2,926
Transferred depreciation to Property, Plant and Equipment	1,964	0	1,964
Depreciation of the year	-761	-1,862	-2,623
Translation differences	46	212	258
<b>Book value 31.12.20</b>	<b>3,593</b>	<b>8,454</b>	<b>12,047</b>
<b>Per 31 December 2020</b>			
Acquisition cost	9,800	12,159	21,959
Accumulated impairment	-18	0	-18
Accumulated depreciation	-6,188	-3,705	-9,894
<b>Book value 31.12.20</b>	<b>3,593</b>	<b>8,454</b>	<b>12,047</b>

Right-of-use assets of USD 9.3 million were recognised and presented separately in the statement of financial position. This includes the lease assets recognized previously under finance leases of USD 2.2 million that were re-classified from Property, plant and equipment

As at 31 December 2020, management carried out an assessment of whether there is any indication that right of use assets may have suffered an impairment loss in accordance with the Group's policy and concluded that there is no such indication.

OilService and other equipment primarily include rental equipment. Land and buildings represent storage facilities and offices.

Refer also to note 19.

## NOTE 12 ASSOCIATED COMPANIES

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

### PETROLIA NOCO AS

The company is an oil company exploring the Norwegian Continental Shelf for oil and gas and its shares are registered with ticker "PNO" on the NOTC (www.notc.no), a market place for unlisted shares. The company holds interests in 11 licences, two of which as an operator. Petrolia participate in capital issues to maintain its 49.9% ownership.

### CO2 MANAGEMENT AS

The company was incorporated on 29 March 2019 with an objective of contributing to reduced CO<sub>2</sub> emissions. The company is a 28.46% owned associated company. On 9 March 2021 the outstanding shares were purchased, making the company a fully owned subsidiary.

	Petrolia Noco AS	CO2 Management AS	Total
(amounts in USD 1,000)			
<b>Book value per 31.12.2018</b>	<b>2,828</b>	<b>0</b>	<b>2,828</b>
Share issue	0	46	46
Share of result of the year	-1,284	-2	-1,286
<b>Book value per 31.12.2019</b>	<b>1,544</b>	<b>44</b>	<b>1,588</b>
Share issue	2,194	100	2,294
Translation difference	141	0	141
Share of result of the year	-1,442	-90	-1,532
<b>Book value per 31.12.2020</b>	<b>2,437</b>	<b>54</b>	<b>2,491</b>

### KEY NUMBERS FROM THE ACCOUNTS

Company	Incorporated in	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Profit / (Loss)	Shareholding
<b>Petrolia Noco AS</b>	<b>Bergen, Norway</b>									
2020		10,512	9,585	20,097	3,976	11,237	15,213	456	-2,889	49.90%
2019		12,112	4,001	16,113	1,614	11,404	13,018	2,208	-2,560	49.90%
<b>CO2 Management AS</b>	<b>Bergen, Norway</b>									
2020		108	168	276	88	0	88	16	-317	28.46%
2019		110	0	110	0	0	0	0	-3	40.00%

The associated companies had no contingent liabilities as at 31 December 2020 or 2019.

Petrolia Noco AS will participate in three wells in 2021. The discovery scenario well costs are estimated to USD 66.5 million on a pre tax basis and USD 14.6 million on a post tax basis. No indicators of impairment were identified during the year.

## NOTE 13 OTHER FINANCIAL ASSETS

### LOAN TO PETROLIA NOCO AS (ASSOCIATE)

The loan is denominated in NOK and carried an annual interest of 6% in 2020 and 2019. No payment plan is made. Repayment is on demand.

There is no history of credit losses. Further, the company is an exploration company under the Norwegian Petroleum Tax regime. If such a company is wound up, or even bankrupt, all tax values will be repaid.

The associate company has positive equity (note 12) and there is very little risk regarding recoverability of its assets, hence ECL is not significant.

(amounts in USD 1,000)	Petrolia Noco AS
<b>Book value per 31.12.2018</b>	<b>7,366</b>
Addition	6,919
Interest income	522
Interest received	-522
Repayment	-3,417
Translation difference	-77
<b>Book value per 31.12.2019</b>	<b>10,791</b>
Interest income	577
Interest received	-577
Repayment	-4,563
Translation difference	189
<b>Book value per 31.12.2020</b>	<b>6,417</b>

## NOTE 14 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1,000)	2020	2019
Trade receivables	10,325	15,816
Other current receivables	2,135	3,043
<b>Total</b>	<b>12,460</b>	<b>18,859</b>

Ageing of trade and other current receivables as at 31 December 2020	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	6,758	998	831	235	14,158	22,980
Other current receivables	0	0	0	0	3,544	3,544
<b>Total, gross</b>	<b>6,758</b>	<b>998</b>	<b>831</b>	<b>235</b>	<b>17,702</b>	<b>26,524</b>
Expected credit loss rate	0.92%	2.40%	6.14%	13.62%	78.49%	
Expected credit loss	62	24	51	32	13,895	14,064
<b>Total, net</b>	<b>6,696</b>	<b>974</b>	<b>780</b>	<b>203</b>	<b>3,807</b>	<b>12,460</b>

Ageing of trade and other current receivables as at 31 December 2019	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	8,122	2,430	2,315	3,017	12,590	28,474
Other current receivables	0	0	0	0	4,452	4,452
<b>Total, gross</b>	<b>8,122</b>	<b>2,430</b>	<b>2,315</b>	<b>3,017</b>	<b>17,042</b>	<b>32,926</b>
Expected credit loss rate	0.86%	10.12%	32.66%	49.72%	67.45%	
Expected credit loss	70	246	756	1,500	11,495	14,067
<b>Total, net</b>	<b>8,052</b>	<b>2,184</b>	<b>1,559</b>	<b>1,517</b>	<b>5,547</b>	<b>18,859</b>

#### Movement of accumulated expected credit losses

(amounts in USD 1,000)	2020	2019
<b>Opening balance</b>	<b>14,067</b>	<b>4,927</b>
Effect of deconsolidating	0	8,368
Charge for the year	1,976	772
Written off	-1,979	0
<b>Closing balance</b>	<b>14,064</b>	<b>14,067</b>

## NOTE 15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2020 and 2019 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 -0.07 million (2019: loss of USD 0.02 million) is shown in note 8.

(amounts in USD 1,000)	2020	2019
DNO, shares	136,254	136,254
DNO, total shares	975,432,746	1,083,814,161
DNO, % owned	0.01%	0.01%
DNO, market value (NOK 6.87 / USD 0.8049) (NOK 11.57 / USD 1.3177)	110	180
<b>Fair Value / Carried value (Level 1)</b>	<b>110</b>	<b>180</b>



## NOTE 16 CASH AND CASH EQUIVALENTS

(amounts in USD 1,000)	2020	2019
<b>Bank deposits</b>	<b>16,171</b>	<b>7,830</b>
<b>Hereof deposits restricted</b>		
Other	29	27
<b>Sum non-current</b>	<b>29</b>	<b>27</b>
Other	13	0
Employees' tax deduction	187	150
<b>Sum current</b>	<b>200</b>	<b>150</b>
<b>Total restricted capital</b>	<b>229</b>	<b>177</b>
<b>Free cash</b>	<b>15,942</b>	<b>7,653</b>
<b>Cash and bank deposits per currency (amounts in USD 1,000)</b>		
Cash and bank deposits in NOK	7,757	2,418
Cash and bank deposits in USD	4,486	3,234
Cash and bank deposits in PKR	0	39
Cash and bank deposits in AED	9	4
Cash and bank deposits in GBP	209	27
Cash and bank deposits in EUR	2,683	763
Cash and bank deposits in NZD	133	65
Cash and bank deposits in RON	299	706
Cash and bank deposits in MYR	110	135
Cash and bank deposits in AUD	439	439
Cash and bank deposits in PGK	46	0
<b>Total</b>	<b>16,171</b>	<b>7,830</b>
Restricted cash	-229	-177
Bank overdraft	0	-68
<b>Total as per cash flow statement</b>	<b>15,942</b>	<b>7,585</b>

## NOTE 17 SHARE CAPITAL

Share capital of Petrolia SE (amounts in USD 1,000)	Authorised shares	Issued shares	Nominal value	Book value 2020	Book value 2019
<b>Shares</b>	<b>272,358,670</b>	<b>59,133,786</b>	<b>USD 0.10</b>	<b>USD 5,913</b>	<b>USD 5,913</b>

### CHANGES TO SHARE CAPITAL

There have been no changes to the share capital in 2020 or 2019.

### LIST OF THE MAJOR SHAREHOLDERS

Petrolia SE had a total of 2,880 shareholders as at 31 December 2020. The tables below shows the Company's 20 largest shareholders as at 31 December 2020 and as at 28 April 2021 according to the VPS (shares with nominal value USD 0.10):

	Shareholders 31 December 2020	No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC	27,182,571	45.97%
2	LARSEN OIL & GAS AS	12,410,177	20.99%
3	TIME CRITICAL PETROLEUM RESOURCES	3,789,897	6.41%
4	NOCO (UK) Ltd	3,709,888	6.27%
5	INCREASED OIL RECOVERY AS	3,446,624	5.83%
6	SILVERCOIN INDUSTRIES AS	982,893	1.66%
7	TOKALA AS	696,764	1.18%
8	Ø. H. HOLDING AS	670,368	1.13%
9	SPECTER INVEST AS	200,000	0.34%
10	SERIOUS AS	194,971	0.33%
11	ELEKTROLAND NORGE AS	170,002	0.29%
12	MIDDELBOG INVEST AS	159,878	0.27%
13	TOSKA, KETIL	147,000	0.25%
14	HANSTVEIT, JON	126,737	0.21%
15	ØRNES AS	115,000	0.19%
16	NORDNET LIVSFORSIKRING AS	111,097	0.19%
17	STANDARD ELEKTRO AS	100,000	0.17%
18	TROMMESTAD, OLE	100,000	0.17%
19	ONYX AS	97,846	0.17%
20	VEIDUNG, ARNE	94,710	0.16%
	Others	4,627,363	7.83%
Total no. of shares before treasury shares		59,133,786	100.00 %
Treasury shares		0	0.00%
<b>Total no. of shares</b>		<b>59,133,786</b>	<b>100.00%</b>

Shareholders 28 April 2021		No. of shares	Shareholding
1	INDEPENDENT OIL & RESOURCES PLC <sup>1)</sup>	27,182,571	45.97%
2	LARSEN OIL & GAS AS <sup>1)</sup>	12,410,177	20.99%
3	TIME CRITICAL PETROLEUM RESOURCES <sup>1)</sup>	3,789,897	6.41%
4	NOCO (UK) Ltd <sup>1)</sup>	3,709,888	6.27%
5	INCREASED OIL RECOVERY AS <sup>1)</sup>	3,446,624	5.83%
6	Ø. H. HOLDING AS	704,569	1.19%
7	TOKALA AS	666,764	1.13%
8	ELEKTROLAND NORGE AS	240,713	0.41%
9	NORDNET LIVSFORSIKRING AS	231,083	0.39%
10	SERIOUS AS	194,971	0.33%
11	SILVERCOIN INDUSTRIES AS	192,138	0.32%
12	OLSEN	160,000	0.27%
13	MIDDELBOG INVEST AS,	159,878	0.27%
14	TOSKA, KETIL	150,000	0.25%
15	SPECTER INVEST AS	150,000	0.25%
16	ØRNES AS	115,000	0.19%
17	STANDARD ELEKTRO AS	100,000	0.17%
18	MONG, ØYVIND	87,014	0.15%
19	ONYX AS	85,000	0.14%
20	HANSEN, HENNING	80,000	0.14%
	Others	5,277,499	8.92%
Total no. of shares before treasury shares		59,133,786	100.00%
Treasury shares		0	0.00%
<b>Total no. of shares</b>		<b>59,133,786</b>	<b>100.00%</b>

#### SHARES 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 0.10)

Name	Shares	Shares
<b>Members of the board and management as at:</b>	<b>31 December 2020</b>	<b>28 April 2021</b>
Berge Gerdt Larsen, Chairman of the Board <sup>1)</sup>	3,789,897	3,789,897
Solve Nilsen, General manager (Norway)	202,971	202,971
<b>Total</b>	<b>3,992,868</b>	<b>3,992,868</b>

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 26.82% of the shares. Increased Oil Recovery AS is a 49.58% 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 6.41% of the shares in Petrolia SE and 19.68% in shares in Independent Oil & Resources Plc. Independent Oil & Resources Plc is a 38.75% indirect shareholder in NOCO (UK) Ltd. Increased Oil Recovery AS indirectly owns 38.42% in NOCO (UK) Ltd.

## NOTE 18 BOND LOANS

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

(amounts in USD 1,000)		Average in- terest rate	Effective interest rate	2020	2019
Gross outstanding	ISIN: NO 001075576.2	6.00%	6.00%	19,507	19,507
Of which Group owns	(not cancelled)			14,887	14,887
<b>Book value 31.12.</b>				<b>4,620</b>	<b>4,620</b>

Split between long term and short term portion of bond loan 31.12.2020:	Long term portion	Short term portion	Total bond loan
ISIN: NO 001075576.2	4,620	0	4,620
<b>Book value 31.12.</b>	<b>4,620</b>	<b>0</b>	<b>4,620</b>

Split between long term and short term portion of bond loan 31.12.2019:	Long term portion	Short term portion	Total bond loan
ISIN: NO 001075576.2	4,620	0	4,620
<b>Book value 31.12.</b>	<b>4,620</b>	<b>0</b>	<b>4,620</b>

There are no pledges or securities on the bonds.  
The bond, ISIN: NO 001075576.2, is not listed.

## MATURITY

Maturity structure gross bond loans:	2021	2022	2023	2024	2025	Total
Instalment	0	19,507	0	0	0	19,507
Interest	1,170	683	0	0	0	1,853
<b>Total</b>	<b>1,170</b>	<b>20,190</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,360</b>
Of which to Group (Borrower's Bonds)	-893	-15,408	0	0	0	-16,301
<b>Net</b>	<b>277</b>	<b>4,782</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,059</b>

**ISIN NO 001075576.2 - USD 19,507,300.**

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 4.6. Petrolia SE owns USD 14,886,947 bonds.

The maturity of the bond is on 21 July 2022.

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 half year ("financial covenant").

The covenant has been met during 2020 and as at 31 December 2020 and is also met as at 30 April 2021.

## NOTE 19 LEASES

**GROUP AS LESSEE**

The Group has lease contracts in respect of drilling equipment and land & buildings. The leases expire between 1 and 4 years for drilling equipment and between 1 and 7 years for land & buildings. Various extension options are attached.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

(amounts in USD 1,000)	2020	2019
<b>Lease liability</b>		
<b>As at 1 January</b>	<b>9,158</b>	<b>1,782</b>
IFRS 16 Adjustment	0	7,133
<b>As at 1 January, adjusted</b>	<b>9,158</b>	<b>8,915</b>
Additions	2,212	2,088
Modifications	4,096	1,245
Interest	504	465
Translation difference	-161	-197
Payments	-3,387	-3,358
<b>As at 31 December</b>	<b>12,422</b>	<b>9,158</b>
Current	3,084	2,549
Non-current	9,338	6,609





## NOTE 20 TRADE AND OTHER PAYABLES

(amounts in USD 1,000)	2020	2019
Trade payables	7,161	8,337
<b>Total trade payables</b>	<b>7,161</b>	<b>8,337</b>
<b>Other payables</b>		
Accrued bond interests	124	124
Other current liabilities	4,467	6,128
<b>Total other payables</b>	<b>4,591</b>	<b>6,252</b>
<b>Total trade and other payables</b>	<b>11,752</b>	<b>14,589</b>

## NOTE 21 BANK LOAN AND OVERDRAFT

Current liabilities (amounts in USD 1,000)	Interest	Maturity	Security	Effective interest rate	2020	2019
Overdraft facility				(2019: 6.00%)	0	68
Bank loan AUD	Fixed 3.04%	June 2025	Equipment	3.08%	104	0
<b>Total</b>					<b>104</b>	<b>68</b>

Non-current liabilities (amounts in USD 1,000)	Interest	Maturity	Security	Effective interest rate	2020	2019
Bank loan GBP 50,000	Fixed 0% first year, thereafter 2.5%	June 2026		1.78%	68	0
Bank loan AUD 680,000	Fixed 3.04%	June 2025	Equipment	3.08%	370	0
<b>Total</b>					<b>438</b>	<b>68</b>

## NOTE 22 CAPITAL MANAGEMENT

### CAPITAL STRUCTURE AND EQUITY

For the purpose of the Group's capital management, capital includes issued capital, share premium and all the equity reserves attributable to the equity holders of the parent. The main objectives of the Group when monitoring capital are to safeguard the Group's ability to maintain 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 maximising 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 purchase of treasury shares, reduction of share capital, issuing new shares or through dividend policy.

(amounts in USD 1,000)	2020	2019
Equity of majority	39,307	39,330
Bank overdraft	0	68
Bank loan	542	0
Bond loan	4,620	4,620
Leases	12,422	9,158
Trade payables	7,161	8,337
Other payables	4,684	6,343
Less free cash	-15,942	-7,653
Net debt	13,487	20,873
Equity and net debt	52,794	60,203
Debt ratio	26%	35%

## 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, receivables and cash and cash equivalent and are measured at amortised cost. In 2020 and 2019 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 and do not expect losses other than the expected credit allowance already provided in line with the accounting policy. No expected credit loss was provided for the loan receivable as the associate is in net asset position and ECL was estimated to be insignificant. 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 and at the same time the volatility of future interest

payments is kept within acceptable frames. As at 31.12.2020 the Group's bond loan has fixed interest, while the lease obligations and bank loans 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
2020	+50	5	4
2019	+50	-2	-1

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 31.12.2020 and 31.12.2019.

As at 31st of December 2020	< 1 year	1-5 years	> 5 years	Total
Trade payables	7,161	0	0	7,161
Bond loans (incl interest)	277	4,782	0	5,059
Leasing (incl interest)	3,306	10,377	162	13,845
Bank loan	104	438	0	542
Other liabilities	4,591	93	0	4,684
<b>Total</b>	<b>15,439</b>	<b>15,690</b>	<b>162</b>	<b>31,291</b>
As at 31st of December 2019	< 1 year	1-5 years	> 5 years	Total
Trade payables	8,337	0	0	8,337
Bond loans (incl interest)	277	5,059	0	5,336
Leasing (incl interest)	2,709	6,104	1,436	10,249
Bank overdraft	68	0	0	68
Other liabilities	6,252	91	0	6,343
<b>Total</b>	<b>17,643</b>	<b>11,254</b>	<b>1,436</b>	<b>30,333</b>

### 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 relative 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.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

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
2020	5 %		588	460
	-10 %		-1,178	-919
2019	5 %		555	433
	-10 %		-1,111	-867

### CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

2020	1 January 2020	Instalment	Translation difference	New lease/ draw down	Interest	31 December 2020
Non-current Bond loan	4,620	0	0	0	0	4,620
Non-current Bank loan	0	-119	30	527	0	438
Lease liabilities	9,158	-3,387	-161	6,308	504	12,422
<b>Total</b>	<b>13,778</b>	<b>-3,506</b>	<b>-131</b>	<b>6,835</b>	<b>504</b>	<b>17,480</b>
2019	1 January 2019	Sold bond/Instalment lease	Translation difference	New lease	Accretion of interest	31 December 2019
Non-current Bond loan	4,420	200	0	0	0	4,620
Lease liabilities	8,915	-3,358	-197	3,333	465	9,158
<b>Total</b>	<b>13,335</b>	<b>-3,158</b>	<b>-197</b>	<b>3,333</b>	<b>465</b>	<b>13,778</b>

### 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 management's estimates by reference to other listed bonds with similar characteristics. 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 and financial leases 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.

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 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 2020 was USD 0.1 million.

**COMPARISON OF CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS OTHER THAN THOSE WITH CARRYING AMOUNTS THAT ARE REASONABLE APPROXIMATIONS OF FAIR VALUES:**

Bond loan - fair value (Note 18)	2020	2019
<b>Net outstanding, USD 1,000</b>		
Book value	4,620	4,620
Fair value (Level 3)	4,343	4,066
	94%	88%

## NOTE 24 RELATED PARTIES

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

IOR AS is the 100% owner of LOG AS and Kver AS. Mr. Berge Gerdt Larsen, Chairman of the Board has economic interest of 44.95% in IOR 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 1.3 million (USD 135,392) in 2020.

The Company has an office lease agreement with Kver AS. Annual office rent is NOK 0.6 million (USD 67,169). In 2020 shared costs amounted to NOK 0.4 million (USD 42,905).

### 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 2020. No repayment plan has been made (Note 13). The investment in the associated company is shown in note 12.

### DIRECTOR FEES

Director fees are shown in note 6.



## NOTE 25 MATERIAL PARTLY OWNED SUBSIDIARIES

Independent Oil Tools DOSCO BV The Netherlands	2020	2019
Proportion of equity interest held by non-controlling interest	30%	30%
Accumulated balances of material non-controlling interest	1,590	1,663
Profit allocated to material non-controlling interest	91	91
Comprehensive income allocated to material non-controlling interest	-74	59

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	2020	2019
Revenue	8,996	13,354
Cost of sales	-6,670	-10,027
Administrative and other expenses	-1,898	-2,186
Depreciation	-480	-674
Finance (cost) / income	-195	41
<b>(Loss) / profit before tax</b>	<b>-247</b>	<b>508</b>
Income tax	-482	-204
<b>(Loss) / profit for the year</b>	<b>-729</b>	<b>304</b>
Exchange differences	483	-108
<b>Total comprehensive income</b>	<b>-246</b>	<b>196</b>
Attributable to non-controlling interest	-74	59
Dividends paid to non-controlling interest	0	0

Summarised statement of financial position	2020	2019
Current assets	3,792	4,362
Non-current assets	1,108	1,134
Current liabilities	-398	-49
Non-current liabilities	0	0
Total equity	5,298	5,544
Attributable to:		
- Equity holders of parent	3,708	3,881
- Non-controlling interest	1,590	1,663

## NOTE 26 INVENTORIES

(Amounts in USD 1,000)	2020	2019
Spare parts (at lower of cost and net realisable value)	149	254
Finished goods (at lower of cost and net realisable value)	1,721	1,221
<b>Total inventories</b>	<b>1,870</b>	<b>1,475</b>

Finished goods represent OilService equipment held for sale.

## NOTE 27 OPERATING ENVIRONMENT OF THE GROUP

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments have implemented restrictions on travelling as well as strict quarantine measures throughout the year.

Industries such as oil & gas have been directly disrupted significantly by these measures, primarily through the reduced demand and consequential reduction in oil prices.

To this end, certain measures have been taken by the governments in all countries in which the Group operates, with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

New entry regulations have been applied with regards to protecting the population from a further spread of the disease which tightened the entry of individuals to the various countries within the year. Additionally, a considerable number of private businesses operating in various sectors of the economy closed for a period of time while a number of lockdown measures, such as the prohibition of unnecessary movements and the suspension of operations of retail companies (subject to certain exemptions), were

applied throughout the year. The measures were continuously revised (lifted or tightened) by the various governments during the year taking into consideration the epidemic status in each country.

The objective of these public policy measures was to contain the spread of COVID-19 outbreak and have resulted in limited operational disruption for the Group.

In parallel, governments, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Group has in some locations applied for such government assistance, primarily related to incentives regarding employees. The details of all the arrangements that might be available to the Group and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty. The Group is continuing to assess the implications for its business when these arrangements are no longer available and has reflected their impact in its stress-scenarios for going concern purposes.

The impacts of COVID-19 are reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2020. The Group's management has assessed:

(1) whether any impairment allowances are deemed necessary for the Group's financial assets, non-financial assets (e.g., property, plant & equipment, right of use assets), loans receivables, trade receivables, and investments

in associates by considering the economic situation and outlook at the end of the reporting period.

(2) the ability of the Group to continue as a going concern (Note 2.1).

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results.

Management has considered the unique circumstances and the risk exposures of the Group and has concluded that there is no significant impact in the Group's profitability position. COVID-19 did not have an immediate material impact on the business operations.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

Management will continue to monitor the situation closely.

## NOTE 28 EVENTS AFTER THE REPORTING PERIOD

On 9 March 2021 the outstanding shares of CO2 Management AS were acquired making the company a fully owned subsidiary (refer to note 12).

On 29 March 2021 an appraisal well on the Dugong discovery of 2020 revised the estimated recoverable resources to be between 40 - 108 million barrels of oil equivalent (mmboe) (refer to note 12).

Depending on the duration of the Coronavirus disease (COVID-19) pandemic, and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur impairments on its assets in 2021. The exact impact on the Group's activities in 2021 and thereafter cannot be predicted. In the period since 31 December 2020, the Group did not incur significant losses due to impairments recognised on property, plant and equipment, right of use assets, outstanding receivables and write down of inventories. There was also no impact on its bond covenant.

# FINANCIAL STATEMENTS



# FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2020

## PETROLIA SE

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 31 December 2020

	Note	2020 USD 000	2019 USD 000
<b>Revenue from contracts with customers</b>	7	<b>152</b>	54
Administration expenses		<b>(1.376)</b>	(1.451)
<b>Operating loss</b>	8	<b>(1.224)</b>	(1.397)
Finance income	10	<b>8</b>	12
Finance costs	10	<b>(282)</b>	(464)
Reversal of impairment / (impairment charge) on investments in subsidiary companies - net	12	<b>11.993</b>	(982)
Reversal of Impairment /(Impairment charge) on investments in associates	13	<b>199</b>	(411)
Reversal of expected credit losses	21.4	<b>-</b>	4
<b>Profit/(loss) before tax</b>		<b>10.694</b>	(3.238)
Tax	11	<b>-</b>	133
<b>Net profit/(loss) for the year</b>		<b>10.694</b>	(3.105)
<b>Other comprehensive income</b>		<b>-</b>	-
<b>Total comprehensive income/(expense) for the year</b>		<b>10.694</b>	(3.105)

## PETROLIA SE

### STATEMENT OF FINANCIAL POSITION

31 December 2020

	Note	2020 USD 000	2019 USD 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		-	1
Investments in subsidiaries	12	40.156	28.766
Investments in associates	13	660	461
Restricted cash	15	43	24
Right of use asset	16	187	-
		<b>41.046</b>	<b>29.252</b>
<b>Current assets</b>			
Trade and other receivables	14	4.400	5.046
Cash at bank	17	86	300
		<b>4.486</b>	<b>5.346</b>
<b>Total assets</b>		<b>45.532</b>	<b>34.598</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	5.913	5.913
Share premium		12.222	12.222
Merger reserve		67.093	67.093
Accumulated losses		(45.024)	(55.718)
<b>Total equity</b>		<b>40.204</b>	<b>29.510</b>
<b>Non-current liabilities</b>			
Borrowings	19	4.620	4.620
Lease liability	16	125	-
		<b>4.745</b>	<b>4.620</b>
<b>Current liabilities</b>			
Trade and other payables	20	397	344
Borrowings	19	124	124
Lease liability	16	62	-
		<b>583</b>	<b>468</b>
<b>Total liabilities</b>		<b>5.328</b>	<b>5.088</b>
<b>Total equity and liabilities</b>		<b>45.532</b>	<b>34.598</b>

On 30 April 2021 the Board of Directors of Petrolia SE authorised these financial statements for issue.



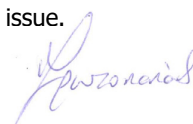
Sjur Storaas  
Board member



Berge Gerdt Larsen  
Chairman of the Board



George Hadjineophytou  
Board member



Polycarpus Protopapas  
Board member  
Managing director



Sølve Nilsen  
Finance manager



## PETROLIA SE

### STATEMENT OF CHANGES IN EQUITY

31 December 2020

	Share capital	Share premium	Merger reserve	Accumulated losses	Total
	USD 000	USD 000	USD 000	USD 000	USD 000
<b>Balance at 1 January 2019</b>	<b>5.913</b>	<b>12.222</b>	<b>67.093</b>	<b>(52.613)</b>	<b>32.615</b>
Net loss for the year	-	-	-	(3.105)	(3.105)
<b>Balance at 31 December 2019/ 1 January 2020</b>	<b>5.913</b>	<b>12.222</b>	<b>67.093</b>	<b>(55.718)</b>	<b>29.510</b>
Net profit for the year	-	-	-	10.694	10.694
<b>Balance at 31 December 2020</b>	<b>5.913</b>	<b>12.222</b>	<b>67.093</b>	<b>(45.024)</b>	<b>40.204</b>

## PETROLIA SE

### STATEMENT OF CASH FLOWS

31 December 2020

	Note	2020 USD 000	2019 USD 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit/(loss) before tax</b>		<b>10.694</b>	(3.238)
Adjustments for:			
Net exchange (gain) / loss		(7)	180
(Reversal of impairment)/impairment charge - investments in subsidiaries	12	(11.993)	982
(Reversal of impairment)/impairment charge - investments in associates	13	(199)	411
(Reversal of impairment) - amounts receivable from related parties	21.4	-	(4)
Interest income	10	(1)	(12)
Interest expense	10	277	276
		<b>(1.229)</b>	(1.405)
<b>Changes in working capital:</b>			
Decrease/(increase) in trade and other receivables		1.233	(234)
Increase in trade and other payables		58	148
<b>Cash generated from/(used in) operations</b>		<b>1.291</b>	(86)
<b>Net cash generated from/(used in) operating activities</b>		<b>62</b>	(1.491)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment		-	(1)
Interest received		1	12
<b>Net cash generated from investing activities</b>		<b>1</b>	11
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	200
Interest paid		(277)	(271)
<b>Net cash used in financing activities</b>		<b>(277)</b>	(71)
<b>Net decrease in cash and cash equivalents</b>		<b>(214)</b>	(1.551)
Cash and cash equivalents at beginning of the year		300	1.851
<b>Cash and cash equivalents at end of the year</b>	17	<b>86</b>	300

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 1. Incorporation and principal activities

##### Country of incorporation

Petrolia SE (the "Company") was incorporated in Cyprus on 9 August 2011 as a limited liability company under the Cyprus Companies Law, Cap. 113. Its registered office is at Christodoulou Chatzipavlou 205, Louloupis court, 4th Floor, Office 401, 3036, Limassol, Cyprus.

##### Change of Company name

On 17 November 2011, the Company changed its name from Petrolia E&P Holdings Limited to Petrolia E&P Holdings Plc. Following a shareholders' plan to re-domicile to Cyprus that was approved on 30 December 2011, Petrolia ASA merged ("cross-border merger") with Petrolia E&P Holdings Plc ("surviving entity") and the latter was at the same time converted into a European public company limited by shares ("Societas Europaea" or "SE") in accordance with Article 2 no. 1 of the European Council Regulation no. 2157/2001 (the "SE Regulation") and Section 5 of the Norwegian Act on European Companies of 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: "PSE"). On 21 September 2018, the Company changed its ticker name from "PDR" to "PSE".

##### Principal activities

The principal activities of the Company are the financing of group companies and the holding of investments in subsidiaries and associates engaged in two business segments: Exploration & Production (E&P) and Oil Service. E&P activities are presented through an investment in associate company. Operating activities are in the Oil Service segment.

#### 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 less impairment in these separate financial statements. 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, rounded to the nearest thousand.

#### 3. Adoption of new or revised standards and interpretations

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2020. This adoption did not have a material effect on the accounting policies of the Company.

#### 4. Significant accounting policies

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

##### Subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated undertakings are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee without the power to control or jointly control those policies.

##### Revenue

##### Recognition and measurement

Revenue shall be recognised in such a way to depict the transfer of services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those services to the customer; the transaction price. The Company includes in the transaction price an amount of variable consideration as a result of rebates/discounts only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for rebates and discounts are based on the Company's experience with similar contracts and forecasted sales to the customer

Revenue from contracts with customers (in writing, orally or in accordance with other customary business practices) is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Company considers only the customer's ability and intention to pay that amount of consideration when it is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimates are reflected in the statement of profit or loss and other comprehensive income in the period in which the circumstances that give rise to the revision become known by management.

##### Identification of performance obligations

The Company assesses whether contracts that involve the provision of a range of services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A service that is promised to a customer is distinct if the customer can benefit from the service, either on its own or together with other resources that are readily available to the customer (that is the service is capable of being distinct) and the Company's promise to transfer the service to the customer is separately identifiable from other promises in the contract (that is, the service is distinct within the context of the contract).

- **Management and consultancy fees**

Revenue from rendering of services is recognised over time while the Company satisfies its performance obligation by transferring control over the promised service to the customer in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the annual or monthly fee based on the contract and the period for which the Company has provided services to subsidiaries, group subsidiaries and associate company.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### Dividend income

Dividends are received from investments in subsidiaries and associates. Dividends are recognised as dividend income in profit or loss when the right to receive payment is established.

##### Finance income

Interest income is recognised on a time-proportion basis using the effective method.

##### Finance costs

Interest expense and other borrowing costs are charged to profit or loss as incurred.

##### Foreign currency translation

##### (1) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars (USD 000), which is the Company's functional and presentation currency.

##### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 profit or loss.

##### Tax

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

##### Leasing

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### *Company as lessee*

The Company applies a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. The Company recognises lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

##### *Right of use assets*

The Company recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, in accordance with the depreciation accounting policy on property, plant and equipment. The estimated useful lives of buildings is 33 years from the date of construction. If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase obligation or a purchase option, depreciation is calculated using the estimated useful life of the asset. The right of use assets are also subject to impairment testing in the same manner as other non financial assets.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### Leasing (continued)

###### *Lease liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term i.e. the non-cancellable period of the lease including reasonably certain to exercise extension or termination options. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option, reasonably certain to be exercised by the Company, and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in substance fixed lease payments or a change in the assessment to purchase the underlying asset.

###### *Short term leases and leases of low value assets*

The Company applies the short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low value lease recognition exemption in respect of miscellaneous assets. Lease payments on short term and low value leases are recognised as expense on a straight-line basis over the lease term.

The Company does not act as a lessor in any transaction.

##### Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company has become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period to its net carrying amount.

##### (i) Financial assets

###### Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.



## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 Company commits to purchase or sell the asset.

##### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

##### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables and cash at bank.

##### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company applies the simplified approach for trade and other receivables and bank deposits in relation to the calculation of ECLs. In particular for trade and other receivables and bank deposits that are due within twelve months, the 12 month ECLs are the same as the lifetime ECLs. By using the simplified approach, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. In relation to trade and other receivables, in order to measure the expected credit losses, the Company measured the historical loss rates based on the payment profiles of revenue, the historical loss rates are adjusted to reflect forward looking factors specific to the receivables and the economic environment affecting the ability of the customers to settle the receivables.

In relation to the loans due from related parties and amounts receivable from related parties, management has completed some high level analysis, which considers both historical and forward looking qualitative and quantitative information, to determine if a related party loan and balance is low credit risk at 31 December 2020. Management has considered the financial performance and financial position as well as the remaining term of the loans, and whether the related parties will have sufficient cash throughout that period to meet all of their working capital and other obligations, including repayment of the related party balances. Management does not expect that there will be adverse changes in economic and business conditions during that period. Consequently, management has determined that the loans and amounts receivable from related parties, are low credit risk, falls within 'stage 1' of IFRS 9's impairment model, and 12 month expected credit losses can be calculated.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

##### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

#### (ii) Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Company's financial liabilities include trade and other payables and borrowings.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 4. Significant accounting policies (continued)

##### 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 incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

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 IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

##### Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

##### Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

##### 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 statement of profit or loss.

##### (iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount 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 asset and settle the liability simultaneously.

##### Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

##### Provisions

Provisions are recognised when the Company 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 a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

##### Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 5. New accounting pronouncements

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company.

#### 6. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

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

##### *Judgments*

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 discussed below:

- **Impairment of investments in subsidiaries/associates**

The Company periodically evaluates the recoverability of investments whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an investment is not recoverable. If facts and circumstances indicate that an investment may be impaired, the estimated recoverable amounts of these investments would be compared to their carrying amounts to determine if a write down to a recoverable amount is necessary.

- **Impairment of financial assets- allowance for credit losses and amounts receivable**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. In relation to the loans and amounts due from related parties, in order to calculate the ECL, the Company applied the 12 month ECL model and the general approach. In determining the recoverability of the loans and amounts due from related parties, the Company considered the historic repayments made in conjunction with the parties' financial position at year end and their ability to make future repayments based on their current and expected future trading activities.

#### 7. Revenue from contracts with customers

The Company derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines.

##### **Disaggregation of revenue**

	2020 USD 000	2019 USD 000
Management fees (Note 21.2)	7	8
Consultancy fees (Note 21.3)	145	46
	<u>152</u>	<u>54</u>

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 8. Operating loss

	2020 USD 000	2019 USD 000
Operating loss is stated after charging the following items:		
Directors' fees (Note 21.1)	106	95
Staff costs (Note 9)	660	536
Auditors' remuneration - current year	152	145
Auditors' remuneration for other non-audit services	8	3
Auditors' remuneration - prior years underprovision	12	27
Office rental	115	142
Legal and professional	34	58

#### 9. Staff costs

	2020 USD 000	2019 USD 000
Salaries	638	485
Wages	13	7
Social security costs	9	44
	660	536

The average number of employees during the year was 3 (2019: 6).

#### 10. Finance income/(costs)

	2020 USD 000	2019 USD 000
Other interest income	1	12
Net foreign exchange transaction gains	7	-
<b>Finance income</b>	<b>8</b>	<b>12</b>
Net foreign exchange losses	-	(180)
Interest expense	(277)	(276)
Sundry finance expenses	(5)	(8)
<b>Finance costs</b>	<b>(282)</b>	<b>(464)</b>
<b>Net finance costs</b>	<b>(274)</b>	<b>(452)</b>

#### 11. Tax

##### Statement of profit or loss and other comprehensive income

	2020 USD 000	2019 USD 000
Corporation tax	-	(133)
<b>Credit for the year</b>	<b>-</b>	<b>(133)</b>

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 11. Tax (continued)

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

	2020 USD 000	2019 USD 000
Profit/(loss) before tax	<u>10.694</u>	<u>(3.238)</u>
Tax calculated at the applicable tax rates	1.337	(405)
Tax effect of expenses not deductible for tax purposes	44	257
Tax effect of allowances and income not subject to tax	(1.527)	2
Tax effect of tax loss for the year	67	150
Tax effect of group contribution (branch)	<u>79</u>	<u>(133)</u>
<b>Tax credit</b>	<u>-</u>	<u>(133)</u>

The Company is resident in Cyprus for tax purposes.

Interest income is subject to Income Tax at the standard rate of 12,5% if the interest is considered to be generated in the ordinary carrying on of a business or closely connected to it. If the interest income is neither generated in the ordinary carrying on of a business nor closely connected to it, it is subject to Defence Tax at a rate of 30% (15% up to 28 April 2013).

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

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 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 22% (2019: 22%) on the tax profits realized in Norway. The Branch under current legislation may carry forward the balance of tax losses indefinitely in the future.

Due to tax losses sustained in the year, no tax liability arises on the Company. Under current legislation, tax losses amount to USD 3.149 thousand may be carried forward and be set off against taxable income of the five succeeding years. No deferred tax asset was recognised as it is not certain that these losses will be utilised in the next 5 years.

#### 12. Investments in subsidiaries

	2020 USD 000	2019 USD 000
Balance at 1 January	28.766	29.748
Reversal of impairment / (impairment charge) net	11.993	(982)
Group contributions impact	<u>(603)</u>	<u>-</u>
<b>Balance at 31 December</b>	<u>40.156</u>	<u>28.766</u>

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 12. Investments in subsidiaries (continued)

The details of the subsidiaries are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>2020 Holding %</b>	<b>2019 Holding %</b>	<b>2020 USD 000</b>	<b>2019 USD 000</b>
Petrolia AS (1)	Norway	Holding company of IOT Group - oil service	100	100	<b>39.593</b>	25.294
Petrolia Invest AS (2)	Norway	Holding of investments	100	100	-	58
Petrolia Tool Pool AS	Norway	Holding company	100	100	<b>17</b>	17
Venture Drilling AS (3)	Norway	Oil Service	100	100	<b>199</b>	2.354
Independent Oil Tools International (Cyprus) Ltd (4)	Cyprus	Dormant	100	100	<b>347</b>	1.043
					<b>40.156</b>	28.766

The Company performs an impairment assessment of its subsidiaries when there are indicators for impairment or reversal of impairment in accordance with the relevant accounting standard.

(1) As at 31 December 2020 a reversal of impairment of USD 14.299 thousand was recognised. The accumulated impairment as at 31 December 2020 is USD 85.217 thousand (2019: USD 99.516 thousand). Petrolia AS is the holding company of the oil service sub-group. Management notes that following the uncertainty of Covid-19 and low oil prices, the market conditions are now more favourable, internal reporting indicates that the economic performance of the oil service sub-group will be improved compared to prior years and net assets of the investee is higher compared to the carrying amount. All the above, are indicators of reversal of impairment and therefore the Company compared the carrying amount with the recoverable amount. The reversal of impairment was estimated by using the discounted cash flow model for a period of 5 years with an exit price. The discounted cash flow calculations included the following main inputs and assumptions:

- EBIDTA for 2021 as per the investee's approved budget, EBITDA for 2022 of the investee at the pre-covid levels, followed by annual increase of 5%,
- Capital expenditure based on historic averages
- Exit price using an EV/EBITDA multiple of 7,2 based on publicly industry available information
- Discount rate of 10,7%

The following sensitivity analysis has been performed by management as at the year-end:

- A decrease in projected EBITDA rates of 10% would result in USD 7.066 thousand less reversal of impairment,
- A decrease of the EV/EBITDA multiple to 6,2 would result in USD 6.614 less reversal of impairment; and
- An increase in the discount rate of 1% would result in USD 2.227 less reversal of impairment.

(2) As at 31 December 2020 an impairment charge of USD 58 thousand was recognised. The accumulated impairment as at 31 December 2020 is USD 20.049 thousand (2019: USD 19.990 thousand). Petrolia Invest AS holds shares which are listed in the Oslo Stock Exchange and as at the year end the company was in a net liabilities position. In this respect management has fully impaired the carrying amount of the investment.

(3) As at 31 December 2020 impairment of USD 1.552 thousand was recognised. The accumulated impairment as at 31 December 2020 is USD 48.009 thousand (2019: USD 46.457 thousand). Venture Drilling AS is the holding company of the land rigs owned by the Group. Management has impaired the carrying amount using the fair value less cost of disposal model which was estimated to approximate the net assets of the investee.

(4) As at 31 December 2020 impairment of USD 696 thousand (2019: impairment charge of USD 982 thousand) was recognised. The accumulated impairment as at 31 December 2020 is USD 13.252 thousand (2019: USD 12.556 thousand). The company is dormant, and management has based its impairment assessment on the net assets of the investee which considered to be a closed approximation of its fair value less cost to disposal.

Total net reversal of impairment for the year amounted to USD 11.993 thousand (2019: Impairment charge USD 982 thousand). Total accumulated impairment as at 31 December 2020 amounted to USD 166.559 thousand (2019: USD 178.522 thousand).



## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 13. Investments in associates

The details of the investment are as follows:

	<b>2020</b>	2019
	<b>USD 000</b>	USD 000
Balance at 1 January	<b>461</b>	872
Reversal of impairment/(Impairment charge)	<b>199</b>	(411)
<b>Balance at 31 December</b>	<b>660</b>	461

The details of the investment are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<b>2020 Holding %</b>	2019 Holding %	<b>2020 USD 000</b>	2019 USD 000
Petrolia Noco AS	Norway	Oil & Gas	13.53	14.84	<b>660</b>	461
					<b>660</b>	461

During the year 2020, the investment in Petrolia Noco AS has increased its capital by the issuance of additional share capital. The associate has completed a share rights issue where 11.812.928 shares have been issued at a price of NOK 3.50 per share. Petrolia SE, has not participated in the purchase of additional shares but 5.894.651 shares were allocated to Petrolia AS, a 100% subsidiary of Petrolia SE and therefore its shareholding decreased from 14.84% to 13.53%. However, it has exercised significant influence through participating in the financial and operating policy decision of the investee (Petrolia Noco AS) through its common director Berge Gerdt Larsen and Sjur Storaas who remain on the board of directors of both companies, the Parent (Petrolia SE) and associate (Petrolia Noco AS).

During the year 2020, the associate company had an oil discovery from its exploration activity. Management has considered the oil discovery as an indicator for reversal for impairment. Therefore, the Company compared the carrying amount with the recoverable amount and estimated a reversal of impairment. The reversal of impairment was estimated to USD 199 thousand (2019: the investment in Petrolia NOCO AS, was impaired by USD 411 thousand) by reference to the net assets of the associate. Until the discovery is able to go to the development stage, where high capital expenditure is required, management considers the net assets to approximate the fair value of the investee. The accumulated impairment as at 31 December 2020 amounted to USD 24.998 thousand (2019: 25.197 thousand).

Through its subsidiaries the Company controls 49,9% (2019: 49,9%) of the shares of Petrolia NOCO AS.

#### 14. Trade and other receivables

	<b>2020</b>	2019
	<b>USD 000</b>	USD 000
Trade receivables	<b>61</b>	24
Receivables from related parties (Note 21.4)	<b>3.967</b>	4.712
Deposits and prepayments	<b>8</b>	6
VAT refundable	<b>364</b>	304
	<b>4.400</b>	5.046

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 15. Restricted cash

	2020 USD 000	2019 USD 000
Bank deposits	43	24
Less non-current portion	<u>(43)</u>	<u>(24)</u>
Current portion	<u>-</u>	<u>-</u>

Refer also to Note 16 to the consolidated financial statements.

#### 16. Leases

The Company has an office rental agreement with a lease term until 31 December 2023, with options to extend. Management exercises judgement in determining whether it is reasonably certain to continue to use the premises for additional periods. Management has not taken into account any additional optional periods in the lease calculations.

Set out below are the carrying amounts of right of use assets recognised and the movements during the year:

<b><u>Right of Use Asset:</u></b>	2020 USD 000	2019 USD 000
<b>At 1 January</b>	-	-
Additions in the year	<u>187</u>	<u>-</u>
<b>At 31 December</b>	<u>187</u>	<u>-</u>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

<b><u>Lease liability:</u></b>	2020 USD 000	2019 USD 000
<b>At 1 January</b>	-	-
Additions in the year	<u>187</u>	<u>-</u>
<b>Balance at 31 December</b>	<u>187</u>	<u>-</u>
Less current portion	<u>(62)</u>	<u>-</u>
Non-current balance	<u>125</u>	<u>-</u>

No amounts were recognised in profit or loss during the year as the lease was recognised at the end of the year.

#### 17. Cash at bank

Cash balances are analysed as follows:

	2020 USD 000	2019 USD 000
Cash at bank	<u>86</u>	<u>300</u>
	<u>86</u>	<u>300</u>

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 18. Share capital

	2020 Number of shares	2020 USD 000	2019 Number of shares	2019 USD 000
<b>Authorised</b>				
Ordinary shares of USD1 each	<u>272.358.670</u>	<u>27.236</u>	272.358.670	27.236
		<b>USD 000</b>		<b>USD 000</b>
<b>Issued and fully paid</b>				
Balance at 1 January	<u>59.133.786</u>	<u>5.913</u>	59.133.786	5.913
<b>Balance at 31 December</b>	<u>59.133.786</u>	<u>5.913</u>	59.133.786	5.913

Refer also to Note 17 to the consolidated financial statements.

#### 19. Borrowings

	2020 USD 000	2019 USD 000
<b>Current borrowings</b>		
6% Callable bond loan - interest due, not yet paid	<b>124</b>	124
<b>Non-current borrowings</b>		
6% Callable bond loan - principal	<u>4.620</u>	4.620
<b>Total</b>	<u>4.744</u>	4.744

On 27 March 2019 the Company and one of its shareholders have entered into an agreement whereby the shareholder purchased USD 200 thousand of the 6% callable bond loan.

Maturity of borrowings:

	2020 USD 000	2019 USD 000
Within one year	<b>124</b>	124
Between one and five years	<u>4.620</u>	4.620
	<u>4.744</u>	4.744

Refer also to Note 18 to the consolidated financial statements.

#### 20. Trade and other payables

	2020 USD 000	2019 USD 000
Trade payables	<b>44</b>	30
Social insurance and other taxes	<b>96</b>	60
Shareholders' current accounts - credit balances (Note 21.6)	-	17
Accruals	<b>105</b>	87
Payables to own subsidiaries (Note 21.5)	<u>152</u>	150
	<u>397</u>	344

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 21. Related party transactions

The following transactions were carried out with related parties:

##### 21.1 Directors' remuneration (Note 8)

The remuneration of Directors was as follows:

	2020 USD 000	2019 USD 000
Directors' fees	<u>106</u>	<u>95</u>
	<u>106</u>	<u>95</u>

##### 21.2 Management fees charged to related parties (Note 7)

	<u>Nature of transactions</u>	2020 USD 000	2019 USD 000
Subsidiaries and sub-subsidiaries	Trade	<u>7</u>	<u>8</u>
		<u>7</u>	<u>8</u>

##### 21.3 Consultancy fees charged to related parties (Note 7)

	<u>Nature of transactions</u>	2020 USD 000	2019 USD 000
Petrolia Noco AS	Trade	<u>145</u>	<u>46</u>
		<u>145</u>	<u>46</u>

##### 21.4 Receivables from related parties (Note 14)

	<u>Nature of transactions</u>	2020 USD 000	2019 USD 000
IO & R Ltd	Finance	8	8
Petrolia AS	Finance	-	985
Venture Drilling AS	Finance	3.387	3.002
Petrolia Invest AS	Finance	<u>572</u>	<u>717</u>
		<u>3.967</u>	<u>4.712</u>

The receivables from related parties are interest free, and there have no specified repayment date.

The accumulated ECL provisions were made in accordance with the relevant accounting policy. There was no loss allowance for the year (2019: reversal of ECL USD 4 thousand). The accumulated ECL for the year amounted to USD 1.492 thousand (2019: USD 1.492 thousand).

##### Movement of Accumulated Impairment:

	2020 USD 000	2019 USD 000
Balance at 1 January	1.492	1.496
Reversal of impairment for the year	<u>-</u>	<u>(4)</u>
<b>Balance at 31 December</b>	<u>1.492</u>	<u>1.492</u>

##### 21.5 Payables to related parties (Note 20)

<u>Name</u>	<u>Nature of transactions</u>	2020 USD 000	2019 USD 000
Independent Oil Tools International (Cyprus) Ltd	Finance	<u>152</u>	<u>150</u>
		<u>152</u>	<u>150</u>

The payables to related parties are provided interest free, and have no specified repayment date.

## PETROLIA SE

### NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

#### 21. Related party transactions (continued)

##### 21.6 Shareholders' current accounts - credit balances (Note 20)

	<b>2020</b>	2019
	<b>USD 000</b>	USD 000
Shareholder and Chairman	-	17
	-	17

The shareholders' current accounts are interest free, and have no specified repayment date.

#### 22. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2020.

#### 23. Commitments

The Company had no capital or other commitments as at 31 December 2020.

#### 24. Supplementary Information

Mrs Judith Parry has resigned on 28 May 2020 from her position as a Company Director. All other directors were reappointed.

#### 25. Events after the reporting period

Refer to Note 28 to the consolidated financial statements.



# AUDITOR'S







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## Independent Auditor's Report

### To the Members of Petrolia SE

#### Report on the Audit of 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 2020, 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 2020, 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 and the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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.





## **Recoverability of investments in subsidiaries, impairment of oil service and other equipment and recoverability of trade receivables**

### ***Recoverability of investments in subsidiaries (Parent Company only)***

#### *The key audit matter*

Investments in subsidiaries represent 88% of the Company's total assets. An analysis of the investments in subsidiaries is presented in note 12 to the Company's separate financial statements. The most significant subsidiaries operate in the oil-service industry, an industry which continues to face significant challenges from the high volatility in the market. Changes in market conditions and the financial performance of investees may trigger indications for impairment or reversal of impairment previously recognized. 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 potential reversals of impairment recorded in prior years.

Due to the significant balances of the investments in subsidiaries and the estimation uncertainty involved in the assessment of their recoverable amount, we have considered this area as a key audit matter.

#### *How the matter was addressed in our audit*

In this area, among others, we considered management's identification of indicators of impairment or reversal of impairment. We also assessed the methodology used by management to estimate the recoverable amount of each investment and considered its consistency with International Financial Reporting standards. We analyzed the key assumptions used in management's estimates of the recoverable amount of each subsidiary, such as its profitability and financial position, future cash flows and discount rates and we assessed whether the recoverable amount is within an acceptable range. In doing so, in certain cases, we involved our internal valuation specialists. We also evaluated the relevance of the Company's disclosures regarding the impairment assessment of its investments in subsidiaries and their recoverability.

### ***Impairment of oil service and other equipment (consolidated financial statements only)***

#### *The key audit matter*

Oil service and other equipment represent 21% of the Group's total assets. The history of recent losses and the global pandemic (Covid-19) coupled with a dramatic fall in oil prices during the year has resulted in an indication of impairment of oil service and other equipment. On the other hand, following a challenging year, there was an increase in the oil prices towards the last quarter of the year which continues as of the date of our report. For these reasons, the Group subjected the various cash-generating units to which oil service and other equipment belong, to an impairment test. The latter involves estimating the recoverable amount by calculating assets' value in use based on discounted cash flow model.

These impairment tests were significant for our audit, since the recoverable amount estimation process is complex and highly subjective and is based on various assumptions. The Group provides details on the impairment tests in note 11 to the consolidated financial statements.

#### *How the matter was addressed in our audit*

Our audit procedures included, among others, an assessment of the assumptions and methods used in the impairment testing of oil service and other equipment at subsidiary level. In doing so, in certain cases, we involved our internal valuation specialists. Our evaluation was focused on the principal assumptions used, such as the discount rate, the expected trend in turnover, operating expenses and capital expenditure and compared them against available external market and industry data, historical data and internal budgets. We also considered the identification of cash generating units subjected to impairment testing in respect of their oil service and other equipment. In addition, we have tested the mathematical accuracy of the impairment charge recognized in the year. Further, we assessed the adequacy and completeness of the Group's disclosures as regards the impairment testing.



### ***Recoverability of trade receivables (consolidated financial statements only)***

#### *The key audit matter*

Trade receivables represent 14% of the total Group assets and as at 31 December 2020 the accumulated allowance for expected credit losses ("ECLs") amounted to US\$14m. 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. Key judgements and estimates in respect of the timing and measurement of ECLs include:

- The use of provision matrix to calculate ECLs, determining the provision rates based on days past due;
- The use by management of this information to determine whether a loss allowance for ECLs is required either for a specific transaction or for a customer's balance overall;
- Adjusting historical credit loss experience with forward-looking information, including Covid-19 impacts.

We focused on this area because it requires a high level of management judgement and due to the materiality of the amounts involved. The accounting policy for provisions for ECLs of trade receivables is described in Note 2.3 and further analyzed in Notes 3, 14 and 23 to the consolidated financial statements.

#### *How the matter was addressed in our audit*

We focused on an assessment of the assumptions used to calculate the allowance of credit losses on trade receivables, notably through detailed analyses of the provision matrix, evaluating the reasonability of ECL rates and loss patterns, including forward-looking information consideration in particular Covid-19 impacts, combined with comparing to supporting documentation and where applicable to third party evidence. We also performed recalculations of ECLs. In our trade receivable ECLs evaluation, we also considered the results from other audit procedures such as the testing of a sample of sales transactions to supporting documents, obtaining trade receivable confirmations and performing subsequent receipts testing of bank payments by customers. Furthermore, we assessed the appropriateness and completeness of the presentation and disclosures of trade receivables and related ECLs in line with the requirements of IFRS 9.

### **Reporting on other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Responsibility Statement, Management Report, the Board of Directors' report on Corporate Social Responsibility 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 identified above 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 and those charged with governance 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.





Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated and 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 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 those charged with governance 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 those charged with governance 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, 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.

### **Report on Other Legal and Regulatory Requirements**

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.



### ***Appointment of the Auditor and Period of Engagement***

We were first appointed as auditors of the Group on 30 November 2012 by the Board of Directors. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

### ***Consistency of the Additional Report to the Audit Committee***

We confirm that our audit opinion on the consolidated and separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 April 2020 in accordance with Article 11 of the EU Regulation 537/2014.

### ***Provision of Non-audit Services***

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated and separate financial statements or the management report.

### ***Other Legal Requirements***

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, 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 separate financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, 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, and which is included as a specific section of the management report, 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, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have 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. We have nothing to report in this respect.

A handwritten signature in blue ink, consisting of a stylized 'M' followed by a flourish.



### **Other Matters**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 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 Andreas Avraamides.

A handwritten signature in blue ink, appearing to read 'AA', is written over a faint, circular blue stamp.

Andreas Avraamides  
Certified Public Accountant and Registered Auditor  
for and on behalf of

### **Ernst & Young Cyprus Limited**

Certified Public Accountants and Registered Auditors

### **Address**

Jean Nouvel Tower,  
6 Stasinou Avenue,  
1511 Nicosia, Cyprus

Nicosia, 30 April 2021



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 17 October 2018 (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](http://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](http://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.

## 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 2021, 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 the Oslo Stock Exchange under the ticker code PSE. 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 management shall actively develop and control the Company and its assets in order for the underlying values to be reflected in the share price.

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).

## 3. EQUITY AND DIVIDENDS

Petrolia shall have a capital structure at a level appropriate to the Company's objective, strategy and risk profile. Dividend payments will depend on Petrolia's earnings, financial situation and cash flow. The possibility of further value creation through investments will also be taken into account. The Company's key targets for 2020 were

to improve the Company's financial position, maintain positive operating cash flows during the pandemic and to develop Petrolia Noco AS. Dividends to shareholders are 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 to 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 2020, the Company had equity of USD 41 million, representing an equity ratio of 57 per cent.

## 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.

At the Annual General Meeting on 28 May 2020, the Board of Directors was granted authorisations relating to acquiring its own shares. The details of the authorisations are provided in the minutes to the Annual General



Meeting, published on 28 May 2020 on the Company's website, [www.petrolia.eu](http://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 chairperson of the Nomination Committee 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](http://www.newsweb.no) (ticker: PSE), and on Petrolia's own web site, [www.petrolia.eu](http://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, justifying each candidate, 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 28 May 2020 Rob Arnott, Tove Kate Larsen and Andros Constantinou were re-elected as members of the Nomination Committee.

The work of the Nomination Committee is regulated through Terms of Reference.

#### 8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

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 at 31 December 2020. The current composition of the Board of Directors is described in note 6 in the Petrolia SE Annual Report 2020. 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 George Hadjineophytou. Polycarpus Protopapas is the Managing Director 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.

Six board meetings were held during 2020, 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 2020 are set out in note 17 to the consolidated financial statements.

## 9. THE WORK OF THE BOARD OF DIRECTORS

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

- Lead Petrolia's strategic planning and make decisions that form the basis for the executive management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- ensure that all instructions given by the Board of Directors are complied with;
- ensure that the Board of Directors are well informed about the Company's and the Group's financial position;
- 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 2020;
- 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 Sjur Storaas and George Hadjineophytou, 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 2020 and in 2021 (up to 26 April 2021) 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 Berge Gerdt Larsen, Sjur Storaas and George Hadjineophytou.

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.

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.

## 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 interim reports from the Group companies and reports to the Board. The annual accounts for all material Group companies are audited by the Group's external auditors.

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 2020 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 Polycarpus Protopapas' 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 2020, 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 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](http://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.

■ ■ ■ ■ PETROLIA SE: 205 Christodoulou Chatzipavlou Street, Loulloupis Court, 4th floor, office 401, 3036 Limassol, CYPRUS

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