2018

PETROLIA SE

ANNUAL REPORT 18

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RESPONSIBILITY STATEMENT

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF PETROLIA SE FOR THE FINANCIAL STATEMENTS IN THE ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 2018

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 2018, confirm that, to the best of our knowledge:

(a) the annual consolidated and separate financial statements that are presented on pages 10 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, 25th of April 2019

Berge Gerdt Larsen
Chairman of the Board

Judith Parry
Board member

Erwin Joseph Pierre Godec
Board member
Managing director

Sjur Storaas
Board member

Demos Demou
Finance manager

MANAGEMENT

MANAGEMENT REPORT

INTRODUCTION AND STRATEGY

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

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

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

The Group also owns two land rigs.

IMPORTANT EVENTS 2018

7 June: Using the authorisation granted by the AGM on the 30th of May 2018, the Board allocated 5,375,798 (10%) new shares in a private placement directed towards the largest shareholders. The subscription price was set to NOK 3.20 (USD 0.40) after considering volume weighted average share prices for the preceeding days and weeks. The new shares were listed on the 4th of July 2018.

MARKET

Since the oil price collapsed at the end of 2014, the industry has experienced a significant reduction in capital expenditure by oil companies, drilling companies, oil service companies and other customers of the OilService Division. This challenging environment has affected the activity levels and profit margins of this division, which has excellent customer relationships and is a well-known and respected service and rental equipment company. Costs have been cut substantially whilst at the same time there has been a higher focus on business development to maintain or even increase market share. Overall, the Board expects a slight improvement in revenues for this division during 2019 as activity and margins slowly begin to recover, although margins remain low. The Board considers that the oil industry cycle has bottomed and oil prices have gradually recovered, but remain volatile.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia SE presents its financial information in USD.

Financial information, Group

Total revenue amounted to USD 54.8 million for the fiscal year 2018 (2017: USD 39.4 million), mainly related to the OilService segment.

Operating profit for the Group in 2018 amounted to USD 9.4 million, after deduction of depreciation of USD 8.0 million and adding reversal of impairment of fixed assets of USD 3.9 million. Operating loss for the Group in 2017 amounted to USD 10.5 million, after deduction of depreciation of USD 10.0 million and impairment of fixed assets of USD 1.2 million. Profit after tax for the Group amounted to USD 3.5 million in 2018 (2017: Loss of USD 7.6 million).

As at 31 December 2018 the total assets of the Group amounted to USD 62.2 million of which OilService and other equipment was USD 17.0 million. Total equity of the Group amounted to USD 41.3 million as at 31 December 2018, including a minority interest of USD 1.3 million. Total equity as at 31 December 2017 was USD 35.0 million, including a minority interest of USD 0.8 million. As at 31 December 2018, the total number of shares outstanding in Petrolia SE was 59,133,786 with par value USD 0.10 each.

Cash flows from the operations was USD 8.6 million in 2018 (2017: USD 0.9 million). Cash flows from investments was USD -13.3 million in 2018 (2017: USD -2.1 million). Cash flows from financing activities in 2018 was USD 0.4 million (2017: USD -1.5 million) mainly related to share issue, interest on bond loan and lease instalments.

Total cash position at 31 December 2018 was USD 9.9 million (2017: USD 14.3 million).

Financial information, Parent

Total revenue amounted to USD 48 thousand for the fiscal year 2018 (2017: USD 302 thousand), mainly related to management (USD 7 thousand) and consultancy (USD 41 thousand) fees for the rendering of services to the Group by the branch.

Operating loss for the parent company amounted to USD 3.2 million (2017: USD 0.7 million), after deduction of impairment of the investments in subsidiary companies of USD 1.9 million (2017: USD 2.5 million) and reversal of impairment of the accounts receivable from related parties amounting to USD 0.2 million (2017: reversal of impairment of USD 0.3 million).

Loss after tax for the parent amounted to USD 3.2 million in 2018 (2017: USD 0.8 million).

As at 31 December 2018 the total assets of the Parent amounted to USD 37.4 million of which Investments in Subsidiaries was USD 29.7 million, Investment in Associate was USD 0.9 million and USD 4.9 million in Trade and other receivable.

Total equity of the Parent amounted to USD 32.6 million as at 31 December 2018 (2017: USD 33.7 million).

As at 31 December 2018, the total number of shares outstanding in Petrolia SE was 59,133,786 with par value USD 0.10 each.

Cash flows from the operations was USD -1.3 million in 2018 (2017: USD -1.3 million). Cash flows from investing was USD -0.2 in 2018 (2017: nil). Cash flows from financing was USD -0.3 in 2018 (2017: USD -0.6 million).

Total cash position at 31 December 2018 was USD 1.9 million (2017: USD 1.0 million).

FINANCIAL AND LIQUIDITY RISK

At the year end the Group had a cash balance of USD 9.9 million.

The Group's long term financing is mainly one bond loan of USD 19.5 million, of which the Group owns USD 15.1 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

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

The forecasted 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.

The Group's management expects a challenging environment for the OilService segment in 2019, but remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going concern for the foreseeable future.

WORKING ENVIRONMENT AND PERSONNEL

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

In total, the Group has 257 highly competent employees worldwide. The Group is an equal opportunity employer and will not tolerate discrimination. Recruitment, promotion and reward are entirely based on merit.

There have not been any serious accidents reported in the Group in 2018.

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

ENVIRONMENT REPORTING

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

CORPORATE GOVERNANCE

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

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 2018 and as at 23 April 2018 the directors who held shares and options 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 2018.

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 the internal audit controls, under the supervision of 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's companies and the Consolidated Financial Statements are prepared with the responsibility of Chief Financial Officer and endorsed by the Audit Committee.
- The periodic announcements of the Company and the detailed explanatory notes are prepared by the Chief Financial Officer and endorsed 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

During 2018 there has been one share issue. Refer to details under Important Events 2018 and also to note 17.

BOARD OF DIRECTORS

The members of the Company's Board of Directors as at 31 December 2018 and at the date of this report are the following:

Berge Gerdt Larsen
Erwin Joseph Pierre Godec
Sjur Storaas
Judith Parry

The General Meeting on 30 May 2018 re-elected Ms Judith Parry, Mr Berge Gerdt Larsen, Mr Erwin Joseph Pierre Godec and Mr Sjur Storaas as directors of the Board.

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

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

INDEPENDENT AUDITOR

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

EVENTS AFTER THE REPORTING PERIOD

In January 2019 Petrolia NOCO AS was awarded 5 new licences including its second operated licence.

In March 2019 Petrolia SE sold USD 200 000 of its holding of Borrower's Bonds to its chairman. The price was USD 1 (par value) per bond, total USD 200,000. The stock notice informing about the transaction invited anyone to contact the Company in case they wanted to purchase at the same terms (USD 1, annual interest is 6%). To date no one has shown any interest.

Limassol, 25th of April 2019

Berge Gerdt Larsen Chairman of the Board	Sjur Storaas Board member	Erwin Joseph Pierre Godec Board member, Managing Director	Judith Parry Board member

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Petrolia SE – Group

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

(Amounts in USD 1,000)	Note	2018	2017
Continuing operations			
Revenue	5	54,823	39,399
Wage cost	6	-13,169	-11,370
Other operating expenses	7	-28,120	-27,305
Operating result before depreciation and impairments		**13,534**	**724**
Depreciation	11	-8,047	-9,985
Net impairment reversal / (charge) of fixed assets	11	3,892	-1,227
Operating result		**9,379**	**-10,488**
Gain from sale of subsidiary	26	0	373
Result from associated companies	12	-1,895	-535
Interest income	8	354	279
Financial income	8	1,316	2,278
Interest expenses	8	-409	-363
Financial expenses	8	-4,120	-43
Result before income taxes		**4,625**	**-8,499**
Tax on result	9	-1,129	893
Result for the year		**3,496**	**-7,606**
Attributable to:			
Equity holders of the parent		2,979	-7,488
Non-controlling interests		517	-118
		3,496	**-7,606**
Attributable to the equity holders (USD per share)			
Basic and diluted earnings per share	10	0.05	-0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

(Amounts in USD 1,000)	Note	2018	2017
Result for the year		**3,496**	**-7,606**
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		1,519	-2,016
Total comprehensive income / (loss) for the year, net of tax		**5,015**	**-9,622**
Attributable to:			
Equity holders of the parent		4,533	-9,562
Non-controlling interests		482	-60
Total comprehensive income / (loss) for the year		**5,015**	**-9,622**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

ASSETS (Amounts in USD 1,000)	Note	2018	2017
Non-current assets			
Land and buildings	11	3,109	3,317
OilService and other equipment	11	16,947	18,549
Land rigs	11	3,554	0
Investment in associated companies	12	2,828	2,531
Other financial assets	13	7,366	2,864
Deferred tax assets	9	1,363	751
Restricted cash	16	28	31
Total non-current assets		**35,195**	**28,043**
Current assets			
Inventory		936	699
Trade receivables	14	12,203	15,489
Other current receivables	14	3,709	3,195
Financial assets at fair value through profit and loss	15	197	181
Free cash	16	9,650	13,956
Restricted cash	16	269	299
Total current assets		**26,964**	**33,819**
TOTAL ASSETS		**62,159**	**61,862**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

EQUITY AND LIABILITIES (Amounts in USD 1,000)	Note	2018	2017
Equity			
Share capital	17	5,913	5,376
Share premium	17	12,222	10,609
Other equity		21,923	18,234
Equity attributable to equity holders of the parent		**40,058**	**34,219**
Non-controlling interests		**1,258**	**776**
Total equity		**41,316**	**34,995**
Liabilities			
Non-current liabilities			
Bond loans	18	4,420	4,420
Other non-current liabilities	19	1,202	2,623
		5,622	**7,043**
Current liabilities			
Short term portion of non-current liabilities	19	907	1,298
Trade payables	20	7,206	10,288
Other current liabilities	20	5,580	7,861
Bank overdraft	21	280	348
Tax payable		1,248	29
		15,221	**19,824**
Total liabilities		**20,843**	**26,867**
TOTAL EQUITY AND LIABILITIES		**62,159**	**61,862**

Limassol, 25th of April 2019

Erwin Joseph Pierre Godec
Board member
Managing director

Berge Gerdt Larsen
Chairman of the Board

Judith Parry
Board member

Sjur Storaas
Board member

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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	Reorganisation reserve	Other reserves	Currency translation	Subtotal		
Equity 1st of January 2017	**27,236**	**0**	**-15,075**	**15,247**	**3,112**	**30,520**	**836**	**31,356**
(Loss) for the year	0	0	0	-7,488	0	-7,488	-118	-7,606
Other comprehensive income								
Exchange differences on translation of foreign operations	0	0	0	0	-2,074	-2,074	58	-2,016
Total comprehensive income	**0**	**0**	**0**	**-7,488**	**-2,074**	**-9,562**	**-60**	**-9,622**
Capital reduction to cover losses (par from 1.00 to 0.10) (Note 17)	-24,512	0	0	24,512	0	0	0	0
Issue of new shares through bond conversion (Note 17 & 18)	2,652	10,609	0	0	0	13,261	0	13,261
Equity 31st of December 2017	**5,376**	**10,609**	**-15,075**	**32,271**	**1,038**	**34,219**	**776**	**34,995**
Effect of adoption of new accounting standards (Note 2.4)	0	0	0	-844	0	-844	0	-844
As at 1 January 2018 (adjusted)	**5,376**	**10,609**	**-15,075**	**31,427**	**1,038**	**33,375**	**776**	**34,151**
Profit for the year	0	0	0	2,979	0	2,979	517	3,496
Other comprehensive income								
Exchange differences on translation of foreign operations	0	0	0	0	1,554	1,554	-35	1,519
Total comprehensive income	**0**	**0**	**0**	**2,979**	**1,554**	**4,533**	**482**	**5,015**
Issue of new shares (Note 17)	537	1,613	0	0	0	2,150	0	2,150
Equity 31st of December 2018	**5,913**	**12,222**	**-15,075**	**34,406**	**2,592**	**40,058**	**1,258**	**41,316**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(Amounts in USD 1,000)	Note	2018	2017
Operating activities			
Profit / (losses) before taxes		4,625	-8,499
(Reversal) / impairment of current assets	7	-814	2,616
(Profit) / loss on disposal of equipment		-55	200
Depreciation of drilling equipment, land rigs and buildings	11	8,047	9,985
(Reversal) / impairment of drilling equipment, land rigs, land and buildings	11	-3,892	1,227
Interest income	8	-354	-279
Change in financial assets at fair value through profit or loss	8	-25	-180
Interest expense on financial leasing	8	81	7
Interest expense on bonds	8	265	307
Other interest expenses	8	63	49
Change in inventory		-237	161
Change in trade receivables		3,286	-2,335
Change in other current receivables		-514	-679
Change in trade payables		-3,082	1,432
Change in other current liabilities		-2,280	1,648
Change in other non-current liabilities		-538	512
Result from investment in associated companies	12	1,895	535
Gain from sale of subsidiary	26	0	-373
Tax (paid) received		-110	-287
Other, incl unrealised foreign currency gain/loss		2,242	-5,116
Net cash generated from operating activities		**8,603**	**931**
Investing activities			
Purchase of fixed assets	11	-7,047	-3,719
Disposal of equipment		684	194
Repayment loans		114	2,446
Loan granted	13	-5,116	-1,702
Investment in associates		-2,192	0
Net proceeds from investments in listed shares		0	408
Proceeds from disposal of subsidiary	26	0	1
Interest received		268	279
Net cash used in investing activities		**-13,289**	**-2,093**
Financing activities			
(Increase) / release of restricted cash		33	-8
Leasing instalments	23	-1,258	-1,340
New leasing	23	0	284
Interest paid on bond loans (net)	8	-265	-307
Other interest paid	8	-63	-49
Interest paid on financial leasing	8	-81	-135
Increased bank loan	21	-68	74
Capital increase	17	2,150	0
Net cash generated from / (used in) financing activities		**448**	**-1,481**
Net cash flow of the period		**-4,238**	**-2,643**
Free cash and cash equivalents at the beginning of the period	16	13,608	16,251
Free cash and cash equivalents balance at December 31	**16**	**9,370**	**13,608**

NOTES - GROUP

to the consolidated financial statements

NOTE 1 GENERAL INFORMATION

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

The main 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 25th of April 2019 and will be passed to the Annual General Meeting for approval.

Petrolia SE was established on the 26th of October 2012 as a result of the merger between Petrolia ASA (established on the 13th of March, 1997) and Petrolia E&P Holdings Plc. The consolidated financial statements for the accounting year 2018 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 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction whereby an asset is sold or a liability is transferred takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.
The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described in note 23.

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.

GOING CONCERN

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

The forecasted 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.

The Group's management expects a challenging environment for the OilService segment in 2019, but remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going concern for the foreseeable future.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be

consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.
Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS AND GOODWILL

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.
If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date and fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

b) Investment in 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 profit or loss.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

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

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

Transactions and balances

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

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

Group companies

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

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

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

REVENUE RECOGNITION

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 months 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 date 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 of the customer.
Hire of personnel:
The personnel services comprise casing & tubing running, drilling and make & brake services. These services have fixed daily rates in accordance with the 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. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group as a lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised

at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

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

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

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

OTHER INTANGIBLE ASSETS

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

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

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 other comprehensive income (OCI), and fair value through profit or loss.
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 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.
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 profit or loss

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 (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 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 statement of profit or loss 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 profit or loss.

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 profit or loss. Dividends are recognised as other income in the statement of profit or loss 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 profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, 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 profit or loss, 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 profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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 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 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.

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 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 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 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 Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

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 profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.
This category generally applies to bonds. For more information, refer to Note 18.

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

CASH AND SHORT TERM DEPOSITS

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group.

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 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 27.

2.4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2018. The nature and the impact of each new standard or amendment is described below.

IFRS 2 ("Share Based Payment") – "Classification and Measurement of Share-based Payment Transactions". The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments do not have an impact on the Group's consolidated financial statements.

IFRS 7 ("Financial Instruments: Disclosures") – "Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9". The Group applied IFRS 9 prospectively without restating comparative information. Consequently, the revised requirements of the IFRS 7 have only been applied to the current year. The comparative year disclosures repeat those disclosures made in the prior years.

IAS 28 ("Investments in Associates and Joint Ventures") – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.
The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss; and
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have an impact on the Group's consolidated financial statements.

IAS 39 ("Financial Instruments: Recognition and Measurement") – "Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception". The Group does not apply hedge accounting.

IAS 40 ("Investment Property") – "Amendments to clarify transfers of property to, or from investment property". The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have an impact on the Group's consolidated financial statements.

IFRIC 22 ("Foreign Currency Transactions and Advance Consideration") – Clarifies the accounting for transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency before the entity recognises the related asset, expense or income. This Interpretation does not have an impact on the Group's consolidated financial statements.

IFRS 15 ("Revenue from Contracts with Customers") – IFRS 15 was issued in May 2014 and amended in April 2016, with earlier adoption permitted and supersedes IAS 18 ("Revenue"), and IAS 11 ("Construction Contracts") and their related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. The standard permits either a full retrospective or a modified retrospective approach for application.
IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group has applied IFRS 15 using the modified retrospective approach. There is no cumulative effect from initially applying IFRS 15, therefore no adjustment to the opening balance of equity at 1 January 2018 was posted. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not yet completed at this date. The Group elected to apply the modified retrospective approach only to the contracts that were not completed at the date of initial application. The Group did not apply any other practical expedient.
The additional revenue disclosures from adopting IFRS 15 as at 1 January 2018 and as at and for the year ended 31 December 2018 are shown in Note 5. There is no impact on the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows.

IFRS 9 ("Financial Instruments") – IFRS 9 replaces IAS 39 Financial Instruments "Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 is bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

	Amounts prepared under		
	IAS 39	IFRS 9	Effect
(Amounts in USD 1 000)	**01/01/2018**	**01/01/2018**	**01/01/2018**
	$'000	**$'000**	**$'000**
Trade receivables (Note 14)	15,489	14,645	-844
Total current asets	15,489	14,645	-844
Other equity	34,995	34,151	-844
Total equity	34,995	34,151	-844

The above adjustment relates to a new requirement of IFRS 9 relating to expected credit losses.

a) Classification and measurement

The Group continues measuring at fair value all financial assets currently held at fair value. Loans and trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group developed a thorough process to apply the business model and the SPPI test and concluded that the contractual cash flow characteristics of these instruments meet the criteria for amortised cost measurement under IFRS 9 therefore reclassification for these instruments is not required.
The following are the changes in the classification of the Group's financial assets:
- For trade and other receivables and loans due from associated company, the Group assessed whether, as at 1 January 2018, contractual cash flows from these balances are solely comprised of principal and interest, and concluded that they should be measured at amortised cost as they are held within a business model, with the objective to collect contractual cash flows that meet the SPPI criterion.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

b) Impairment
The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking

ECL approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss.
In relation to the loans due from the associated company and cash at bank, in order to calculate the ECL, the Group applied the 12-month ECL model and the general approach and concluded that the ECL is not material.
In relation to trade and other receivables and bank deposits, the Group applied the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. The Group established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the receivables and the economic environment.
The adoption by the Group of ECL requirements resulted in the changes shown in the table above as at 1 January 2018 and did not result in a material increase in allowance for credit losses for the year ended 31 December 2018.

New and revised IFRS in issue but not yet effective

At the end of the reporting year, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective. The Group does not intend to adopt any standard, interpretation or amendment that has been issued but is not yet effective before their effective date. Management anticipates that the adoption of all other Standards and Interpretations in future years will have no significant impact on the results and financial position presented in these financial statements except for the adoption of IFRS 16 "(Leases"). The Group is currently assessing the impact from the application of IFRS 16 on its consolidated financial statements.

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

IFRS 9 (''Financial Instruments'') – "Amendments for prepayment features with negative compensation and modifications of financial liabilities" (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 ("Leases") – IFRS 16 was issued in January 2016 and it replaces IAS 17 ("Leases"), IFRIC 4 ("Determining whether an Arrangement contains a Lease"), SIC-15 ("Operating Leases-Incentives") and SIC-27 ("Evaluating the Substance of Transactions Involving the Legal Form of a Lease").

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.
Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Therefore, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard permits either a full retrospective or a modified retrospective approach for application. The Group will adopt IFRS 16 using the modified retrospective approach, which presumes recognition of the cumulative effect of initial application at the date of the initial application i.e. 1 January 2019. The Group will also elect to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group is in the process of assessing the transition impact to IFRS 16 on 1 January 2019. After transition, operating profit will improve, while depreciation and interest expense will increase. The Group expects that the impact on the consolidated income statement will not be material. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Group does not expect any significant impact on the consolidated financial statements in respect of recognition of the Group's activities as a lessor.
IFRS 3 (''Business Combinations'') – "Amendments to clarify the definition of a business" (effective for annual periods beginning on or after 1 January 2020).
IAS 28 (''Investments in Associates and Joint Ventures'') – "Amendments in relation to long term interests in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2019).
IFRIC 23 ("Uncertainty over Income Tax Treatment") – The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the Interpretation from its effective date. The Group does not expect the interpretation to have a material impact on the consolidated financial statements.
IAS 19 ("Employee benefits") – The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting year. The amendments specify that when a plan amendment, curtailment or settlement occurs during the

annual reporting year, an entity is required to:

- Determine current service cost for the remainder of the year after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the year after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Annual Improvements to IFRSs 2015–2017 Cycle

The "December 2017 Annual Improvements to IFRSs" is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2019. It includes the following amendments:

- IFRS 3 – Business Combinations (remeasurement of previously held interest);
- IFRS 11 – Joint Arrangements (re-measurement of previously held interest);
- IAS 12 – Income Taxes (income tax consequences on dividends); and
- IAS 23 – Borrowing Costs (borrowing costs eligible for capitalisation).

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

IFRS 10 ("Consolidated Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures") – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 1 ("Presentation of Financial Statements and IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors") – "Amendments regarding the definition of material" (effective for annual periods beginning on or after 1 January 2020).

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

i) Impairment of property, plant and equipment
Refer also to note 11.

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

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

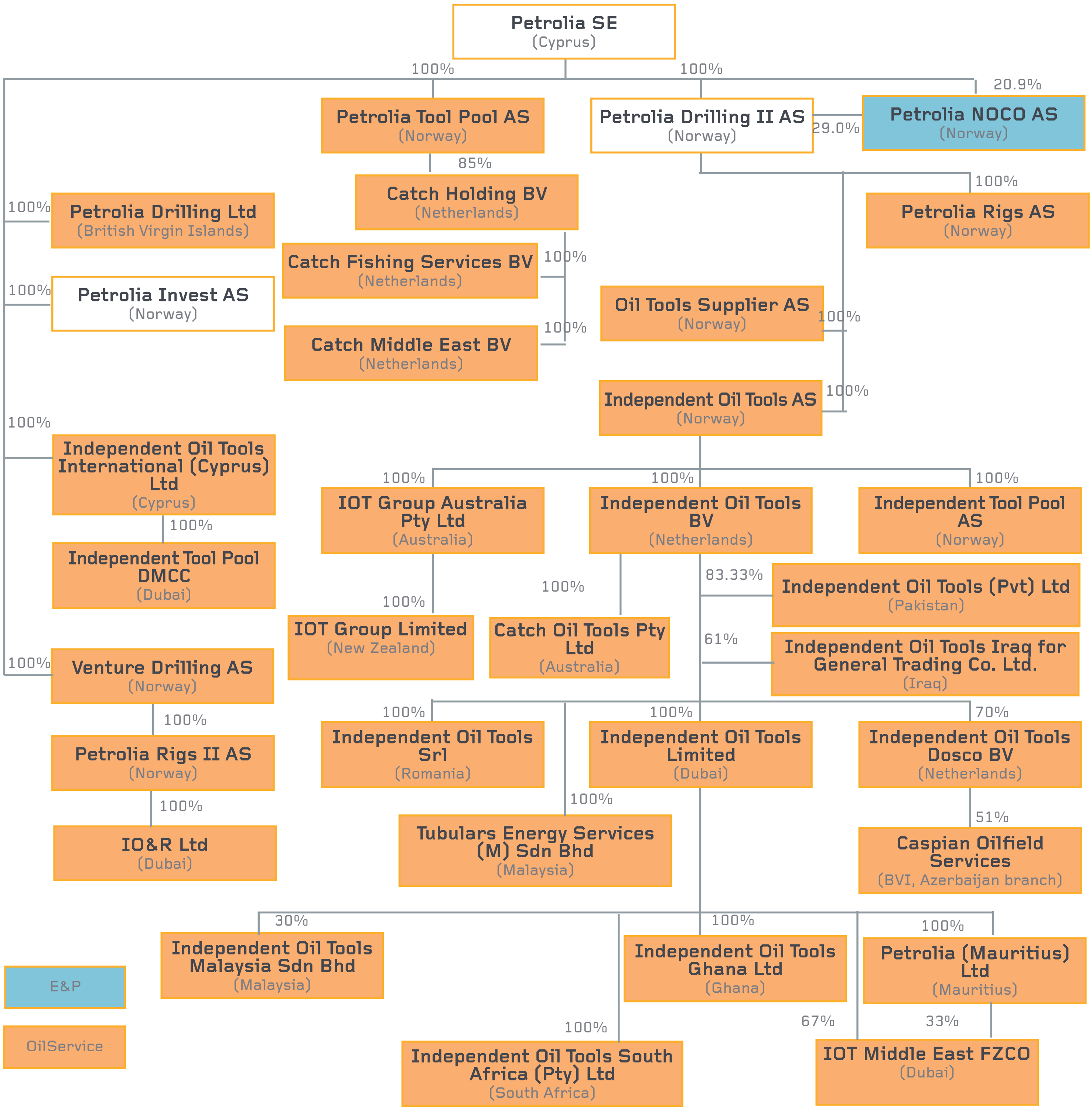
iii) Useful lives for depreciation of fixed assets
Depreciation of rigs and drilling equipment is computed using the straight line method over estimated useful lives. The depreciable amount is determined without taking into account any residual value of the asset. The cost of rigs has been categorised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

iv) 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 23.

NOTE 4 ORGANISATION

Summary of the companies of the Group:
As at 31.12.2018 the following companies are presented in the consolidated statement of financial position:

Company	Business office , activity, objective
Subsidiaries (fully consolidated)	
Petrolia Drilling II AS	Norway. OilService. Changed name to Petrolia AS in 2019.
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.
Caspian Oilfield Services Inc.	British Virgin Islands, Azerbaijan branch. OilService.
IOT Group Limited	New Zealand. OilService.
Venture Drilling AS	Norway. OilService.
Independent Oil Tools Limited Ltd	Jebel Ali Free Zone (Dubai). OilService.
Independent Tool Pool DMCC	Jebel Ali Free Zone (Dubai). OilService.
Petrolia (Mauritius) Limited	Mauritius. OilService.
Petrolia Tool Pool AS	Norway. OilService.
Petrolia Rigs II AS	Norway. OilService.
Catch Holding BV	Netherlands. OilService.
Catch Fishing Services BV	Netherlands. OilService.
Catch Middle East BV	Netherlands. OilService.
IO&R Ltd	Dubai. OilService
Independent Oil Tools South Africa (Pty) Ltd	South Africa. OilService.
Independent Oil Tools Ghana Limited	Ghana. OilService.
IOT Middle East FZCO	Jebel Ali Free Zone (Dubai). OilService.
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
Associated companies (equity method)	
Petrolia NOCO AS	Norway. Exploring for oil and gas on the NCS.
Independent Oil Tools Malaysia Sdn Bhd	Malaysia. OilService.



Petrolia SE
(Cyprus)
100%
100%
20.9%
Petrolia Tool Pool AS
(Norway)
Petrolia Drilling II AS
(Norway)
29.0%
Petrolia NOCO AS
(Norway)
85%
Catch Holding BV
(Netherlands)
100%
100%
Petrolia Drilling Ltd
(British Virgin Islands)
Petrolia Rigs AS
(Norway)
Catch Fishing Services BV
(Netherlands)
100%
100%
Petrolia Invest AS
(Norway)
Oil Tools Supplier AS
(Norway)
100%
100%
Catch Middle East BV
(Netherlands)
Independent Oil Tools AS
(Norway)
100%
100%
Independent Oil Tools International (Cyprus) Ltd
(Cyprus)
100%
100%
100%
IOT Group Australia Pty Ltd
(Australia)
Independent Oil Tools BV
(Netherlands)
Independent Tool Pool AS
(Norway)
100%
Independent Tool Pool DMCC
(Dubai)
83.33%
Independent Oil Tools (Pvt) Ltd
(Pakistan)
100%
100%
IOT Group Limited
(New Zealand)
Catch Oil Tools Pty Ltd
(Australia)
61%
Independent Oil Tools Iraq for General Trading Co. Ltd.
(Iraq)
100%
Venture Drilling AS
(Norway)
100%
100%
70%
100%
Petrolia Rigs II AS
(Norway)
Independent Oil Tools Srl
(Romania)
Independent Oil Tools Limited
(Dubai)
Independent Oil Tools Dosco BV
(Netherlands)
100%
100%
51%
IO&R Ltd
(Dubai)
Tubulars Energy Services (M) Sdn Bhd
(Malaysia)
Caspian Oilfield Services
(BVI, Azerbaijan branch)
30%
100%
100%
Independent Oil Tools Malaysia Sdn Bhd
(Malaysia)
Independent Oil Tools Ghana Ltd
(Ghana)
Petrolia (Mauritius) Ltd
(Mauritius)
E&P
67%
33%
OilService
100%
Independent Oil Tools South Africa (Pty) Ltd
(South Africa)
IOT Middle East FZCO
(Dubai)

NOTE 5 SEGMENT INFORMATION

The Group has two strategic segments: Exploration & Production (E&P) and OilService (including land rigs).
E&P activities are presently through an investment in an associate company. Operated activities are in one segment: OilService.

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

2018 Revenue (amounts in USD 1,000)	Rental	Services	Sales	Total
Norway	9,744	1,409	2,360	13,513
Europe outside Norway	9,693	3,626	8,007	21,326
Asia and Australia	10,076	6,730	1,142	17,948
Other	1,029	592	415	2,036
Total	**30,542**	**12,357**	**11,924**	**54,823**

2017 Revenue (amounts in USD 1,000)	Rental	Services	Sales	Total
Norway	7,346	1,102	531	8,979
Europe outside Norway	5,512	1,855	5,852	13,219
Asia and Australia	7,987	6,322	291	14,600
Other	1,256	979	366	2,601
Total	**22,101**	**10,258**	**7,040**	**39,399**

Non-current tangible assets (amounts in USD 1,000)	2018	2017
Norway	5,763	6,528
Europe outside Norway	5,586	5,529
Asia and Australia	9,923	3,519
Tool pools	2,338	6,290
Total	**23,610**	**21,866**

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

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

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

Petrolia NOCO AS (Note 12)
The associate company, Petrolia NOCO AS, operates in the Exploration & Production (E&P) segment.

NOTE 6 WAGES

Wage costs (amounts in USD 1,000)	2018	2017
Wages and salaries	11,317	9,912
Social security	709	664
Pension costs	608	519
Other contributions	535	275
Total	**13,169**	**11,370**

The Group had 257 employees as at the end of 2018 (2017: 191 employees).
Average number of employees was 224 in 2018 (2017: 188).

Remuneration and benefits General Manager and Finance Manager (amounts in USD 1,000)	2018	2017
Pierre Godec (14 September 2012 -), Managing director, Cyprus	99	95
Demos Demou (14 September 2012 -), Finance manager, Cyprus	60	58
Sølve Nilsen (1 October 2010 -), General manager of the Branch, Norway	79	75
Total	**238**	**228**

The following fee has been paid to the members of the board (amounts in USD 1,000) :	2018	2017
Berge Gerdt Larsen- Chairman of the board, Remuneration committee (re-elected on 30 May 2018)	0	0
Pierre Godec - Board member (re-elected on 30 May 2018)	0	0
Sjur Storaas - Board member, Audit & Remuneration committees (re-elected on 30 May 2018)	43	43
Judith Parry - Board member, Audit & Remuneration committees (re-elected on 30 May 2018)	43	43
Total	**86**	**86**

NOTE 7 SPECIFICATION OF OTHER OPERATING EXPENSES

The amounts are exclusive of value added tax.

Other operating expenses comprise the following main items (amounts in USD 1,000) :	2018	2017
Fees to external advisors, lawyers, auditors	2,323	2,186
Cost of goods sold	19,275	14,345
(Net reversal) / allowance of expected credit losses (Note 14)	-814	2,616
Other operating expenses	7,336	8,158
Total other operating expenses	**28,120**	**27,305**

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1,000) :	2018	2017
Statutory audit	464	528
Other assurance services	0	0
Tax services	53	44
Other non-audit services	14	23
Total auditor's fee	**531**	**595**

NOTE 8 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1,000)	2018	2017
Interest income		
Interest income from current bank deposits	43	51
Other interest income	311	228
	354	**279**
Financial income		
Foreign exchange gain - net	0	2,098
Profit on shares at fair value through profit and loss (refer to note 15)	25	180
Other financial income	1,291	0
	1,316	**2,278**
Interest expenses		
Interest expense on bonds	265	307
Other interest expense	63	49
Interest expense on financial leasing	81	7
	409	**363**
Financial expenses		
Foreign exchange loss - net	4,021	0
Other financial expenses	99	43
	4,120	**43**
Net finance cost	**-2,859**	**2,151**

NOTE 9 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1,000)	2018	2017
Result before tax charges	4,625	-8,499
Tax calculated at domestic tax rates applicable to profits in respective countries (12.5% for parent company)	-1,741	142
Change in deferred tax asset/liability	612	751
Tax on result	**-1,129**	**893**

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)	2018	2017
Non-current assets	-4,038	-520
Net temporary differences	-4,038	-520
Carry forward loss	-2,513	-3,245
Basis for deferred tax asset	-6,551	-3,765
Deferred tax asset at nominal tax rates	1,363	751
Carried tax asset	1,363	751
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 2.5 million and negative temporary differences of USD 4.0 million through group contribution and future taxable profits.

The Group has temporary negative differences related to non-current assets of USD 34.5 million with a tax value of USD 7.6 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)	2018	2017
Weighted average no. of shares	56,409,066	52,232,058
No. of shares at period end	59,133,786	53,757,988
Basic earnings per average no. of shares		
From continuing operations	0.05	-0.14
Basic earnings per share (USD per share)	**0.05**	**-0.14**

The Company has no outstanding or authorised stock options, or warrants. As at 31 December 2018, the Company held no treasury shares.

Refer to notes 17 and 18 for details regarding the conversion of bond to shares on the 21st of January 2017 whereby USD 13.3 million of the bond loan was converted to equity.

On 4 July 2018 a private placement was completed and 5,375,798 new shares issued. (see note 17)

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(amounts in USD 1,000)	OilService and other equipment	Land and buildings	Land rigs	Total
Per 31 December 2016				
Acquisition cost	308,453	3,439	14,271	326,163
Accumulated impairment	-29,771	-305	-11,210	-41,286
Accumulated depreciation	-253,391	-164	-3,061	-256,616
Book value 31.12.16	**25,291**	**2,970**	**0**	**28,261**
Accounting year 2017				
Book value 01.01.17	25,291	2,970	0	28,261
Currency differences	1,483	9	0	1,492
Additions including leased equipment	3,405	314	0	3,719
Disposal	-1,184	0	0	-1,184
Depreciation of the year	-9,763	-222	0	-9,985
Impairment	-1,473	246	0	-1,227
Disposal of impairment	-11	0	0	-11
Disposal of depreciation	801	0	0	801
Book value 31.12.17	**18,549**	**3,317**	**0**	**21,866**
Per 31 December 2017				
Acquisition cost	312,157	3,762	14,271	330,190
Accumulated impairment	-31,255	-59	-11,210	-42,524
Accumulated depreciation	-262,353	-386	-3,061	-265,800
Book value 31.12.17	**18,549**	**3,317**	**0**	**21,866**
Accounting year 2018				
Book value 01.01.18	18,549	3,317	0	21,866
Currency differences	-687	-148	0	-835
Additions including leased equipment	7,015	32	0	7,047
Disposal	-23,192	0	0	-23,192
Depreciation of the year	-7,955	-92	0	-8,047
Impairment	338	0	3,554	3,892
Disposal of impairment	4,594	0	0	4,594
Disposal of depreciation	18,285	0	0	18,285
Book value 31.12.18	**16,947**	**3,109**	**3,554**	**23,610**
Per 31 December 2018				
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
Book value 31.12.18	**16,947**	**3,109**	**3,554**	**23,610**
Depreciation period	7-12 year	33 year	12 year	
Residual value	0	0	0	

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

In 2017, based on external valuation and management estimates, a net reversal of impairment of land of USD 0.2 million was made.

In 2017, following impairment assessment drilling equipment was impaired by USD 1.5 million based on value in use calculations. The discounting factor used in the value in use calculations was 10.6%.

In 2018, following impairment assessment impairment of drilling equipment was reversed by USD 0.3 million and impairment of land rigs was reversed by USD 3.6 million based on value in use calculations. The discounting factor used in the value in use calculations was 11%.

As at the end of 2018 the market capitalisation of the Group was significantly lower than its equity indicating that impairments could be required. Rental equipment is the largest asset group where impairment could be expected. However, impairment tests do not indicate the need for additional impairment charges and the low market capitalisation is considered to be due to reasons other than impairment issues.

OilService and other equipment include fixed assets for own use of USD 1,9 million.

In 2018, the group had a profit from disposal of assets of USD 55 thousand (2017: USD 0.2 million).

LEASED EQUIPMENT (INCLUDED IN NON-CURRENT ASSETS ABOVE)

Drilling equipment acquired through financial leases amount to: (amounts in USD 1,000)	Drilling equipment
Accounting year 2017	
Book value 01.01.2017	4,235
Depreciation of the year	-1,175
Disposal	-19
Book value 31.12.2017	**3,041**
Accounting year 2018	
Book value 01.01.2018	3,041
Addition	42
Depreciation of the year	-1,047
Disposal	-7,375
Disposal of depreciation	6,972
Disposal of impairment	200
Translation differences	350
Book value 31.12.2018	**2,183**

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

Following a share issue in Petrolia NOCO AS in August 2015, Petrolia SE's ownership was diluted from 100% to 49.9%. The company was deconsolidated and is now reported as an Associated Company. The company is an oil company exploring the Norwegian Continental Shelf for oil and gas. The company holds interests in 12 licences, two of which as an operator. Petrolia participate in capital issues to maintain its 49.9% ownership.

TM DRILL

TM Drill has previously been fully impaired and reported first as an associated company and later as other financial fixed assets. In 2016 the shares were sold and the the cash deposited in an escrow account. In 2017 this cash has been released and the profit is reported as a part of result from associated companies.

Calculation of values in the balance sheet (amounts in USD 1,000)	Petrolia NOCO AS	TM Drill	Sum
Book value per 31.12.2016	**3,192**	**0**	**3,192**
Translation differences	56	0	56
Share of result of the year	-717	182	-535
Funds received in 2017 from sale of shares	0	-182	-182
Book value per 31.12.2017	**2,531**	**0**	**2,531**
Addition of the year	2,192	0	2,192
Share of result of the year	-1,895	0	-1,895
Book value per 31.12.2018	**2,828**	**0**	**2,828**

KEY NUMBERS FROM THE ACCOUNTS

Company	Incorporated in	Assets	Liabilities	Revenue	Profit /(Loss)	Shareholding
Petrolia NOCO AS	**Bergen, Norway**					
2018		15,161	9,493	89	-3,193	49.90%
2017		8,655	3,582	278	-1,644	49.90%

Petrolia NOCO AS had no contingent liabilities or capital commitments as at 31 December 2018 or 2017.

NOTE 13 OTHER FINANCIAL ASSETS

LOAN TO PETROLIA NOCO AS

The loan is denominated in NOK and carried an annual interest of 6% in 2018. No payment plan is made.

Calculation of values in the balance sheet (amounts in USD 1,000)	Petrolia NOCO AS
Book value per 31.12.2016	**3,480**
Addition	1,702
Repayment	-2,446
Translation difference	128
Book value per 31.12.2017	**2,864**
Addition	5,116
Repayment	-114
Translation difference	-500
Book value per 31.12.2018	**7,366**

NOTE 14 TRADE AND OTHER CURRENT RECEIVABLES

(amounts in USD 1,000)	2018	2017
Trade receivables	12,203	15,489
Other current receivables	3,709	3,195
Total	**15,912**	**18,684**

Ageing of trade and other current receivables as at 31 December 2018	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	5,544	3,298	1,307	905	1,149	12,203
Other current receivables	0	0	0	0	3,709	3,709
Total, net	**5,544**	**3,298**	**1,307**	**905**	**4,858**	**15,912**
Expected credit loss rate	0.54%	1.64%	8.09%	18.91%	48.18%	
Expected credit loss	30	55	115	211	4,516	4,927
Total, gross	**5,574**	**3,353**	**1,422**	**1,116**	**9,374**	**20,839**

Ageing of trade and other current receivables as at 1 January 2018	Not due	1-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables	5,892	1,542	1,636	1,366	5,053	15,489
Other current receivables	0	0	0	0	3,195	3,195
Total, net	**5,892**	**1,542**	**1,636**	**1,366**	**7,404**	**17,840**
Expected credit loss rate	0.69%	3.14%	5.76%	15.47%	41.72%	
Expected credit loss	41	50	100	250	5,300	5,741
Total, gross	**5,933**	**1,592**	**1,736**	**1,616**	**12,704**	**23,581**

Movement of accumulated expected credit losses

(amounts in USD 1,000)	2018	2017
Opening balance	**4,897**	**2,281**
Effect of adopting IFRS 9	844	0
Adjusted opening balance	**5,741**	**2,281**
(Reversal) / charge for the year	-814	2,616
Closing balance	**4,927**	**4,897**

NOTE 15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2018 and 2017 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 0.02 million (2017: profit of USD 0.2 million) is shown in note 8.

Financial assets at fair value through profit or loss (amounts in USD 1,000)	2018	2017
DNO, shares	136,254	136,254
DNO, total shares	1,083,814,161	1,083,814,161
DNO, % owned	0.01%	0.01%
DNO, market value (NOK 12.55 / USD 1.4444) (NOK 9.50 / USD 1.1578)	197	158
Option EUR 1,000,000 (sold in 2018)	0	23
Fair Value / Carried value (Level 1)	**197**	**181**

NOTE 16 CASH AND CASH EQUIVALENTS

(amounts in USD 1,000)	2018	2017
Bank deposits	**9,947**	**14,286**
Hereof deposits restricted		
Other	28	31
Sum non-current	**28**	**31**
Other	110	195
Employees' tax deduction	159	104
Sum current	**269**	**299**
Total restricted capital	**297**	**330**
Free cash	**9,650**	**13,956**
Cash and bank deposits per currency (amounts in USD 1,000)		
Cash and bank deposits in NOK	3,784	8,598
Cash and bank deposits in USD	3,489	3,889
Cash and bank deposits in PKR	5	348
Cash and bank deposits in AED	31	24
Cash and bank deposits in GBP	5	7
Cash and bank deposits in EUR	1,482	940
Cash and bank deposits in NZD	125	33
Cash and bank deposits in RON	818	211
Cash and bank deposits in MYR	32	27
Cash and bank deposits in AZN	0	4
Cash and bank deposits in ZAR	14	12
Cash and bank deposits in GHS	13	13
Cash and bank deposits in AUD	149	180
Total	**9,947**	**14,286**
Restricted cash	-297	-330
Bank overdraft	-280	-348
Total as per cash flow statement	**9,370**	**13,608**

NOTE 17 SHARE CAPITAL

Share capital of Petrolia SE (amounts in USD 1,000)	Nominal value	Book value 2018	Book value 2017
Shares	**USD 0.10**	**USD 5,913**	**USD 5,376**

CHANGES TO SHARE CAPITAL

On 21 January 2017 the resolutions by the bondholders on 8 December and by the shareholders on 15 December 2016 were implemented and the Registrar of Companies in the Republic of Cyprus has updated the following capital changes:

(i) the authorised and the issued share capital were both reduced from USD 27,235,867 to USD 2,723,586.70 by reducing the par value from USD 1.00 to USD 0.10. The capital reduction of USD 24,512,208.30 was used to reduce accumulated losses.

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

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

The equity thus increased by USD 13.3 million (share capital USD 2.7 million and share premium USD 10.6 million) and the bond loan was reduced by the same amount to a net outstanding of USD 4.4 million. The shares were subject to a 1-year lock-up period. The shares were listed from Tuesday 24 January 2017. The number of issued shares has increased from 27.2 million to 53.8 million and the old shareholders have been diluted from 100% to 50.7%.

On 4 July 2018 the Company issued 5,375,798 new shares following a fully subscribed private placement. The issued capital following the issue is USD 5,913,378.60. The new shares were valued at USD 0.40 per share (par USD 0.10 and premium USD 0.30). The equity thus increased by USD 2.15 million (share capital USD 0.5 million and share premium USD 1.6 million).

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

- 2018: 59,133,786
- 2017: 53,757,988

As at 31 December the number of shares authorised was:

- 2018: 272,358,670
- 2017: 272,358,670

TREASURY SHARES

As at 31 December 2018 and 2017 Petrolia SE held no treasury shares.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia SE had a total of 2,678 shareholders as at 31 December 2018. The tables below shows the Company's 20 largest shareholders as at 31 December 2018 and as at 23 April 2019 according to the VPS (shares with nominal value USD 0.10):

	Shareholders 31 December 2018	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	TOT Drilling Ltd.	3,709,888	6.27%
5	INCREASED OIL RECOVERY AS	3,446,624	5.83%
6	Ø. H. HOLDING AS	1,001,788	1.69%
7	SILVERCOIN INDUSTRIES AS	934,150	1.58%
8	TOKALA AS	696,764	1.18%
9	DnB NOR MARKETS, AKSJEHAND/ANALYSE	527,225	0.89%
10	SIX-SEVEN AS	213,645	0.36%
11	TOSKA, KETIL	210,027	0.36%
12	SERIOUS AS	194,971	0.33%
13	ELEKTROLAND NORGE AS	183,605	0.31%
14	JANEM AS	127,500	0.22%
15	LARSEN, VIDAR BERGO	125,000	0.21%
16	HANSTVEIT, JON	116,737	0.20%
17	FORLAND HOLDING	111,464	0.19%
18	HANSEN, HENNING	108,446	0.18%
19	FREDRIKSTAD SPILLERINVEST AS	105,658	0.18%
20	SPECTER INVEST AS	100,000	0.17%
	Others	3,837,649	6.49%
Total no. of shares before treasury shares		59,133,786	100.00 %
Treasury shares		0	0.00%
Total no. of shares		**59,133,786**	**100.00%**

	Shareholders 23 April 2019	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 AS	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	952,283	1.61%
7	Ø. H. HOLDING AS	929,788	1.57%
8	TOKLA AS	696,764	1.18%
9	DNB NOR MARKETS, AKSJEHAND/ANALYSE	527,225	0.89%
10	TOSKA, KETIL	249,556	0.42%
11	SIX-SEVEN AS	230,703	0.39%
12	SERIOUS AS	194,971	0.33%
13	ELEKTROLAND NORGE AS	183,605	0.31%
14	LARSEN, VIDAR BERGO	127,000	0.21%
15	FREDRIKSTAD SPILLERINVEST AS	126,820	0.21%
16	HANSTVEIT, JON	126,737	0.21%
17	HANSEN, HENNING	113,971	0.19%
18	FORLAND HOLDING	111,464	0.19%
19	SPECTER INVEST AS	100,000	0.17%
20	STANDARD ELEKTRO AS	100,000	0.17%
	Others	3,823,742	5.83%
Total no. of shares before treasury shares		59,133,786	100.00%
Treasury shares		0	0.00%
Total no. of shares		**59,133,786**	**100.00%**

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

The table below shows shareholding of members of the board and key management and other related parties (shares with nominal value USD 0.10)

Name	Shares	Shares
Members of the board and management as at:	**31 December 2018**	**23 April 2019**
Berge Gerdt Larsen, Chairman of the Board 1)	3,789,897	3,789897
Pierre Godec, Board member, Managing director	47,274	47,274
Sølve Nilsen, General manager (Norway)	202,971	202,971
Total	**4,040,142**	**4,040,142**

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 16.77% 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:

Bond Loans (amounts in USD 1,000)		Average interest rate	Effective interest rate	2018	2017
Gross outstanding	ISIN: NO 001075576.2	6.00%	6.00%	19,507	19,507
Of which Group owns				15,087	15,087
Book value 31.12.				**4,420**	**4,420**

Split between long term and short term portion of bond loan 31.12.2018:	Long term portion	Short term portion	Total bond loan
ISIN: NO 001075576.2	4,420	0	4,420
Book value 31.12.	**4,420**	**0**	**4,420**

Split between long term and short term portion of bond loan 31.12.2017:	Long term portion	Short term portion	Total bond loan
ISIN: NO 001075576.2	4,420	0	4,420
Book value 31.12.	**4,420**	**0**	**4,420**

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

MATURITY

Maturity structure gross bond loans:	2019	2020	2021	2022	2023	Total
Instalment	0	0	0	19,507	0	19,507
Interest	1,170	1,170	1,170	683	0	4,193
Total	**1,170**	**1,170**	**1,170**	**20,190**	**0**	**23,700**
Of which to Group (Borrower's Bonds)	-905	-905	-905	-15,615	0	-18,330
Net	**265**	**265**	**265**	**4,575**	**0**	**5,370**

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 4.4. Petrolia SE owns USD 15,086,947 bonds.
In December 2017 the maturity of the bond was extended from 21 July 2019 to 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 quarter ("financial covenant").

The covenant has been met during 2018 and as at 31 December 2018 and is also met as at 25 April 2019.

NOTE 19 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1,000)	2018	2017
Liability connected to financial leasing of drilling equipment	875	1,758
Other	327	865
Total other non-current liabilities	**1,202**	**2,623**

FINANCIAL LEASING LIABILITY ON DRILLING EQUIPMENT

The payment schedule is (amounts in USD 1,000) :	2018	2017
Falling due within 1 year	907	1,298
Falling due between 1 and 5 years	875	1,758
Total	**1,782**	**3,056**

Book value of assets financed through financial leasing amounts to USD 2.2 million (2017: 3.0 million). Refer also to note 11.

2018

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1,000)	Minimum payments	Present value of payments
Within one year	932	907
After one year but not more than 5 years	879	875
More than 5 years	0	0
Total minimum lease payments	**1,811**	**1,782**
Less amounts representing finance charges	-29	0
Present value of minimum lease payments	**1,782**	**1,782**

2017

Future minimum lease payments under financial leases together with the present value of the net minimum lease payments (amounts in USD 1,000)	Minimum payments	Present value of payments
Within one year	1,367	1,298
After one year but not more than 5 years	1,786	1,758
More than 5 years	0	0
Total minimum lease payments	**3,153**	**3,056**
Less amounts representing finance charges	-97	0
Present value of minimum lease payments	**3,056**	**3,056**

NOTE 20 TRADE AND OTHER PAYABLES

Current liabilities (amounts in USD 1,000)	2018	2017
Trade payables	7,206	10,288
Total trade payables	**7,206**	**10,288**
Other current liabilities		
Accrued bond interests	119	119
Other current liabilities	5,461	7,742
Total other current liabilities	**5,580**	**7,861**
Total trade payables, other current liabilities	**12,786**	**18,149**

NOTE 21 BANK OVERDRAFT

Current liabilities (amounts in USD 1,000)	Effective interest rate	2018	2017
Overdraft facility	5.98%	280	348
Total		**280**	**348**

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 maximizing the Group's value accordingly.

The Group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present short and medium term prospects. The capital structure is managed through purchase of treasury shares, reduction of share capital, issuing new shares or through dividend policy.

(amounts in USD 1,000)	2018	2017
Equity of majority	40,058	34,219
Bank overdraft	280	348
Bond loan	4,420	4,420
Finance leases	1,782	3,056
Trade payables	7,206	10,288
Other liabilities	5,907	8,726
Less free cash	-9,650	-13,956
Net debt	9,945	12,882
Equity and net debt	50,003	47,101
Debt ratio	20%	27%

NOTE 23 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The Group uses financial instruments such as bond loans, bank overdrafts, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the Group's activities. In addition the Group has financial instruments like trade receivables and trade payables which are directly connected to the current operations of the Group. The Group has no derivative financial instruments, neither for hedging nor trading purposes. Except from the financial assets at fair value, all the financial assets are categorised as loans and receivables and are measured at amortised cost. In 2018 and 2017 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 provision matrix described in the accounting policies. No expected credit loss was provided for the loan receivable as the loss given default is very low. 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 31.12.2018 the Group's bond loan has fixed interest, while the lease obligations are subject to floating rates of interest.

Sensitivity for changes in interest rate level (amounts in USD 1,000)	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2018	+50	+47	+47
2017	+50	+58	+58

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 31.12.2018 and 31.12.2017.

As at 31st of December 2018	< 1 year	1-5 years	> 5 years	Total
Trade payables	7,206	0	0	7,206
Bond loans (incl interest)	265	5,105	0	5,370
Leasing (incl interest)	932	1,811	0	2,743
Bank overdraft	280	0	0	280
Other liabilities	5,580	327	0	5,907
Total	**14,263**	**7,243**	**0**	**21,506**

As at 31st of December 2017	< 1 year	1-5 years	> 5 years	Total
Trade payables	10,288	0	0	10,288
Bond loans (incl interest)	265	5,370	0	5,635
Leasing (incl interest)	1,367	1,786	0	3,153
Bank overdraft	348	0	0	348
Other liabilities	7,861	865	0	8,726
Total	**20,129**	**8,021**	**0**	**28,150**

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
2018	5 %	508	508
	-5 %	-508	-508
2017	5 %	458	458
	-5 %	-458	-458

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

2018	1 January 2018	Instalment lease	Translation difference	31 December 2018
Non-current Bond loan	4,420			4,420
Leasing	3,056	-1,258	-16	1,782
Total	**7,476**	**-1,258**	**-16**	**6,202**

2017	1 January 2017	Instalment lease	New lease	Debt conversion	Translation difference	31 December 2017
Non-current Bond loan	17,681	0	0	-13,261	0	4,420
Leasing	4,084	-1,340	284	0	28	3,056
Total	**7,476**	**-1,340**	**284**	**-13,261**	**28**	**7,476**

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 2018 was USD 0.2 million.

Bond loan - fair value (Note 18)	2018	2017
Net outstanding, USD 1,000		
Book value	4,420	4,420
Fair value (Level 3)	3,890	3,890
	88%	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 149 630) in 2018.

The Company has an office lease agreement with Kver AS. Annual office rent is NOK 0.6 million (USD 75,922). In 2018 shared costs amounted to NOK 0.4 million (USD 42,199).

JUDITH PARRY

The Company has entered into a consultancy agreement with Farnaby Projects Ltd regarding ad hoc consultancy to be provided by Judith Parry. Monthly fee is GBP 2,000. (USD 2,560)

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 2018. 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	2018	2017
Proportion of equity interest held by non-controlling interest	30%	30%
Accumulated balances of material non-controlling interest	1,605	1,240
Profit / (loss) allocated to material non-controlling interest	427	-189
Comprehensive income allocated to material non-controlling interest	364	-25

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	2018	2017
Revenue	14,186	9,580
Cost of sales	-10,499	-7,094
Administrative and other expenses	-1,796	-2,015
Depreciation	-772	-875
Finance income / (costs)	73	-177
Profit / (loss) before tax	**1,192**	**-581**
Income tax	230	-48
Profit for the year	**1,422**	**-629**
Exchange differences	-208	545
Total comprehensive income	**1,214**	**-84**
Attributable to non-controlling interest	364	-25
Dividends paid to non-controlling interest	0	0

Summarised statement of financial position	2018	2017
Current assets	4,112	3,804
Non-current assets	1,631	1,874
Current liabilities	341	1,466
Non-current liabilities	53	77

NOTE 26 DISPOSAL OF SUBSIDIARY

In December 2017 the subsidiary Baratie Ltd was sold for USD 1,000 resulting in a net gain of USD 372,674. The receivable of USD 594 thousand is not expected to be recovered and has been impaired by the Group. The carrying value of assets and liabilities at the time of the disposal are presented below.

(amounts in USD 1,000)	
Assets	0
Current liabilities	373
Current liabilities, parent company	594
Net assets sold	**-967**

NOTE 27 EVENTS AFTER THE REPORTING PERIOD

In January 2019 Petrolia NOCO AS was awarded 5 new licences including its second operated licence.

In March 2019 Petrolia SE sold USD 200 000 of its holding of Borrower's Bonds to its chairman. The price was USD 1 (par value) per bond, total USD 200,000. The stock notice informing about the transaction invited anyone to contact the Company in case they wanted to purchase at the same terms (USD 1, annual interest is 6%). To date no one has shown any interest.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Petrolia SE - Parent Company - 31 December 2018

PETROLIA SE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
31 December 2018

	Note	**2018 USD 000**	2017 USD 000
Revenue	7	**48**	302
Dividend income	20.4	**-**	3,079
Administration expenses		**(1,366)**	(1,557)
(Impairment charge) on investment in subsidiary companies - net	12	**(1,936)**	(2,490)
(Impairment charge) on investments in associates	13	**(190)**	(277)
(Impairment charge) on loans receivable from related parties		**-**	(58)
Reversal of provision for credit losses on accounts receivable from related parties - net	14	**225**	307
Operating loss	8	**(3,219)**	(694)
Finance income	10	**16**	171
Finance costs	10	**(424)**	(311)
Loss before tax		**(3,627)**	(834)
Tax	11	**424**	40
Net loss for the year		**(3,203)**	(794)
Other comprehensive income		**-**	-
Total comprehensive expense for the year		**(3,203)**	(794)

PETROLIA SE

STATEMENT OF FINANCIAL POSITION
31 December 2018

	Note	2018 USD 000	2017 USD 000
ASSETS			
Non-current assets			
Investments in subsidiaries	12	**29,748**	32,903
Investments in associates	13	**872**	1,062
Restricted cash	15	**16**	16
		30,636	33,981
Current assets			
Trade and other receivables	14	**4,863**	3,378
Other loan receivable		**-**	42
Cash at bank	16	**1,851**	1,042
		6,714	4,462
Total assets		**37,350**	38,443
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**5,913**	5,376
Share premium	17	**12,222**	10,609
Merger reserve		**67,093**	67,093
Accumulated losses		**(52,613)**	(49,410)
Total equity		**32,615**	33,668
Non-current liabilities			
Borrowings	18	**4,420**	4,420
		4,420	4,420
Current liabilities			
Trade and other payables	19	**196**	236
Borrowings	18	**119**	119
		315	355
Total liabilities		**4,735**	4,775
Total equity and liabilities		**37,350**	38,443

On 25 April 2019 the Board of Directors of Petrolia SE authorised these financial statements for issue.

Berge Gerdt Larsen
Chairman of the Board

Sjur Storaas
Board member

Erwin Joseph Pierre Godec
Board member, Managing Director

Judith Parry
Board member

PETROLIA SE

STATEMENT OF CHANGES IN EQUITY
31 December 2018

	Note	Share capital USD 000	Share premium USD 000	Merger reserve USD 000	Accumulated losses USD 000	Total USD 000
Balance at 1 January 2017		**27,236**	**-**	**67,093**	**(73,128)**	**21,201**
Net loss for the year		-	-	-	(794)	(794)
Issue of share capital	17	2,652	10,609	-	-	13,261
Reduction of share capital	17	(24,512)	-	-	24,512	-
Balance at 31 December 2017/ 1 January 2018		**5,376**	**10,609**	**67,093**	**(49,410)**	**33,668**
Net loss for the year		-	-	-	(3,203)	(3,203)
Issue of share capital	17	537	1,613	-	-	2,150
Balance at 31 December 2018		**5,913**	**12,222**	**67,093**	**(52,613)**	**32,615**

PETROLIA SE

STATEMENT OF CASH FLOWS
31 December 2018

	Note	2018 USD 000	2017 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(3,627)**	(834)
Adjustments for:			
Net exchange loss / (gain)		**151**	(161)
Impairment charge - investments in subsidiaries	12	**1,936**	2,490
Impairment charge - investments in associates	13	**190**	277
Reversal of provision for credit losses on amounts receivable from related parties	14	**(225)**	(307)
Impairment charge - loans from related parties	20	**-**	58
Dividend income	20.4	**-**	(3,079)
Interest income	10	**(16)**	(10)
Interest expense	10	**266**	307
		(1,325)	(1,259)
Changes in working capital:			
Decrease in trade and other receivables		**2,639**	148
Decrease in trade and other payables		**(40)**	(86)
Net cash generated from/(used in) operating activities		**1,274**	(1,197)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of investments in subsidiaries		**(199)**	-
Net cash used in investing activities		**(199)**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from loans due from related parties		**-**	58
Interest paid		**(266)**	(663)
Reduction of restricted cash		**-**	4
Net cash used in financing activities		**(266)**	(601)
Net increase/(decrease) in cash and cash equivalents		**809**	(1,798)
Cash and cash equivalents at beginning of the year		**1,042**	2,840
Cash and cash equivalents at end of the year	16	**1,851**	1,042

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

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, Loulloupis 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. Oil Service activities are mainly presented through the subsidiaries.

2. Basis of preparation

These parent financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention. The notes to the consolidated financial statements provide additional information to the parent financial statements. The accounting policies applied to the Group accounts have also been applied to the parent company, Petrolia SE. The parent financial statements should be read in conjunction with the consolidated financial statements. Investments in subsidiaries and associates are carried at cost in these separate financial statements less impairment. In case of impairment, the investment is written down to its recoverable amount. The Company's functional currency is US dollars (USD) and the financial statements are presented in USD, 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 2018. This adoption had a material effect on the accounting policies of the Company as follows:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from contracts with customers"

As explained below, in accordance with the transition provisions of IFRS 9 and IFRS 15, the Company has elected the simplified approach for adoption of the new standards. Accordingly, IFRS 9 and IFRS 15 were adopted without restating the comparative information. The comparative information is prepared in accordance with IAS 39 and IAS 18 and IAS 11, and there was no impact of adoption in the opening retained earnings.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the years presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented in note 23.

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.

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

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 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 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 Company expects to be entitled in exchange for those goods or 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 in the period in which the circumstances that give rise to the revision become known by management.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

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 good or 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).

- **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.

- **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.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

Financial instruments

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 other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

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.

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 receivables and cash at bank.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

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;
- 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.

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).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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.

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.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

Trade receivables (continued)

Trade receivables are also subject to the impairment requirements of IFRS 9.The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. See Note 6 Credit risk section.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make any contractual payments for a period of greater than 180 days past due.

(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.

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 designatedat 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.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

4. Significant accounting policies (continued)

(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.

Non-current liabilities

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

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 presented in the consolidated financial statements, Note 2.4 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 in subsidiaries/associates 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 asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/associates may be impaired, the estimated future discounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

- **Impairment of financial assets**

  The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Key assumptions and inputs include the probability of default of the counterparty, expected financial performance over 12 months and forecast economic conditions.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

7. Revenue

	2018 USD 000	2017 USD 000
Management fees (Note 20.2)	**7**	222
Consultancy fees (Note 20.3)	**41**	80
	48	302

8. Operating loss

	2018 USD 000	2017 USD 000
Staff costs (Note 9)	**534**	607
Directors' fees (Note 20.1)	**90**	90
Auditors' remuneration - current year	**144**	163
Auditors' remuneration for other non-audit services	**5**	16
Auditors' remuneration- prior years underprovision	**5**	10
Legal and professional fees	**40**	38

9. Staff costs

	2018 USD 000	2017 USD 000
Salaries	**480**	554
Other staff costs	**8**	9
Social security costs and other funds	**46**	44
	534	607

The average number of employees during the year was 7 (2017: 7).

10. Finance income/(costs)

	2018 USD 000	2017 USD 000
Other interest income	**16**	10
Net foreign exchange transaction (losses) / gains	**-**	161
Finance income	**16**	171
Net foreign exchange losses	**(151)**	-
Interest expense	**(266)**	(307)
Sundry finance expenses	**(7)**	(4)
Finance costs	**(424)**	(311)
Net finance costs	**(408)**	(140)

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

11. Tax

Statement of profit or loss and other comprehensive income

	2018 USD 000	2017 USD 000
Corporation tax	**-**	(40)
Tax effect of group contribution	**(424)**	-
Credit for the year	**(424)**	(40)

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

	2018 USD 000	2017 USD 000
Loss before tax	**(3,627)**	(834)
Tax calculated at the applicable tax rates	**(453)**	(104)
Tax effect of expenses not deductible for tax purposes	**398**	410
Tax effect of allowances and income not subject to tax	**-**	(424)
Tax effect of tax losses brought forward	**-**	118
Overprovision of prior tax year	**-**	(40)
Tax effect of tax loss for the year	**55**	-
Tax effect of group contribution (branch)	**(424)**	-
Tax credit	**(424)**	(40)

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 23% (2017: 24%) 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 may be carried forward and be set off against taxable income of the five succeeding years.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

12. Investments in subsidiaries

	2018 USD 000	2017 USD 000
Balance at 1 January	**32,903**	113,615
Additions	**199**	5,700
Disposals	**-**	(1)
Impairment charge - net	**(1,936)**	(2,490)
Effect of group contributions	**(1,418)**	-
Return of capital from subsidiaries	**-**	(83,921)
Balance at 31 December	**29,748**	32,903

The details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	2018 Holding %	2017 Holding %	2018 USD 000	2017 USD 000
Petrolia Drilling II AS (1)	Norway	Holding company of IOT Group - oil service	100	100	**25,294**	19,009
Petrolia Invest AS (2)	Norway	Holding of investments	100	100	**58**	641
Petrolia Tool Pool AS	Norway	Holding company	100	100	**17**	17
Venture Drilling AS (3)	Norway	Oil Service	100	100	**2,354**	9,917
Independent Oil Tools International (Cyprus) Ltd (4)	Cyprus	Dormant	100	100	**2,025**	3,319
					29,748	32,903

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

(1) A reversal of impairment provision was recognised during 2018 at an amount of USD 6,285 thousand (2017: reversal of impairment of USD 13,458 thousand). The accumulated impairment as at 31 December 2018 is USD 96,172 thousand (2017: USD 102,457 thousand).

(2) An impairment provision was recognised during 2018 at an amount of USD 583 thousand (2017: impairment charge of USD 10,624 thousand). The accumulated impairment as at 31 December 2018 is USD 19,990 thousand (2017: USD 19,407 thousand).

(3) An impairment provision was recognised during 2018 at an amount of USD 6,145 thousand (2017: impairment charge of USD 1,883 thousand). The accumulated impairment as at 31 December 2018 is USD 42,008 thousand (2017: USD 35,863 thousand).

(4) During the year 2018, the Company acquired 20 additional shares for the total amount of USD 199 thousands. An impairment provision was recognised during 2018 at an amount of USD 1,493 thousand (2017: impairment charge of USD 3,441 thousand). The accumulated impairment as at 31 December 2018 is USD 11,574 thousand (2017: USD 10,081 thousand).

Total net impairment charge for the year amounted to USD 1,936 thousand (2017: USD 2,490 thousand). Total accumulated impairment as at 31 December 2018 amounted to USD 169,744 thousand (2017: USD 167,808 thousand).

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

13. Investments in associates

	2018 USD 000	2017 USD 000
Balance at 1 January	**1,062**	1,339
Impairment charge	**(190)**	(277)
Balance at 31 December	**872**	1,062

The details of the investment are as follows:

Name	Country of incorporation	Principal activities	2018 Holding %	2017 Holding %	2018 USD 000	2017 USD 000
Petrolia Noco AS	Norway	Oil & Gas	14.84	20.93	**872**	1,062
					872	1,062

During the year 2018, the investment in Petrolia Noco AS has increased its capital by the issuance of additional share capital. Also, a change has been made on the nominal value from NOK112 to NOK1 per share. Following the change in nominal value, the associate has completed a share rights issue where 315,627 shares have been issued. Petrolia SE, has not participated in the purchase of additional shares and therefore its shareholding decreased from 20.93% to 14.84%. However, it can exercise significant inlfuence 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).

Additionally, during the year 2018, the investment in Petrolia NOCO AS, was impaired by USD 190 thousand by reference to the net assets of the associate. The accumulated impairment as at 31 December 2018 amounted to USD24,787 thousand (2017: 24,597 thousand).

Through its subsidiaries the Company controls 49.9% (2017: 49.9%) of the shares of Petrolia NOCO AS.

14. Trade and other receivables

	2018 USD 000	2017 USD 000
Trade receivables	**38**	26
Receivables from related parties (Note 20.5)	**4,541**	3,113
Deposits and prepayments	**15**	9
Refundable VAT	**269**	230
	4,863	3,378

During the year 2018, a reversal of provision for credit losses for the amount of USD 225 thousand was recognised on receivables from related parties (2017: USD 307 thousand). Accumulated allowance for expected credit losses as at 31 December 2018 was USD 756 thousand.

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

15. Restricted cash

	2018 USD 000	2017 USD 000
Bank deposits	**16**	16

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
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16. Cash at bank

Cash balances are analysed as follows:

	2018	2017
	USD 000	USD 000
Cash at bank	**1,851**	1,042
	1,851	1,042

17. Share capital

	2018 Number of shares	**2018 USD 000**	2017 Number of shares	2017 USD 000
Authorised				
Ordinary shares of USD1 each	**272,358,670**	**-**	272,358,670	27,236
		USD 000		USD 000
Issued and fully paid				
Balance at 1 January	**53,757,988**	**5,376**	27,235,867	27,236
Issue of shares	**5,375,798**	**537**	26,522,121	2,652
Reduction of share capital	**-**	**-**	-	(24,512)
Balance at 31 December	**59,133,786**	**5,913**	53,757,988	5,376

Refer also to Note 17 to the consolidated financial statements.

18. Borrowings

	2018	2017
	USD 000	USD 000
Current borrowings		
6% Callable bond loan - interest due, not yet paid	**119**	119
Non-current borrowings		
6% Callable bond loan - principal	**4,420**	4,420
Total	**4,539**	4,539

Maturity of borrowings:

	2018	2017
	USD 000	USD 000
Within one year	**119**	119
Between one and five years	**4,420**	4,420
	4,539	4,539

Refer also to Note 18 to the consolidated financial statements.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

19. Trade and other payables

	2018 USD 000	2017 USD 000
Trade payables	**67**	26
Social insurance and other taxes	**53**	53
Shareholders' current accounts - credit balances (Note 20.6)	**-**	11
Accruals	**76**	146
	196	236

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

20. Related party transactions

The following transactions were carried out with related parties:

20.1 Directors' remuneration (Note 8)

The remuneration of Directors was as follows:

	2018 USD 000	2017 USD 000
Directors' fees	**90**	90
	90	90

20.2 Management fees charged to related parties (Note 7)

	2018 USD 000	2017 USD 000
Oil Tools Supplier AS	**1**	59
Petrolia Drilling II AS	**-**	42
Petrolia Invest AS	**1**	35
Venture Drilling AS	**1**	29
Petrolia Rigs II AS	**1**	19
Petrolia Tool Pool AS	**1**	19
Petrolia Rigs AS	**1**	19
Petrolia AS	**1**	-
	7	222

20.3 Consultancy fees charged to related parties (Note 7)

	2018 USD 000	2017 USD 000
Larsen Oil & Gas AS	**-**	4
Petrolia Noco AS	**41**	76
	41	80

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

20. Related party transactions (continued)

20.4 Dividend income

	2018	2017
	USD 000	USD 000
Venture Drilling AS	**-**	3,079
	-	3,079

20.5 Receivables from related parties (Note 14)

	2018	2017
	USD 000	USD 000
IO & R Ltd	**514**	8
Petrolia Drilling II AS	**-**	98
Venture Drilling AS	**3,290**	1,949
Independent Oil Tools AS	**-**	25
Petrolia Invest AS	**717**	1,017
Petroresources Ltd	**-**	1
Baratie Ltd	**7**	7
Independent Oil Tools International (Cyprus) Ltd	**13**	8
	4,541	3,113

20.6 Shareholders' current accounts - credit balances (Note 19)

	2018	2017
	USD 000	USD 000
Shareholder and Chairman	**-**	11
	-	11

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

21. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2018.

22. Commitments

The Company had no capital or other commitments as at 31 December 2018.

23. Accounting policies up to 31 December 2017

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Revenue recognition

Revenues earned by the Company are recognised on the following bases:

- **Management fees**

  Management fees comprise the invoiced amount for the provision of management services to group subsidiaries and associates.

- **Consultancy fees**

  Consultancy fees comprise the invoiced amount for the provision of consultancy services.

PETROLIA SE

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

23. Accounting policies up to 31 December 2017 (continued)

- **Dividend income**

  Dividend income is recognised when the right to receive payment is esetablished.

Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.

Borrowings

Borrowings are recorded intially 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 borowings using the effective interest method.

Trade payables

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

24. Events after the reporting period

Refer to Note 27 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 2018, 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 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Key Audit Matters 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.

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Recoverability of investments in subsidiaries, Valuation of Property, Plant and Equipment and Recoverability of trade receivables including IFRS 9 transition

Recoverability of investments in subsidiaries (Parent Company only)

The key audit matter

Investments in subsidiaries represent 80% 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 and continue to incur losses, resulting in the value of the net assets of certain subsidiaries being lower than the carrying amount of the investment in those subsidiaries, which are impairment indicators. Management's assessment of the recoverable amount of investments in subsidiaries requires estimation and judgement around assumptions used. Changes to assumptions could lead to material changes in the estimated recoverable amount, impacting both potential impairment charges and potential reversals of impairment recorded in prior years.

Due to the significance 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 under accounting standards. We also assessed the methodology used by management to estimate the recoverable amount of each investment, in conjunction with any intra-group balances, and considered its consistency with accounting standards. We analyzed the key assumptions used in management's estimates of the recoverable amount of the investments, such as the profitability and financial position of each subsidiary. We also evaluated the relevance of the Company's disclosures regarding the investments in subsidiaries and their recoverability.

Valuation of Property, Plant and Equipment

The key audit matter

Property, Plant and Equipment ("PPE") represent 38% of the Group's total assets. A history of recent losses and the fact that the value of the shareholders' equity materially exceeds the Group's market capitalization, have resulted in an indication of impairment of PPE. On the other hand, there was an increase in the oil prices during the year 2018 and there are signs of recovery in the oil industry. For this reason, the Group subjected the various cash-generating units to an impairment test but also to examine any possible reversals of impairments.

These impairment tests were significant for our audit, since the 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 PPE at subsidiary level. In doing so, in certain cases, we involved our internal valuation experts. Our evaluation was focused on the principal assumptions used such as the discount rate, the expected trend in turnover, utilization rates, EBITDA and recent selling prices of the relevant PPE. We also considered the identification of cash generating units subjected to impairment testing in respect of their PPE. Further, we assessed the adequacy and completeness of the Group's disclosures as regards the impairment testing.

Recoverability of trade receivables including IFRS 9 transition

The key audit matter

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Trade receivables represent 20% of the total Group assets and as at 31 December 2018 the accumulated allowance for expected credit losses ("ECLs") amounted to US$4,9m. Following the adoption of IFRS 9 effective 1 January 2018 the Group introduced a new model of expected credit losses, rather than the incurred loss model which was previously applied under IAS 39. The difference of US$ 0,8m arising from the adoption of IFRS 9 has been recognized directly in retained earnings, as disclosed in Note 2.4. 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 provision for impairment is required either for a specific transaction or for a customer's balance overall;
- Adjusting historical credit loss experience with forward-looking information.

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 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 provision rates and loss patterns, including forward-looking information consideration, combined with comparing to supporting documentation and where applicable to third party evidence. We also tested the IFRS 9 transition adjustment on retained earnings and performed recalculations of ECLs. In our trade receivable ECLs evaluation, we also considered the results from other audit procedures such as the detail testing of sales transactions, 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 Management Report and the Board of Directors' report on Corporate Governance, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information 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.

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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, related safeguards.

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 7 years.

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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 24 April 2019 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.

Other Matter

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 Stavros Pantzaris.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Address
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Nicosia, 25 April 2019

CORPORATE GOVERNANCE

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

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

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

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

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

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 2019, the Company is described as follows in Stock Exchange Notices: Petrolia SE has two business segments: Exploration & Production ("E&P") and OilService and is listed on Oslo Stock Exchange under the ticker code 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 the management shall actively develop and control the Company and its assets in order for the underlying values to be reflected in the share price.

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 2018 were to improve the Company's financial position, improve profitability of the rental equipment business following the improved market 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 by the Board. Thus, the authorisations should be limited in time to no later than the date of the next Annual General Meeting. All authorisations not in compliance with these guidelines should be accounted for in the Annual Report.

As of 31 December 2018, the Company had equity of USD 41 million, representing an equity ratio of 66 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 30 May 2018 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 30 May 2018 on the Company's website www.petrolia.eu.

5. FREELY NEGOTIABLE SHARES

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

6. GENERAL MEETING

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

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

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

As it is a priority for the General Meeting to be conducted in a sound manner, with all shareholder votes to be cast, to the extent possible, on the basis of the same information, the Company has thus far not deemed it advisable to recommend the introduction of electronic attendance. The Company will contemplate the introduction of such arrangements on an on-going basis in view of, inter alia, the security and ease of use offered by available systems.

The General Meetings shall be organised in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the 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 (ticker: PSE), and on Petrolia's own web site, www. petrolia.eu.

7. NOMINATION COMMITTEE

In accordance with its Articles, the Company shall have a Nomination Committee. The committee shall present to the General Meeting a proposal, 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 30 May 2018 Rob Arnott, Tove Kate Larsen and Andros Constantinou were elected as members of the nomination committee.

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

8. 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 per 31 December 2018. The current composition of the Board of Directors is described in note 6 in the Petrolia SE Annual Report 2018. The Board shall attend to the common interests of all shareholders, and its members shall meet the Company's need for expertise, capacity and diversity. Attention should be paid to the fact that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

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

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

Three board meetings were held during 2018, 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 2018 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 2018;
• Ensure that a system of direction and internal control is established and maintained as to ensure that the Group activities are conducted in accordance with all rules and regulation applicable to the Group, Petrolia's Articles of Association, its corporate values and its ethical guidelines, as well as authorisations and instructions approved by the General Meeting. The internal control arrangements must address the organisation and implementation of the Company's financial reporting. The Board of Directors contributes its knowledge and experience to the Company and has frequent meetings with the executive management for updates on the recent developments.

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

The Board of Directors has appointed an Audit Committee. The committee, which is composed of Judith Parry and Sjur Storaas, shall prepare the Board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the Group's auditor on a regular basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the Group may jeopardise the independence. The Audit Committee held regular meetings in 2018 and in 2019 (up to 24 April 2019) and reviewed all interim reports prior to publication. The committee works closely with the auditor.

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

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

The Managing Director is appointed by the Board of Directors and reports to the Board of Directors. His or her powers and responsibilities are defined by detailed instructions adopted by the Board of Directors.

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 Group companies are audited by the Group's external auditor. The Company's risk management systems are described in Note 23 of this Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

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

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

More detailed information about the reward of individual directors in 2018 is provided in Note 6 to the consolidated financial statements for the Group.

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

12. REMUNERATION OF EXECUTIVE MANAGEMENT

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

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

The Company has no bonus schemes or incentives in place. As of 31 December 2018, executive management held common shares in the Company following the rights issue offered to key employees and the Board of Directors on 2 September 2011, in addition to shares and options bought in the market. Details regarding management remuneration can be found in Note 6 to the consolidated financial statements.

13. INFORMATION AND COMMUNICATION

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

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

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

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

14. TAKE-OVERS

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

15. AUDITORS

Petrolia's auditor is Ernst & Young Cyprus Limited.

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

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

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

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

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