2010

PETROLIA ASA

ANNUAL REPORT 10

PETROLIA

CONTENT

DIRECTORS'

DIRECTORS' REPORT

INTRODUCTION

Petrolia ASA is registered with business address in Oslo, Norway. The company is listed on the Oslo Stock Exchange (ticker: "PDR"). The company changed its name from Petrolia Drilling ASA to Petrolia ASA the 17th of December 2010.

Petrolia ASA charters and invests in drilling vessels for offshore oil and gas drilling. The company is also involved in worldwide oilfield services related to rental of oilfield equipment, tubular running services and other related services. Through its affiliates, among other PetroResources Ltd on Cyprus, Petrolia ASA invests in oil & gas and other mineral resources.

Petrolia ASA owns Petrolia Services AS (100%), an international oilfield service company with presence in Norway, the Netherlands, Romania, Australia, New Zealand and Singapore. Petrolia Services' main business activity is renting out drilling equipment and test strings, including accessories to oil companies, oil service companies and drilling contractors.

Petrolia ASA owned 50 % of Venture Drilling AS per 31st of December 2010. On 28th of March 2011 the remaining 50% was purchased for mUSD 34 and Venture Drilling AS then became a 100% owned subsidiary.

Per 31st of December 2010 Petrolia Invest AS, a 100% owned subsidiary of Petrolia ASA, owned 20.6 % of Deepwater Driller Ltd, formerly Larsen Rig Ltd. 24th of January 2011 all shares were sold for mUSD 34.5, of which mUSD 3 is held in escrow for a maximum of 3 years.

STRATEGY

Petrolia ASA is a company within the oil and gas industry with the business segments: Oilfield Services, Drilling & Well and Oil & Gas.

IMPORTANT EVENTS 2010

- The business management agreement with Larsen Oil & Gas AS was terminated in January 2010 with effectiveness at the end of July 2010.
- Petrojack ASA, 39,95% owned by Petrolia ASA, was declared bankrupt 8th of March 2010.
- In March 2010 the bankruptcy estate of Petrojack ASA sold its 24,99% shares in Petrolia ASA to Larsen Oil & Gas AS, (controlled by Berge Gerdt Larsen)
- 19th of April 2010 a new Board of Directors was elected at an extraordinary general meeting.
- The Board of Directors terminated the CEO's contract due to strategic reasons 20 th of April 2010. The Board of Directors temporarily appointed a new CEO at the same date.
- In April 2010 a settlement for early termination for Deep Venture was made with Maersk Oil Angola. The unit has been kept "hot stacked" in Ghana and marketed for new assessments.
- Petrolia ASA maintained its investment in Deepwater Driller Ltd, former Larsen Rig Ltd but was diluted from 30% to 20,6% due to new equity provided by Songa Offshore.
- A new Board of Directors was elected at the Annual General meeting 28th of June 2010.
- A team of core employees has been hired for the Corporate Management, Drilling and Well Division, and the Oilfield Service Division.
- Petrolia Services AS received writ of summons from PetroMENA ASA, its bankrupt estate, with a claim of up to mNOK 245 related to an agreement of 13th of November 2008 regarding an acquisition by Petrolia Services of equipment from Petromena. The estate is seeking to invalidate the acquisition, alleging that it is not binding for the estate, that it can seize the equipment and/or that the mNOK 245 is to be considered a loan given by Petrolia Services to Petromena.
- Through 2010 Petrolia Services AS has increased its activities. Due to financial challenges with equipment manager receivables has been impaired with mUSD 30.0 and Goodwill has been impaired with mUSD 21.8.

MARKET

The market for deepwater semi submersible drilling rigs is expected to remain at current level.

The market for Oilfield Services is expected to be satisfactory also in 2011.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia ASA's presents its financial information in USD.

Due to the bankruptcy in PetroMENA ASA, all figures for 2009, for the subsidiary, have been deconsolidated. The figures are presented in the consolidated income statement as profit for the year from discontinued operations.

Financial information

Total revenues were mUSD 75.5 for the fiscal year 2010, related to the oilfield services segment. Total revenues for the fiscal year 2009 equalled mUSD 70.7.

Operating profit before depreciation and impairment for the group was mUSD -34.0 in 2010. That loss includes impairment of receivables of mUSD 30.0 and impairment of Goodwill of mUSD 21.8.

Operating result for the group amounts to mUSD -80.9 in 2010, after deduction of depreciation of mUSD 42.1 and impairment of drilling equipment of mUSD 4.8. Operating result for the group for 2009 was mUSD -24.3 after deduction of mUSD 40.4 in depreciation.

Result after tax for the group amounts to mUSD -87.3, including negative result from investment in associates of mUSD 11.0. Share of result from Venture Drilling AS contributes positively with mUSD 16.1. Net financial items of mUSD -11.6 include interest on the group's bond loan with mUSD 9.9.

Per 31st of December 2010 total assets of the group amounted to mUSD 261.7 of which drilling equipment was mUSD 86.8.

Investment in the joint venture, Venture Drilling AS was mUSD 65.7. Per 31st of December 2010, the 20.6% share in Deepwater Driller Ltd, former Larsen Rig Ltd, is booked at mUSD 34.5.

Carried equity of the group amounts to mUSD 95.2 per 31st of December 2010, including a minority interest of mUSD 2.9. Carried equity per 31st of December 2009 was mUSD 179.0 including a minority interest of mUSD 2.5.

Per 31st of December 2010, the total number of shares outstanding in Petrolia ASA was 101,259,675, each with par value NOK 5.00.

Cash flow from the operations was mUSD -1.7 compared to mUSD 18.8 in 2009. Cash flow from investments was mUSD 20.1 in 2010. Cash flow from investments in 2009 amounted to mUSD -43.6. Cash flow from financing activities in 2010 was mUSD -20.6 mainly related to interest on bond loan and lease instalments. Cash flow from financing activities in 2009 was mUSD -55.0. Total cash position year end 2010 was mUSD 45.7 compared to mUSD 49.6 year end 2009.

The revenue of the parent company for the same period amounts to mUSD 0.5 compared to mUSD 0.0 in 2009. Total operating expenses for 2010 amounts to mUSD 10.5. In 2009 total operating expenses were mUSD 0.1, no depreciations. Net finance in 2010 is negative by mUSD 40.1 mainly related to impairment on shares in subsidiaries. Net finance in 2009 was mUSD -41.4.

Result after tax for the parent company is mUSD -50.1 compared to mUSD -27.8 in 200. Carried equity has decreased to mUSD 138.3 per 31st of December 2010 compared to mUSD 188.4 in 2009. Cash flow from operations in 2010 was mUSD -12.1 compared to mUSD –18.1 in 2009. Cash flow from investments was mUSD 33.7 in 2010 mainly related to dividends from Venture Drilling AS and investment in Petrolia Invest AS. Cash flow from investments in 2009 amounted to mUSD 14.4. Cash flow from financing activities in 2010 was mUSD -15.9 compared to mUSD -1.1 in 2009. Total cash position year-end 2010 was 17.6 compared to mUSD 11.9 year-end 2009.

FINANCIAL AND LIQUIDITY RISK

At year-end, Petrolia ASA including its subsidiaries had a cash balance of mUSD 45.7. Tied up cash accounts equalled mUSD 29.7, where mUSD 21.2 is held on behalf of PetroMena. Free cash at year end was mUSD 16.1. The outlook for 2011 is satisfactory and the company is expecting a satisfactory cash flow from operations going forward. The transactions in first quarter 2011 has significantly improved the cash position.

The group's long term financing is mainly related to bond loan of mNOK 500 which is due in June 2012. According to the loan agreement Petrolia ASA has to maintain a ratio of total assets to total debt of more then 2.0 on each quarterly reporting date. Total assets are in the loan agreement defined as (i) the market value of Petrolia Drilling's shares in listed companies (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. By the end of 2009 and 2010 Petrolia ASA is in compliance with the terms in the bond loan agreement.

GOING CONCERN ASSUMPTION

The Board of Directors and the Managing Director are of the opinion that the financial statements should be based on the going concern assumption.

Petrolia ASA's long term liabilities mainly consist of the mNOK 500 bond and leasing liability of mUSD 26.4. Petrolia expects cash flow from Petrolia Services and other income going forward and is of the opinion that the Company will be able to service its liabilities through operational cash-flow from its assets and businesses.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia ASA has 6 employees, four men and two women.

In total the group has 245 employees through the IOT group in respectively Norway, Holland, Romania, Australia and New Zealand. There have not been any serious damages or accidents in 2010.

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

Petrolia's Board of Directors consisted of 3 men and 2 women at year-end.

ENVIRONMENT REPORTING

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

EVENTS AFTER THE BALANCE SHEET DATE

- 18th of January 2011, Kjetil Forland was appointed Managing Director.
- 24th of January 2011 all shares in Deepwater Driller Ltd was sold to Songa Offshore for mUSD 34.5.
- 24th of February 2011 Venture Drilling AS redelivered the vessel Deep Venture. At the same time the drilling equipment and the position in the arbitration against the owner were sold to JSC Zarubezhneft for mUSD 138.
- 5th of March 2011 the reduction in par value of the shares from NOK 5.00 to NOK 0.04 was registered at www.brreg.no.
- 10th of March 2011 Petrolia ASA received a writ of summons from Petrojack ASA, its bankrupt estate, which includes a claim of up to mNOK 32.9 related to Petrolia Services AS's purchase of certain drilling equipment from Petrojack ASA in 2009. The bankrupt estate asserts to have a claw back claim related to the transferred equipment.
- 28th of March 2011 Petrolia ASA entered into a Share Purchase Agreement with Sinvest AS to purchase 50% of the shares in Venture Drilling AS. The purchase price for the shares was mUSD 34.0. Following this transaction Venture Drilling AS is a 100% subsidiary of Petrolia ASA.

Bergen/Oslo, 28th of April 2011

Berge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Marit K. Instanes
Board member

Sjur Storaas
Board member

Kjetil Forland
Managing Director

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Petrolia ASA – Group

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)	Note	2010	2009
Continuing operations			
Revenue	3	75,541	70,746
Wage cost	20	15,469	10,891
Depreciation	4	42,081	40,371
Impairment of fixed assets	4	4,796	8,468
Other operating expenses	12	94,106	35,323
Operating result		**-80,911**	**-24,307**
Result from investment in joint venture	17	16,089	30,954
Result from associated companies	18	-10,946	304
Interest income	15	305	634
Financial income	15	123	343
Interest expenses	15	11,358	12,292
Financial expenses	15	639	1,554
Result before income taxes		**-87,336**	**-5,919**
Tax on result	14	0	4,653
Result from the year from continuing operations		**-87,336**	**-10,572**
Discontinued operations			
Profit for the year from discontinued operations	16	0	118,413
Result for the year		**-87,336**	**107,841**
Attributable to:			
Shareholders		-87,605	148,460
Minority interests		269	-40,619
		-87,336	**107,841**
Earnings per share from continuing and discontinued operations attributable to the equity holders of the company during the year (USD per share)			
Basic earnings per share (Majority interests)			
From continuing operations	13	-0.87	0.34
From discontinued operations	13	0	1.12
		-0.87	**1.47**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in USD 1 000)	Note	2010	2009
Result for the year		**-87,336**	**107,841**
Other comprehensive income:			
Currency translation differences		3,545	12,545
Total comprehensive income for the year		**-83,791**	**120,386**
Attributable to:			
Owners of the parent		-84,141	160,949
Minority interest		350	-40,563
Total comprehensive income for the year		**-83,791**	**120,386**

CONSOLIDATED BALANCE SHEET PER 31.12

ASSETS (Amounts in USD 1 000)	Note	2010	2009
Non-current assets			
Intangible assets	4	0	20,395
Drilling equipment and other equipment	4	86,761	121,969
Land and buildings	4	2,245	2,305
Investments in joint venture	17	65,658	86,955
Investment in associated companies	18	2,674	41,060
Other financial fixed assets		6	450
Total non-current assets		**157,344**	**273,133**
Current assets			
Inventory		1,121	1,478
Trade- and other current receivables	6	22,949	42,288
Financial assets at fair value through profit and loss		0	620
Investment in money market fund		16	15
Bank deposits	5	45,749	49,616
Total current assets		**69,835**	**94,017**
Non-current assets held for sale	18	34,500	0
Total non-current assets held for sale		**34,500**	**0**
TOTAL ASSETS		**261,679**	**367,150**

CONSOLIDATED BALANCE SHEET PER 31.12

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2010	2009
Equity			
Share capital	21	93,568	93,568
Own shares		-2,153	-2,153
Share premium fund		45,232	95,352
Other equity		-48,192	-10,232
Majority interests		**92,394**	**176,536**
Minority interests		**2,854**	**2,504**
Total equity		**95,248**	**179,040**
Liabilities			
Non-current liabilities			
Bond loans	9	68,391	85,143
Pension liability		307	562
Other non-current liabilities	10	15,582	25,992
		84,280	**111,697**
Current liabilities			
Short term portion of non-current liabilities	9,10	27,915	11,106
Trade payables	11	16,545	11,958
Payable tax		-293	120
Other current liabilities	11	37,984	53,230
		82,151	**76,413**
Total liabilities		**166,431**	**188,111**
TOTAL EQUITY AND LIABILITIES		**261,679**	**367,150**

Bergen/Oslo, 28th of April 2011

Berge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Marit K. Instanes
Board member

Sjur Storaas
Board member

Kjetil Forland
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the company's shareholders. Confer also note 21.

(Amounts in USD 1 000)	Share capital	Own shares	Share premium fund	Other reserves	Currency translation	Minority interests	Total equity
Equity 1st of January 2009	**93,568**	**-2,153**	**123,119**	**-186,855**	**-12,093**	**43,067**	**58,654**
Comprehensive income							
Profit or loss			-27,767	176,227		-40,619	107,841
Other comprehensive income							
Currency translation differences					12,489	56	12,545
Totalt comprehensive income			**-27,767**	**176,227**	**12,489**	**-40,563**	**120,386**
Equity 31st of December 2009	**93,568**	**-2,153**	**95,352**	**-10,626**	**396**	**2,504**	**179,040**
Equity 1st of January 2010	**93,568**	**-2,153**	**95,352**	**-10,626**	**396**	**2,504**	**179,040**
Comprehensive income							
Profit or loss			-50,120	-37,566		350	-87,336
Other comprehensive income							
Currency translation differences					3,545		3,545
Totalt comprehensive income			**-50,120**	**-37,566**	**3,545**	**350**	**-83,791**
Equity 31st of December 2010	**93,568**	**-2,153**	**45,232**	**-48,192**	**3,941**	**2,854**	**95,248**

On 28th of June 2010 the general meeting resolved a reverse split whereby 10 old shares where combined to one new share. To make the number of shares divisible by ten, five old shares were first issued (and capital thus increased by NOK 2.50). The transaction was required since the share price was traded under NOK 1.00. The transaction changed the share capital from NOK 506,298,372.50 (1,012,596,745 shares at NOK 0.50) to NOK 506,298,375.00 (101,259,675 shares at NOK 5.00).

On 17th of December 2010 (registered at www.brreg.no on 5th of March 2011) the extraordinary general meeting resolved to reduce the par value from NOK 5.00 to NOK 0.04. This to put the company in position to issue new equity (price cannot be lower than par value). Per 31st of December 2009 and 2010 the company owns 525 003 own shares. The shares have been purchased at an average purchase cost of NOK 22.13 per share (total NOK 11.6 million).

CONSOLIDATED CASH FLOW STATEMENT – GROUP
YEAR ENDED 31 DECEMBER

(Amounts in USD 1 000)	Note	2010	2009
Cash flows from operating activities			
Result before taxes		-87,336	107,841
Prepaid taxes in the period		0	-53
Profit from discontinued operations	16	0	-118,413
Depreciation	4	42,081	40,371
Impairment of drilling equipment	4	4,796	8,468
Impairment of goodwill	4	20,395	0
Change in net pension liability		-255	129
Change in inventory		357	-1,151
Change in trade receivables		19,339	1,187
Change in trade payables		4,587	-11,006
Result from investment in joint venture	17	-16,089	-30,954
Result from investment in associated companies	18	10,946	-304
Unrealised foreign currency loss/gain		-2,205	12,720
Cash flows from discontinued operations	16	0	955
Net cash generated from operating activities		**-3,384**	**9,790**
Cash flows from investing activities			
Purchase of operating equipment	4	-13,456	-15,933
Disposal at book value		-323	
Dividends and capital reduction from Venture Drilling AS	17	40,272	20,826
Investment in shares in Deepwater Driller Ltd	18	-7,050	-6,000
Proceeds from sales of liquid reserves		0	68
Cash flows from discontinued operations	16	0	-21,780
Net cash used in investing activities		**20,089**	**-22,819**
Cash flows from financing activities			
Proceeds from bond loan		0	1,635
Leasing instalments	8	-10,628	-11,803
Interest paid on bond loans	15	-9,944	-9,820
Repayment of long term/short term borrowings		0	-450
Cash flows from discontinued operations	16	0	-46,358
Net cash used in financing activities		**-20,572**	**-66,796**
Net cash flow of the period		**-3,867**	**-79,825**
Cash and cash equivalents at the beginning of the period	5	49,616	127,813
Exchange gains (loss) on cash and cash equivalents		0	1,628
Cash balance at December 31	**5**	**45,749**	**49,616**
Specification of cash and cash equivalents at period end			
Bank deposits	5	45,749	49,616
Whereof restricted bank accounts is	5	29,696	35,409

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia ASA - Group

GENERAL INFORMATION

Petrolia ASA was established 13th of March, 1997. The consolidated financial statements for the accounting year 2010 comprise the company and its subsidiaries (together referred to as "the group") and the group's share of a joint venture and associated companies.

Petrolia ASA is registered and domiciled in Norway. The company is listed on the Oslo Stock Exchange with ticker "PDR".

The annual financial statements were adopted by the Board of Directors on 28 th of April 2011.

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.

BASIS OF PREPARATION

The consolidated financial statements of Petrolia ASA have been prepared in compliance with International Financial Reporting Standard (IFRS) as endorsed by the EU.

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

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

The accounting year follows the calendar year. The income statement is by nature.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards adopted by the group in 2010.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements have been changed with effect for 2010. These changes might have effect for future transaction for Petrolia, but in 2010 there has been no transactions that have been affected by the changes .

Other changes in accounting standards and interpretations with effect for 2010, are changes within IFRS 2 Share-based Payment, IFRIC 16 Hedges of a Net Investment in a Foreign Operation, IFRIC 17 Distribution of Non-Cash Assets to Owners og IFRIC 18 Transfers of Assets from Customer. None of these changes are relevant for Petrolia.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

IFRS 9 Financial Instruments
IFRS 9 replaces the classification and measurement rules in IAS 39 Financial Instruments- Recognition and measurement for financial instruments. According to IFRS 9 financial assets with basic loan features shall be measured at amortised cost, unless one opts to measure these assets at fair value. All other financial assets shall be measured at fair value. The classification and measurement of financial liabilities under IFRS 9 is a continuation from IAS 39, with the exception of financial liabilities designated at fair value through profit or loss (Fair value option), where change in fair value relating to own credit risk shall be separated and shall be presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, but the standard is not yet approved by the EU. The Group expects to apply IFRS 9 as of 1 January 2013.

IAS 24 (revised) Related Party Disclosures
The revised IAS 24 clarifies and simplifies the definition of a related party, compared to the current IAS 24. IAS 24 (R) is effective for annual periods beginning on or after 1 January 2011. The Group expects to implement IAS 24 (R) as of 1 January 2011.

Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
The amendment to IAS 32 Financial Instruments - Presentation provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Application of the amendment is retrospective and will result in the reversal of profits or losses previously recognized. The amendment is effective for annual periods beginning on or after 1 February 2010. The Group expects to implement the amendments as of 1 January 2011.

Other
Petrolia assess that other issued changes in IFRSs and IFRICs will not be relevant for Petrolias. These are changes within IFRS 7 Financial Instruments - Disclosures, Amendments to IAS 12 Income Taxes, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments and changes from the annual improvements project 2010.

CONSOLIDATION PRINCIPLES

(i) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement at the time of acquisition.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the group.

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(ii) Joint venture and associates
By joint venture is meant financial activity controlled through agreement between two or more parties who jointly control the activity. Joint venture implies that no party alone has controlling influence. Associates are all entities in which the group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in joint venture and associates are accounted for using the "equity method" and are initially recognised at cost. The group's investments in joint venture and associates include goodwill identified at the time of the acquisition, net of any accumulated impairment loss.

The group's share of its joint venture's/associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the group's share of losses in a joint venture or an associate equals or exceeds its interest in the joint venture/associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture/associate.

Unrealised gains on transactions between the group and its joint venture/associates are eliminated to the extent of the group's interest in the joint venture/associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture/associates have been changed when necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in joint venture/associates are recognised in the income statement.

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 Managing Director and the Board of Directors.

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, which is the company's functional and presentation currency.

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 is recognized as part of the total gains and losses. Exchange differences on equities classified as available for sale, included in the change in value are recognized directly in enhanced performance.

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

- assets and liabilities in each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses in each income statement are translated at average exchange rates of the period
- all resulting exchange differences are recognised in the statement of comprehensive income and as a separate item of equity

Currency translation differences on net investment in foreign operations and financial instruments designated as hedges of such investments are recorded as part of the comprehensive income and as a separate item in equity. The sale of all or part of foreign operations reclassified the related exchange differences from the expanded result and the result as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

RIGS AND DRILLING EQUIPMENT

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

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

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

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

INTANGIBLE ASSETS

Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit

from the business combination in which the goodwill arose identified according to operating segment.

Borrowing costs

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

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

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.

FINANCIAL ASSETS CLASSIFICATION

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities later than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other current receivables, investment in money market fund and bank deposits in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

RECOGNITION AND MEASUREMENT

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within "financial income/financial expenses", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of financial income when the group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as 'financial income/ financial expenses'.

Fair value of quoted investments is based on current bid price.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

TRADE RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected within 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 provision for impairment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Accrued interest expenses are classified as current portion of non-current liabilities.

LEASES

Finance leases

The group is reporting finance leases as assets and liabilities in the financial statements, equivalent to the cost price of the asset or, if the lower, the present value of the cash flow of the lease. By calculation of present value of the lease the implicit interest expense in the lease is applied, when determinable. If not determinable the company's marginal market borrowing rate is used. Direct expenses connected to the leases are included in the cost price of the asset. Monthly lease amounts are split in an interest element and a repayment element. The interest expense is allocated to various periods so that the interest rate is the same for all periods.

The asset that is included in a finance lease is depreciated. Depreciation period is consistent for corresponding assets owned by the group. If there is uncertainty whether the company will take over the asset at expiration of the lease contract the asset is depreciated over the shorter of the term of the lease contract and depreciation period for corresponding assets owned by the group.

If a "sale and back-lease" transaction results in a finance lease, a possible profit will be deferred and recognised over the period of the lease.

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 af fects 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 taxes assets and liabilities relate to income taxes 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.

PENSION OBLIGATIONS

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

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

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

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

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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.

REVENUE RECOGNITION

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

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

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 balance sheet and distributed over the duration of the contract.

RELATED-PARTY TRANSACTIONS

Information as to which persons and companies that are considered as related parties has been stated in note to the consolidated financial statements. Agreements, transactions and outstanding accounts with related parties are always at arms length pricing at market conditions.

CASH FLOW STATEMENT

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

EARNINGS PER SHARE

Earnings per share are calculated by dividing the result of the group with the weighed average number of ordinary shares of the period.

EVENTS AFTER THE BALANCE SHEET DATE

New information about the position of the group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 22.

NOTES -GROUP

to the consolidated financial statements

NOTE 1 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

i) Impairment

Confer also note 4.

The group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

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

ii) Income taxes

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

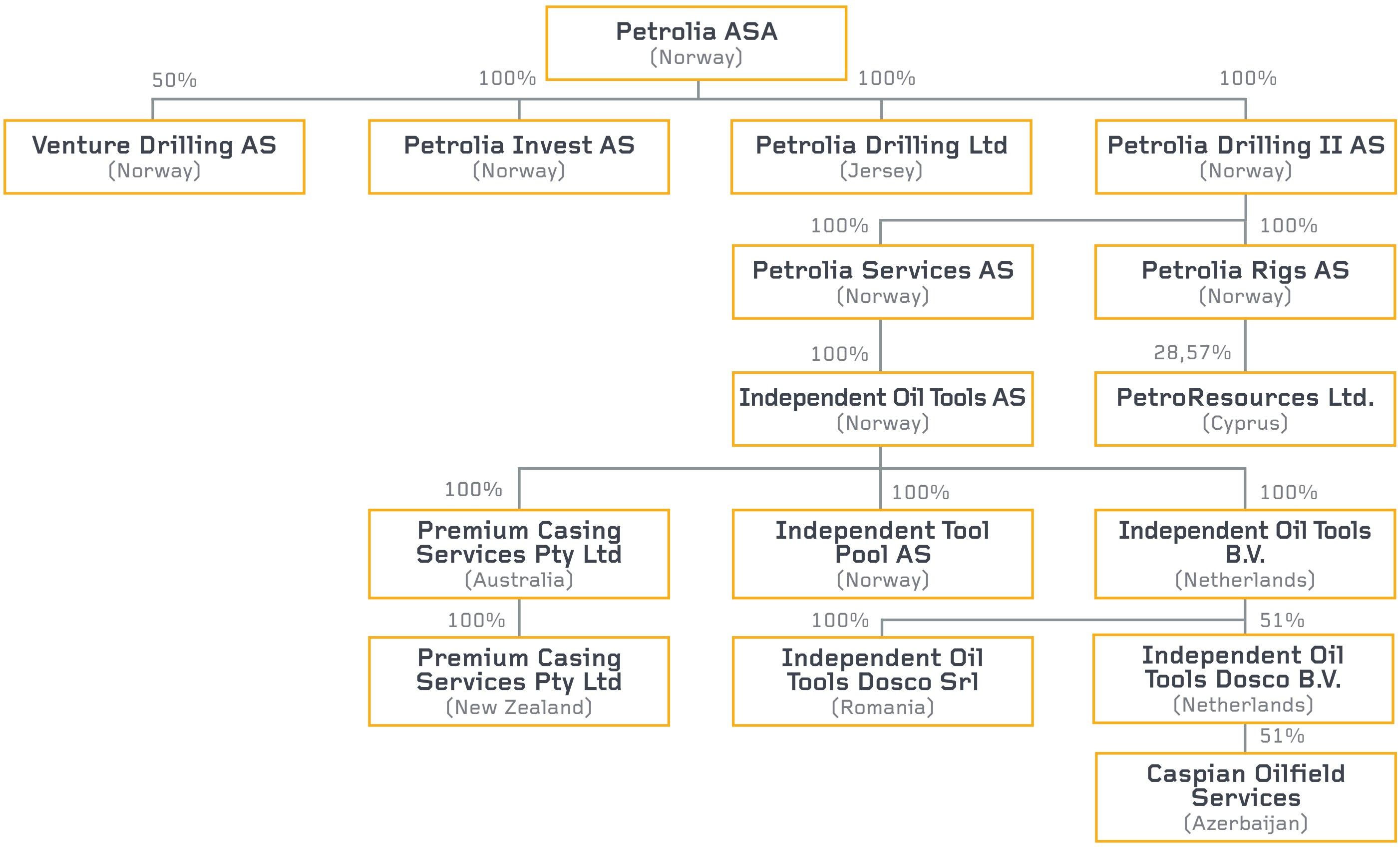
iii) Disputes

Provisions and impairments have been made regarding certain claims made, confer note 11. There is significant difference in opinions regarding the validity of the claims and final outcome may thus deviate substantially from todays best estimate.

NOTE 2 ORGANISATION

Summary of the companies of the group:
Per 31.12.2010 following companies are presented in the balance sheet:

Company	Objective, activity, business office
Subsidiarsies (fully consolidated)	
Petrolia Drilling II AS	Holding company for Petrolia Rigs AS and Petrolia Services AS. The company is registered and domiciled in Norway.
Petrolia Drilling Ltd.	A company registered on Virgin Island. The shares are controlled by a trust in Jersey. Petrolia ASA is "beneficial owner" of the trust.
Petrolia Invest AS	Owner of shares in the associate Deepwater Driller Ltd (former Larsen Rig Ltd). The company is registered and domiciled in Norway.
Petrolia Rigs AS	Former owner of the drilling rig SS Petrolia. The company is registered and domiciled in Norway.
Petrolia Services AS	Owner of drilling equipment. The company is registered and domiciled in Norway.
Independent Oil Tools AS	Hiring out- and service of drilling equipment. The company is registered and domiciled in Norway.
Independent Tool Pool AS	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway.
Premium Casing Services Pty Ltd	Hiring out- and service of drilling equipment The company is registered and domiciled in Australia.
Independent Oil Tools BV	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
Independent Oil Tools Dosco BV	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
Independent Oil Tools Dosco Srl	Hiring out- and service of drilling equipment The company is registered and domiciled in Romania.
Caspian Oilfield Services	Hiring out- and service of drilling equipment The company is registered and domiciled in Azerbaijan.
Premium Casing Services Pty Ltd	Hiring out- and service of drilling equipment The company is registered and domiciled in New Zealand.
Joint ventures (equity method)	
Venture Drilling AS	A joint venture with Sinvest AS concerning the drillship Deep Venture. The company is registered and domiciled in Norway. From 28th of March 2011 the company became a 100% owned subsidiary.
Associated companies (equity method)	
Petroresources Ltd	The company is registered and domiciled in Cyprus.


Petrolia ASA
(Norway)
50%
100%
100%
100%
Venture Drilling AS
(Norway)
Petrolia Invest AS
(Norway)
Petrolia Drilling Ltd
(Jersey)
Petrolia Drilling II AS
(Norway)
100%
100%
Petrolia Services AS
(Norway)
Petrolia Rigs AS
(Norway)
100%
28,57%
Independent Oil Tools AS
(Norway)
PetroResources Ltd.
(Cyprus)
100%
100%
100%
Premium Casing Services Pty Ltd
(Australia)
Independent Tool Pool AS
(Norway)
Independent Oil Tools B.V.
(Netherlands)
100%
100%
51%
Premium Casing Services Pty Ltd
(New Zealand)
Independent Oil Tools Dosco Srl
(Romania)
Independent Oil Tools Dosco B.V.
(Netherlands)
51%
Caspian Oilfield Services
(Azerbaijan)

NOTE 3 SEGMENT INFORMATION

IN 2009 AND 2010 ACTIVITY HAS ONLY BEEN IN THE OILFIELD SERVICES SEGMENT

Petrolia has prior years had two segments, drilling and oilfield services. After the bankruptcy of Petromena, Petrolia has business in the oilfield services segment only. The activity within this segment is homogenous and is managed as one business and management focus on the group result for internal review purposes.

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

Revenue (amounts in USD 1 000)	2010	2009
Norway	15,907	8,928
Europe outside Norway	24,689	22,267
Asia and Australia	17,574	15,940
Other countries	17,371	23,612
Total	**75,541**	**70,746**

Assets (amounts in USD 1 000)	2010	2009
Norway	6,747	2,949
Europe outside Norway	9,530	15,236
Asia and Australia	7,830	35,886
Other countries	64,899	70,203
Total	**89,006**	**124,274**

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

Geographic allocation
Geographic allocation is primarily based of where the companies are domiciled. Independent Tool Pool AS and Petrolia Services AS are allocated as Other countries.

Major customers
The end customer of our oilfield services are oil companies or other oilfield services companies, in other words many customers.

The "Other countries" above is through COR International Ltd. COR has had severe financial difficulties in 2010 and as a result all receivables on COR have been impaired (USD 30 million).

NOTE 4 NON-CURRENT ASSETS

(amounts in USD 1 000)	Drilling equipment and other equipment	Land and buildings	Goodwill
Per 1 January 2009			
Acquisition cost	170,873	2,805	17,344
Accumulated depreciation	-51,402	-100	0
Book value 01.01.09	**119,471**	**2,705**	**17,344**
Accounting year 2009			
Book value 01.01.09	119,471	2,705	17,344
Translation differences	20,986	-341	3,051
Addition included leased equipment	25,539		
Discontinued operations	7,037		
Disposal at book value	-2,284		
Depreciation of the year	-40,312	-59	
Impairment	-8,468		
Book value 31.12.09	**121,969**	**2,305**	**20,395**
Per 31 December 2009			
Acquisition cost	222,179	2,464	20,395
Accumulated impairment	-8,468		
Accumulated depreciation	-91,742	-159	
Book value 31.12.09	**121,969**	**2,305**	**20,395**
Accounting year 2010			
Book value 01.01.10	121,969	2,305	20,395
Translation differences	-1,525	1	
Addition included leased equipment	13,456		
Disposal at book value	-323		
Depreciation of the year	-42,020	-61	
Impairment	-4,796		-20,395
Book value 31.12.10	**86,761**	**2,245**	**0**
Per 31 December 2010			
Acquisition cost	233,787	2,464	0
Accumulated impairment	-13,264		
Accumulated depreciation	-133,762	-220	0
Book value 31.12.10	**86,761**	**2,245**	**0**
Remaining useful life			
Depreciation period	5 year	33 year	
Residual value	0		

Impairment of fixed assets

Fixed assets are impaired by mUSD 4.8 in 2010 (mUSD 8.5 in 2009) due to uncertainty related to use of assets acquired from Petromena and Petrojack.

Impairment test for goodwill

Goodwill is in its entirety allocated to the segment oilfield services.

Impairment test for cash-generating units is based on value in use calculated as estimated present value of future cash flows. The estimated present value assume a pre tax discount rate at 13.9 % and a growth rate at 2.0%, with a terminal value after 5 years. The present value of future cash flows is based on the 2011 budget. The key assumption in the estimated cash flow, is rental revenue which is expected to increase approx 15% in 2011 due to better utilisation. Based on the impairment test the goodwill has been impaired by mUSD 20.4 in 2010.

LEASED EQUIPMENT (INCLUDED IN DRILLING EQUIPMENT ABOVE)

Drilling equipment acquired through financial leases amounts to: (amounts in USD 1 000)	
Per 1st of January 2009	
Acquisition cost – financial leases	51,010
Accumulated depreciation	-20,557
Book value per 01.01.2009	**30,453**
Accounting year 2009	
Book value 01.01.2009	30,453
Addition	19,857
Depreciation of the year	-12,842
Translation differences	7,057
Book value 31.12.2009	**44,525**
Accounting year 2010	
Book value 01.01.2010	44,525
Addition	6
Depreciation of the year	-13,502
Translation differences	2,263
Book value 31.12.2010	**33,292**

NOTE 5 BANK DEPOSITS

(amounts i USD 1 000)	2010	2009
Bank deposits	**45,749**	**49,616**
Hereof deposit restricted		
Security in Handelsbanken for Pemex contract regarding SS Petrolia	21,200	26,991
Security in DnB for the bond loan in Petrolia ASA	8,329	8,249
Employees' tax deduction	167	169
Total restricted capital	**29,696**	**35,409**
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash an bank deposits in NOK	9,512	10,881
Cash an bank deposits in USD	31,547	32,117
Cash an bank deposits in SGD	0	2,026
Cash an bank deposits in GBP	46	85
Cash an bank deposits in EUR	2,099	2,950
Cash an bank deposits in NZD	778	
Cash an bank deposits in RON	1,123	
Cash an bank deposits in AZN	2	
Cash an bank deposits in AUD	642	1,557
Total	**45,749**	**49,616**

NOTE 6 TRADE- AND OTHER CURRENT RECEIVABLES

Other current receivables (amount in USD 1 000)	2010	2009
Trade receivables *	15,873	33,897
Prepaid expenses and value added tax owing	0	7,094
Other current receivables	7,076	1,298
Total	**22,949**	**42,288**

*) Trade receivables have been impaired with 30,016. Confer also note 8.

Aging of accounts receivables	< 3 months	4 - 6 months	> 6 months	Total
Accounts receivables	15,350	523	0	15,873
Other current receivables	281	6,795	0	7,076
Total	**15,631**	**7,318**	**0**	**22,949**

Prepaid expenses has been exempted in the above profile.

NOTE 7 CAPITAL MANAGEMENT

CAPITAL STRUCTURE AND EQUITY

The main objectives of the group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satis factory debt ratio the group is supporting the current operations and maximizing the value of the group's shares accordingly.

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

(amounts in USD 1 000)	2010	2009
Total liabilities	166,431	188,111
Equity of majority	92,394	176,536
Debt ratio	1.80	1.07

NOTE 8 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The group uses financial instruments such as bond loans, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the group's activity. Further on 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. All financial assets are categorized as loans and receivables measured at amortised cost, and all financial liabilities are categorized as financial liability measured at amortised cost. In 2009 the company had some minor investments measured at fair value through profit and loss, these investment are sold in 2010.

Profit and loss effects from financial instruments are interest income and expenses on financial instruments measured at amortised cost. Gains and losses on instruments measured at fair value through profit and loss are immaterial. These profit and loss effects are disclosed in note 15. Impairment on financial instruments concerns trade receivables and are disclosed in note 6 and under Credit risk below.

The group's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The group is subject to a balanced exposure through income and expenses in USD and NOK and financing in USD and NOK. The group has fixed rate on the major part of interest bearing liabilities, which limits the liquidity risk. The credit risk which the company is exposed to is acceptable.

Credit risk

The group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments for equipment. The maximum risk exposure is represented by the carrying value of trade receivables and other receivables referred to in note 6.

The group has many smaller customers and one large customer. A large part of the equipment in the oilfield services segment is on rental through Certified Oilfield Rentals Ltd (COR Ltd) throughout the world. COR Ltd acts on behalf of the Petrolia group. COR Ltd conducts credit rating of new customers and transfer funds to Petrolia after receiving payment from the customers. Petrolia has in 2010 made provision for possible credit losses due to significant financial challenges in COR Ltd. The group's revenues are limited to a number of transactions and customers and therefore credit risk is transparent. Management has assessed the collectability of receivables past due and do not expect losses for other than balances that are impaired. Confer also note 6.

Interest rate risk

The group is exposed to interest rate risk through its financing activities (cf. note 9 and 10). Part of the interest-bearing liabilities is based on floating rates which implies that the group is exposed to changes in the interest rate level.

The group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. Per 31.12.2010 the group's bond loan has fixed interest, while the lease obligation is subject to floating rate of interest.

Sensitivity for changes in interest rate level (amounts in USD 1000)	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2010	50	40	0
2009	50	64	0

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

Liquidity risk

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

The table below states maturity profile of financial liabilities recognised per 31.12.2010

Per 31st of December 2010	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	16,545	0	0	0	16,545
Bond loans (incl interests)	26,331	72,495	0	0	98,825
Other long-term debt (incl interests)	10,817	9,334	6,248	0	26,399
Other current liabilities	37,984	0	0	0	37,984
Per 31st of December 2009	**< 1 year**	**1-2 years**	**2-5 years**	**> 5 years**	**Total**
Trade payables	11,958	0	0	0	11,958
Bond loans	289	16,605	68,538	0	85,432
Other long-term debt	10,817	9,474	16,518	0	36,809
Other current liabilities	53,350	0	0	0	53,350

Retirement benefit obligations have been exempted in the above profiles.

*) Write down based on external valuation

The group's long term financing is mainly related to bond loan of mNOK 500 which falls due in June 2012. Confer note 9.

The liquidity in the group has in 2011 been improved by the sale of shares in Deepwater Drilling where USD 31 mill of the considerations was received immediately after the sale.

Foreign exchange risk

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

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

As of 31st of December 2010 and 2009 the group had mNOK 500 in bond loan nominated in NOK.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. The revenues and the operating costs in the oilfield services segment are mainly in USD and the leasing debt raised to finance the equipment is therefore also nominated in USD.

As of 31st of December 2010, the group had mUSD 85.4 net debt nominated in NOK, while the corresponding figure for 2009 was mUSD 92.7.

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
2010	5 %	4,071	0
	-5 %	-4,071	0
2009	5 %	4,637	0
	-5 %	-4,637	0

FAIR VALUE

All financial instruments are measured at amortised cost.

Fair value of non-current liabilities is as¬sessed by means of quoted market prices, last available selling price or the use of in¬terest terms for liabilities with similar re¬payment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer Association assessment of value for tax purpose at year¬end, available on the website http://www.nfmf.no/. Below is a comparison of book values and fair values of the bond.
Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as they are established at normal terms and doubtful receivables are impaired by recording impairment loss.

Bond loan mNOK 500 - fair value	2010	2009
Book value	85,489	85,143
Fair value	59,842	41,113

NOTE 9 BOND LOANS

PER 31 DECEMBER THE GROUP HAD THE FOLLOWING BOND LOANS:

Bond Loans (amounts in USD 1 000)		Average interest rate	Effective interest rate	2010	2009
Bond loan (mNOK 500)	ISIN: NO 001044025.8 - 12% Petrolia Drilling ASA	12.00%	13.27%	85,489	85,143
Book value 31.12.				**85,489**	**85,143**

Split between long term and short term portion of bond loan 31.12.2010:	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	68,391	17,098	85,489
Book value 31.12.	**68,391**	**17,098**	**85,498**

Split between long term and short term portion of bond loan 31.12.2009:	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	85,143	0	85,143
Book value 31.12.	**85,143**	**0**	**85,143**

Book value in 2010 excludes expenses directly attributable to the raising of the loan. Such costs where originally mNOK 12.5 and per 31st of December 2010 remaining balance was mNOK 4.9. Exchange rate 31st of December 2010 for NOK/USD was 5.8487.

BOOK VALUE OF MORTGAGE

Bond loan mNOK 500 is subject to security in bank deposit.	2010	2009
Bond loan mNOK 500		
Suspense bank account (9 months interests)	8,328	8,249
Total book value of mortgage	**8,328**	**8,249**

Maturity structure bond loans::	2011	2012	Total
Instalment	17,098	68,391	85,489
Interest	9,233	4,103	13,336
Total	**26,331**	**72,495**	**98,825**

BORROWING TERMS

Bond loan mNOK 500 in Petrolia ASA

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

Period	Price
Redemption in the period 20th of June 2010 till 19th of June 2011	103.50%
Redemption in the period 20th June 2011 till the expiry of the term of the loan	103.25%

Bond borrowing is recognised at amortised cost and not fair value adjusted. Change in time value on options for future redemption are consequently not recognised.

According to the borrowing agreement Petrolia ASA can not 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 ASA can not, 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 the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petrolia is responsible that the company (parent) maintains a coverage ratio (ratio of total assets to total debt) of 2.0 or higher on each Balance Sheet Reporting Date, which is every quarter.

Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts. There is no breach in the borrowing terms per 31.12.2010.

NOTE 10 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2010	2009
Liability connected to financial leasing of drilling equipment	15,582	25,992
Total other non-current liablities	**15,582**	**25,992**

FINANCIAL LEASING LIABILITY DRILLING EQUIPMENT

The payment schedule is (amounts in USD 1 000) :	2010	2009
Falling due within 1 year	10,817	10,817
Falling due between 1 and 5 years	15,582	25,992
Total	**26,399**	**36,809**

Book value of assets financed through financial leasing amounts to mUSD 33.3. Confer also note 4.

Petrolia ASA has given surety towards the leasing company at a value of mUSD 65.5.

NOTE 11 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables (amounts in USD 1 000)	2010	2009
Trade payables	16,545	11,958
Total trade payables	**16,545**	**11,958**
Other current liabilities		
Public duties	532	409
Accrued expenses	0	389
Liabilities to related parties (note 19)	2,795	18,532
Petromena Ltd (Cypros) *	21,017	27,000
Other current liabilities	13,639	6,900
Total other current liabilities	**37,984**	**53,230**
Total trade payables and other current liabilities	**54,529**	**65,188**

*) Ref cash balance of mUSD 21,2 in note 5. Once the Pemex guarantee is terminated the cash will be repaid after adjusting for interests and guarantee premiums.

DISPUTED ITEMS

Petrolia Services AS and Petrolia ASA are involved in two disputes regarding claw back claims presented by the bankruptcy estates of Petromena ASA and Petrojack ASA. Both claims are related to drilling equipment acquired from Petromena and Petrojack prior to the opening of bankruptcy. Both claims have been rejected.

In the dispute with the Petromena estate, Petrolia Services received a writ of summons from the estate on 15th of December 2010 with a claim of up to NOK 245 million related to an agreement of 13th of November 2008 regarding an acquisition by Petrolia Services of equipment from Petromena. The estate is seeking to invalidate the acquisition, alleging that it is not binding for the estate, that it can seize the equipment and/or that the NOK 245 million is to be considered a loan given by Petrolia Services to Petromena.

Petrolia dismisses the claim, but has accrued USD 1.7 million. However, the exposure for Petrolia Services is considerable.

In the dispute with the Petrojack estate, Petrolia ASA received a writ of summons on 8th of March 2011 in which the estate submits a claim of up to NOK 32.9 million related to an agreement dated 31st of July 2009 between Petrojack and Petrolia Services pursuant to which Petrolia Services purchased certain drilling equipment from Petrojack. The estate challenges Petrolia Services' acquisition based on its view that the transaction was in reality settlement for older debt Petrojack had to Petrolia, and alleges that the transferred drilling equipment is subject to claw back. The writ of summons is addressed to Petrolia ASA even though Petrolia Services was the purchaser of the equipment. Petrolia Services has rejected the claim, but has impaired the equipment with USD 3.3 million.

NOTE 12 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) :	Note	2010	2009
Fees to external advisors, lawyers, auditors		3,695	2,516
Management services		725	1,671
Cost of goods sold		13,124	20,754
Impairment customers	6	30,016	
Impairment of Goodwill	4	20,395	
Provision termination fee Deepwater Driller Ltd*	19	1,500	
Provision Petromena claim*	11	1,708	
Accrual administration fee*	19	2,793	
Other operating expenses		20,150	10,382
Total operating expenses		**94,106**	**35,323**

*) New provisions in 2010

NOTE 13 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earings per share)		2010	2009
Average no. of shares		101 259 575	101 259 575
No. of shares at period end		101 259 575	101 259 575
Fully diluted no. of shares		101 259 575	101 259 575
Basic earnings per share (Majority interest)			
From continuing operations		-0.87	0.34
From discontinued operations		0	1.12
		-0.87	**1.47**

On 28th of June 2010 the general meeting resolved a reverse split whereby 10 old shares where combined to one new share.

To make the number of shares divisible by ten, 5 old shares were first issued. Per 31st of December 2009 actual number of shares was 1,012,596,745.

Confer also the Consolidated Statement of Changes in Equity for more detailes regarding equity changes.

NOTE 14 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1 000)	2010	2009
Result before tax charges	-87,336	-5,919
Tax calculated at domestic tax rates applicable to profits in respective countries (28% for parent company)	0	120
Non-taxable impairment	9,218	9,042
Tax on non deductable differences	1,944	1,134
Change deferred tax asset, included in not recognised in the balance sheet	-11,162	-5,643
Tax charge	**0**	**4,653**

There is no time limit for the use of carry-forward loss.

Calculation of deferred tax asset (amounts in USD 1 000)	2010	2009
Non-current assets	-5,233	3,095
Current assets	-33,226	-306
Non-current liabilities	0	1,412
Pension	-273	41
Profit and loss account	-21,006	62,505
Net temporary differences	-59,738	66,747
Carry forward loss	-91,214	-141,504
Basis for deferred tax asset	-150,953	-74,757
Deferred tax asset at nominal tax rates	42,267	20,932

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

The Norwegian tax authorities notified the company in 2006 of a tax audit for Petrolia ASA and it's subsidiaries Petrolia Drilling II AS, Petrolia Rigs AS and Petrolia Services AS for the period from the formation of the companies in 1997 until the accounting year 2005. The companies have, as of today, not received notice of any changes affecting the tax position of the companies.

NOTE 15 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2010	2009
Interest income		
Interest income from current bank deposits	305	634
Profit from liquidity reserve	0	1
	305	**634**
Financial income		
Foreign exchange gain - net	123	343
	123	**343**
Interest expenses		
Interest expenses bonds	9,944	9,795
Other interest expense	121	514
Interest financial leasing	1,247	1,494
Interest expenses to related parties	0	489
	11,358	**12 292**
Financial expenses		
Value change shares at fair value through profit and loss	0	251
Other financial expenses	639	1,303
	639	**1,554**
Net finance	**-11,568**	**-12,869**

NOTE 16 DISCONTINUED OPERATIONS

PetroMENA ASA (51.5% owned) went bankrupt 21st of December 2009 and has therefore been deconsolidated in the accounts for 2009.

The result from PetroMENA ASA is presented as profit for the year from discontinued operations. This comprises the total of the post-tax profit (loss) in PetroMENA ASA for the period 1st of January until 21st of December 2009 and the gain recognised on the disposal of the assets in PetroMENA per 21st of December 2009.

The equipment is pledged as security for the leasing obligation.

Analysis of the result of discontinued operations	2010	2009
Operating revenue	0	84,205
Operating expenses	0	82,907
Operating profit	**0**	**1,299**
Net financial income/expences (-)	0	-99,812
Result before tax of discontinued operations	**0**	**-98,514**
Tax	0	3,694
Result after tax for discontinued operations	**0**	**-102,207**
Gain recognised on discontinued operations (*)	0	220,620
Result for the year from discontinued operations	**0**	**118,413**

*related to :
(-) deferred income related to the sale of SS "Petrolia" to PetroMena in 2007
(-) consolidated negative equity from PetroMENA in Petrolia group on date of bankruptcy

The pre-tax gain recognised on discontinued operations in 2009 includes internal bad debts with USD 9.4 million mainly related to Petrolia Services.

Cash flows from discontinued operations	2010	2009
Operating cash flows	0	955
Investing cash flows	0	-21,780
Financing cash flows	0	-46,358
Total cash flows	**0**	**-67,183**

NOTE 17 INVESTMENT IN JOINT VENTURE

Venture Drilling AS is a joint venture cooperation between Sinvest AS and Petrolia ASA with business addresse in Kristiansand, Norway. Petrolia ASA's shareholding in the company per 31st of December 2010 was 50%. On 28th of March 2011 Petrolia ASA purchased the remaining 50% and after this owns 100%.

(amounts i USD 1 000)	2010	2009
Book value 01.01	86,955	76,827
Result	16,089	30,954
Dividends and capital reduction	-37,385	-20,826
Book value 31.12	**65,658**	**86,955**

Key figures for Venture Drilling AS (amounts in USD 1 000)	2010	2009
Balance sheet		
Non-current assets	102,997	112,851
Current assets	48,239	87,139
Equity	48,412	131,860
Non-current liabilities	12,763	12,881
Current liabilities	90,061	55,249
Income statement		
Operating income	126,909	167,987
Operating expenses (including depecriations)	64,076	74,332
Net financial items	-5,906	-1,016
Tax	17,554	28,669
Result of the year	**39,374**	**63,969**

The annual accounts for 2010 was approved by the General meeting of Venture Drilling AS the 9th of March 2011.

Due to currency fluctuations there is a difference between the dividends and capital reduction received in cash (mUSD 40.3) and the effect on the book value (mUSD 37.4).

The vessel has been off-hire since 1st of May 2010 after Maersk early terminated the contract against a compensation of mUSD 64.

On 24th of February 2011 the vessel was redelivered to its Russian owners after lengthy negotiations. At the same time Venture Drilling AS sold its position in the arbitration against the owners and equipment for a total price of mUSD 138 to Russian company JSC Zarubezhneft.

On 28th of March 2011 Petrolia ASA purchased the remaining 50% of the shares for mUSD 34. Earlier same month Venture Drilling AS had paid mUSD 31 in dividends to each of the partners.

NOTE 18 ASSOCIATED COMPANIES

PETRORESOURCES LTD

Petrolia has invested mUSD 6 in Petroresources Ltd and controlled 28.57 % of the company per 31.12.2010.

DEEPWATER DRILLER LTD (FORMER LARSEN RIG LTD)

Petrolia has invested mUSD 55 in Deepwater Driller Ltd and controlled 20.6 % of the company per 31.12.2010. On 24th of January 2011 all shares were sold to Songa Offshore SE for mUSD 34.5. Impairments have been made so book value pr 31.12.2010 was mUSD 34.5.

Calculation of values in the balance sheet (amounts in USD 1 000)	Deepwater Driller Ltd	Petro-resources Ltd	Total
Book value per 1.1.2009	**21,000**	**2,890**	**23,890**
Addition of the year	6,000	0	6,000
Share of result of the year	-1,799	-130	-1,929
Reversal of impairment of shares	13,099	0	13,099
Book value per 31.12.2009	**38,300**	**2,760**	**41,060**
Addition of the year	7,060	0	7,060
Share of result of the year	249	-86	163
Impairment of shares & dillution effect	-11,109	0	-11,109
Book value per 31.12.2010	**34,500**	**2,674**	**37,174**

Deepwater Driller Ltd is reported as "Non-current assets held for sale in 2010.

Company	Incorporated in	Assets	Liabilities	Revenue	Profit /(Loss)	Shareholding
Deepwater Driller Ltd (former Larsen Rig Ltd)	**Cayman Island**					
2009		256,559	108,836	6	11,300	30.0 %
2010		303,037	77,700	0	775	20.6%
Petroresources Ltd	**Limassol, Cyprus**					
2009		20,751	589	0	-130	28.57 %
2010		19,846	36	0	-301	28.57%

NOTE 19 RELATED PARTIES

LARSEN OIL & GAS AS (LOG AS)

The Company has had a business management agreement with LOG AS, controlled by Mr. Berge Gerdt Larsen, Chair of the Board. The agreement was terminated at the end of July 2010. The Administration fee has been NOK 3 million from year 2000. In 2008 an additional fee of NOK 2 million was paid and approved by the Company's general meeting. As a part of the limited financial due diligence performed by Ernst & Young for the independent Directors it has been established that the fee during 2007-2009 has been too low to cover the actual costs LOG AS has incurred to provide services to the Company. The board has approved that Petrolia ASA will pay an additional NOK 16.4 million to LOG AS to cover those documented additional costs and an accrual is made per 31st of December 2010.

A new administration agreement has been signed with LOG AS. The annual cost coverage is NOK 2.5 million.

KVER AS

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

ERIK FRYDENBØ

The Company has entered into a consultancy agreement with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 216.000 with 2 months termination to assist with legal matters.

LARSEN OIL & GAS LTD (LOG LTD)

LOG Ltd. controlled by Mr. Berge Gerdt Larsen, has been contracted by Venture Drilling AS (a 50% owned joint venture of the Company, cf. Section 5.2 above) to perform technical and operational management of the drilling vessel DS Deep Venture. The agreement terminates in 2011 since the vessel has been redelivered to its owners. The agreed fee is USD 10 000 per day when the vessel is under drilling contract, USD 6 000 per day during reactivation and USD 3 000 per day when the vessel is not in operation or is being moved without being under drilling contract.

LOG Ltd also provided technical and operational management of the Larsen Rig (under construction by Deepwater Driller Ltd.). The agreement terminated in 2010 and there is an on-going arbitration regarding a termination fee of mUSD 5. Petrolia is responsible for 30% and has accrued mUSD 1.5 in this connection.

VENTURE DRILLING AS

The Company has received mUSD 0.4 in management fee from Venture Drilling AS in 2010. In addition an invoice of mUSD 20.5 has been issued, but since it has been disputed it has not been recognised as revenue in 2010.

NOTE 20 KEY MANAGEMENT COMPENSATION

Wage costs (amounts in USD 1 000)	2010	2009
Wages (incl payroll tax)	14,740	9,811
Pension costs (Norway)	148	799
Other contributions	581	281
Total	**15,469**	**10,891**

Average number of man-labour years of the group has been 224 in 2010. No loan or guarantees have been granted to the Board of Directors, employees or other related parties. The Managing Director of Petrolia ASA was previously employed in Larsen Oil & Gas AS. Effective from 1st of January the Managing Director is employed directly in Petrolia ASA.

Remuneration and benefits Managing Director (amounts in USD 1 000)	2010	2009
Bernt Skeie, salary including sign-on-fee of NOK 1,250,000 (1st of January to 21st of April)	533	0
Ørnulf Samdal, invoiced (21st of April to 31st of December)	338	0
Bernt Skeie, parachute*	625	0
Total	**1,496**	**0**

Remuneration to Managing Director includes ordinary salary, pension costs and health insurance to Bernt Skeie. Ørnulf Sandal was employed in his own company and has invoiced his services to Petrolia ASA.

*) The parachute has been paid in 2011 after arbitration concluded that the parachute approved by the previous board was binding for the Company. The present board disputed the parachute.

The following fee has been paid to the members of the board (amounts in USD 1 000):	2010	2009
Klaus P. Tollefsen - Chairman of the board	28	55
Terje Hellebø - Board member	28	47
Leif Holst - Board member	28	47
Gun Marit Stenersen - Board member	28	47
Unni Tefre - Board member	33	47
Erik Frydenbø - Board member	6	0
Berge Gerdt Larsen- Chairman of the board	6	0
Total	**157**	**243**

Directors' fees are from annual meeting to annual meeting. On the 19th of April 2010 the extraordinary general assembly elected a new board.

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1 000):	2010	2009
Audit	257	466
Certification services	0	4
Tax assistance	8	18
Other services	12	60
Total auditor's fee *	**277**	**548**

*) Of which 198 to previous auditor PwC and 79 to present auditor E&Y

NOTE 21 SHARE CAPITAL

Share capital of Petrolia ASA per 31.12.2010:	Number	Nominal value	Book value 2010	Book value 2009
Shares	**101,259,675**	**NOK 5.00**	**USD 93,568**	**USD 93 568**

The extraordinary general meeting of 17th of December 2010 resolved to reduce the par value from NOK 5.00 to NOK 0.04. The change was registered at www.brreg.no on 5th of March 2011.

Per 31st of December 2010 Petrolia ASA held 525 003 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia ASA. Per 31st of December 2009 Petrolia ASA held 525 003 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia ASA.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia ASA had a total of 5,468 shareholders per 31st of December 2010. The table below shows the company's 20 largest shareholders per 31st of December 2010 according to the VPS (shares with nominal value NOK 5.00):

Shareholders		No. of shares	Shareholding
1	Independent Oil & Resources ASA	27,049,744	26.71%
2	Ø. H. Holding AS	14,114,000	13.94%
3	Larsen Oil & Gas AS 1)	5,800,000	5.73%
4	NET AS	5,324,820	5.26%
5	DNO Invest AS 1)	2,346,939	2.32%
6	Thor Inge Willumsen	850,000	0.84%
7	Askeladden Invest AS	530,030	0.52%
8	Kjetil Langhelle	524,000	0.52%
9	Danske Bank A/S	509,034	0.50%
10	Citibank N.A.New York	498,610	0.49%
11	Ole Trommestad	493,426	0.49%
12	ABN AMRO Global Custody Services	482,207	0.48%
13	Tore Pedersen	450,000	0.44%
14	Increased Oil Recovery AS 1)	435,000	0.43%
15	Roar Charles Pedersen	400,000	0.40%
16	Steinar Johan Nilsen	382,250	0.38%
17	Heden Holding AS	350,530	0.35%
18	Trygve Ekreskar	340,000	0.34%
19	A/S Byggevirksomhet	320,000	0.32%
20	Eifo Holding AS	313,900	0.31%
	Others	39,220,182	38.73%
Total no. of shares before treasury shares		100,734,672	99.48%
Treasury shares		525,003	0.52%
Total no. of shares		**101,259,675**	**100.00%**

SHARES OWNED BY MEMBERS OF THE BOARD AND OTHER PRIMARY INSIDERS

The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 5.00)

Name	31.12.2010
Members of the board and managing director per 31.12.2010:	
Berge Gerdt Larsen, Chairman of the Board 1)	0
Unni F. Tefre, Board member	0
Erik Johan Frydenbø, Board member	2,000
Marit K. Instanes, Board member	0
Sjur Storaas, Board member	0
Kjetil Forland, Managing director of Petrolia ASA	0

1) Berge Gerdt Larsen is indirectly a minority shareholder in the Company. Together with his son, he controls Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 6,16 % of the shares. Larsen is furthermore the chairman of the Board of DNO Invest AS, which holds 2.32 % of the shares. Increased Oil Recovery AS is a large share holder in Independent Oil & Resources ASA, which holdes 26.71% of the shares.

NOTE 22 EVENTS AFTER THE BALANCE SHEET DATE

DEEPWATER DRILLER LTD

On 21st of January 2011 all shares in Deepwater Driller Ltd was sold to Songa Offshore SE. The purchase price was USD 34.5 million of which USD 3 million are in escrow.

The shares were impaired by USD 7.1 million in the 2010 accounts to reflect the sales price.

PETROJACK ASA

On 8th of March 2011, the Company received a writ of summons from the Petrojack bankruptcy estate, cf. note 11 for details.

VENTURE DRILLING AS:

On 24th of February 2011 Venture Drilling AS entered into an agreement for early redelivery of the drillship Deep Venture being on bareboat from its Russian owner Arktikmorneftegazrazvedka (Arktik). Venture Drilling AS received a cash amount of USD 138 million, which covers the purchase price for all equipment onboard belonging to Venture Drilling AS and its position in the arbitration against Arktik, both of which are being purchased by JSC Zarubezhneft.

On 28th of March 2011 Petrolia ASA purchased the remaining 50% of Venture Drilling AS for USD 34 million. The price reflected that dividend of USD 31 million to each of the joint venture partners had been distributed earlier same month. After the transaction Venture Drilling AS is a 100% owned subsidiary of Petrolia ASA.

These transactions are not expected to give significant effect on the result in 2011. The joint venture is reported at USD 65,7 million in the balance sheet per 31st of December 2010. After consolidation the net balance is of similar value consisting of cash, equipment and tax liabilities. However, the assessment of fair value of acquired assets and liabilities is not completed, and might be changed when the final purchase price allocation is carried out.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Petrolia ASA – Parent Company

INCOME STATEMENT

(Amounts in USD 1 000)	Note	2010	2009
Revenue		478	0
Total revenue		**478**	**0**
Depreciation		5	
Operating expenses	1	10,448	142
Total operating expenses		**10,454**	**142**
Operating result		**-9,976**	**-142**
Interest income from group companies	6	379	182
Interest income		191	211
Financial income		2,110	1,804
Impairment of non-current financial assets	3	32,166	-10,830
Impairment of current financial assets		0	251
Interest expense to group companies	6	75	604
Interest expenses		9,944	9,947
Financial expenses		639	43,585
Result before taxes		**-50,120**	**-41,502**
Tax on result	2	0	-13,735
Result of the year		**-50,120**	**-27,767**
Attributable to:			
Transferred from share premium fund		-50,120	-27,767
		-50,120	**-27,767**

BALANCE SHEET PER 31.12

ASSETS	Note	2010	2009
Non-current assets			
Deferred income tax assets	2	0	24,945
Office equipment		12	0
		12	**24,945**
Financial non-current assets			
Investments in subsidiaries	3	159,787	185,348
Investments in joint venture	4	19,255	52,553
Loan to group companies	6	36,191	1,466
		215,232	**239,367**
Total non-current assets		**215,244**	**264,312**
Current assets			
Debtors			
Loan to joint venture	7	0	6,974
Other debtors	7	516	51
		516	**7,025**
Investments			
Market based investment shares		0	620
Investment in money market fund		15	15
		15	**635**
Bank deposits	5	17,559	11,933
Total current assets		**18,090**	**19,593**
TOTAL ASSETS		**233,335**	**283,905**

BALANCE SHEET PER. 31.12.

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2010	2009
Equity			
Paid-in equity			
Share capital	11	93,568	93,568
Own shares	9	-486	-486
Share premium fund	9	45,232	95,352
		138,314	**188,434**
Retained earnings			
Other equity	9	0	0
Total equity	**9**	**138,314**	**188,434**
Liabilities			
Non-current liabilities			
Bond loans	12	68,391	85,143
Loan from group companies	6	0	6,147
		68,391	**91,290**
Current liabilities			
Short term portion of long term liabilities	12	17,098	289
Trade creditors		2,162	1,527
Public duties payable		137	20
Other current liabilities	8	7,232	2,346
		26,629	**4,181**
Total liabilities		**95,020**	**95,471**
TOTAL EQUITY AND LIABILITIES		**233,335**	**283,905**

Bergen/Oslo, 28th of April 2011

Berge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Marit K. Instanes
Board member

Sjur Storaas
Board member

Kjetil Forland
Managing Director

CASH FLOW STATEMENT

(Amounts in USD 1 000)		2010	2009
Cash flows from operating activities			
Result before taxes		-50,120	-41,502
Impairment of non-current financial assets		32,166	14,926
Impairment of current financial assets		0	251
Change in trade creditors		635	101
Change in other provisions		7,314	-6,757
Currency translation differences		-2,110	14,885
Net cash generated from operating activities		**-12,115**	**-18,096**
Cash flows from investing activities			
Proceeds from investment in shares in other companies		40,272	20,826
Investment in shares in subsidaries		-6,605	-6,470
Net cash used in investing activities		**33,667**	**14,356**
Cash flows from financing activities			
Change in loan to group companies		-15,927	-1,081
Net cash used in financing activities		**-15,927**	**-1,081**
Net cash flow of the period		**5,625**	**-4,821**
Cash and cash equivalents at the beginning of the period		11,933	15,178
Exchange gain (loss) on cash and cash equivalents		0	1,577
Cash balance at 31st of December	**10**	**17,559**	**11,933**
Specification of cash and cash equivalents at period end:			
Bank deposits	10	17,559	11,933
Whereof restricted bank account is	10	8,399	8,249

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia ASA – Parent

INTRODUCTION

Petrolia ASA was established 13th of March, 1997. The company owns charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Petrolia ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange with ticker "PDR".

The financial statements per 31st of December were passed by the Board of Directors on 28th of April 2011.

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

INVESTMENTS IN SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

Subsidiaries, joint venture and associates are valued at cost in the financial statements. The investment is assessed at acquisition cost of the shares unless impairment has been necessary.

Group contribution to subsidiary, with the deduction of tax, is recognised as increased cost price for the shares.

Dividends/group contributions are recognised in the income statement in the same year as allocated in the subsidiary/joint venture. If dividends/group contributions materially exceed the share of retained earnings after the acquisition the excess part is considered as refund of invested capital and deducted the value of the investment in the balance sheet.

SHARE CAPITAL

Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the company purchases treasury shares (the company's equity share capital), 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 incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

BORROWING EXPENSES

Expenses involved in the raising of bond loan are capitalised and charged as expense over the term of the loan.

POLICIES FOR RECOGNITION OF REVENUE AND EXPENSES

Income is recognised as earned and expenses are recognised in the same period as belonging income. Income and expenses related to activities that last after the turn of the year are accrued according to number of days that the activity lasts before and after the balance sheet date.

IMPAIRMENT OF NON-CURRENT ASSETS

Whenever events or changes in circumstances indicate that the carrying amount of a non-current asset exceeds recoverable amount, the asset is reviewed for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If carrying amount exceeds both net realizable value and recoverable amount (present value from continued use/ownership) impairment is made to the higher of net realizable value and recoverable amount.

Previous impairments are reversed to the extent that the basis of the impairment is no longer present.

THE USE OF ESTIMATES

In connection with the preparation of the financial statements in accordance with generally accepted accounting principles and standards it will be necessary to use estimates and assumptions that have impact on the financial statements. Actual amounts may differ from these estimates. The impact of change of accounting estimates are recognised in the period that the estimate is changed.

CHANGE OF ACCOUNTING POLICIES

The impact of changes of accounting policies and correction of errors in previous years' financial statements are recognised directly against equity.

CLASSIFICATION OF BALANCE SHEET ITEMS

Assets determined for permanent possession or use is classified as non-current assets. Other assets are classified as current assets. Receivables that are to be repaid within one year are in any case classified as current assets. By classification of liabilities analogue criteria are used

ACCOUNTS RECEIVABLE

Trade receivables and other receivables are recognised at nominal value after deduction of provision for bad debt. Provision for bad debt is made on the basis of an individual assessment of each receivable.

FOREIGN CURRENCY

Petrolia has with effect from 1st of January 2008 changed presentation currency from NOK to USD. Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

TAXES

The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

RELATED PARTIES

Information as to which persons and companies that are considered as related parties is stated in note 13 to the accounts. Agreements, transactions and outstanding accounts with related parties are described in the same note.

STATEMENT OF CASH FLOW

The statement of cash flow is prepared according to the indirect method. The indirect method involves reporting of gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash in hand and cash equivalents comprise cash, bank deposit and interest bearing investments in fund.

CONTINGENCIES

Contingencies are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other contingencies, if any, are referred to in note.

CONDITIONAL PROFITS

Conditional profits and earnings are not recognised.

EVENTS AFTER THE BALANCE SHEET DATE

New information about conditions existing at the balance sheet date regarding the accounting period has been taken into the account in the financial statements according to standard estimation principles. Events related to circumstances that have taken place after the balance sheet date are referred to in note 14.

NOTES - PARENT

to the financial statements

NOTE 1 REMUNERATION ETC.

The company had 6 employees and 2 full time contractors per 31st of December 2010. Total wage costs for 2010 was mUSD 1.7 of which mUSD 0.4 was invoiced, mUSD 0.2 was board remuneratrions, mUSD 0.2 was social security and mUSD 0.04 was pension costs.

The Company complies with the requirements of the Norwegian Mandatory Occupational Pension Act ("OTP") and has implemented a defined contribution based scheme with 4 % contribution on income up to 6 G (the National Insurance Base Amount, currently NOK 75,641) and 8 % on income between 6 and 12 G.

There are currently no incentive schemes in place, but the company is continuously considering means of compensating its current and future employees.

Auditors (Amounts in USD 1000)	2010	2009
Statutory audit (incl.technical accounting assistance)	154	264
Certification services	0	0
Tax assistance	8	7
Other services	4	60
Total fee	**166**	**331**

Refer also to note 20 in the Group accounts.

NOTE 2 TAXES

Basis for tax charges, change in deferred tax and payable tax (Amounts in USD 1000)	2010	2009
Result before tax charge	-50,120	-41,502
Expenses not deductible for tax purpose	4	19,468
Impairment shares	32,166	0
Losses on shares	69	0
Change in temporary differences	1,004	-4,376
Group contribution	92,331	16,767
Change in group contribution 2008	0	-59 700
Currency differences	-221	69 343
Use carry forward loss	-75,234	0
Taxable income of the year	**0**	**0**
Payable tax 28%	0	0
Payable tax of result of the year	**0**	**0**
Change deferred tax asset	0	-13,735
Tax charge	**0**	**-13,735**

Calculation of deferred tax asset	2010	2009
Fixed assets	1	
Receivables	-7,493	-7,309
Other non-current liabilities	826	1,412
Profit and loss account	821	1,039
Total temporary differences	-5,845	-4,858
Carry forward loss	-35,994	-112,615
Basis for deferred tax asset in the balance sheet	**-41,840**	**-117,473**
Deferred tax asset, 28%	-11,715	-32,892
Including not recognised in the balance sheet	11,715	7,948
Deferred tax asset in the balance sheet	**0**	**-24,944**

Tax obligation is nominated and calculated in NOK, and converted to USD.

Capitalised deferred tax asset on net tax reducing temporary differences and on carry forward losses for tax purposes are based on the assessment that future taxable profit in the group will be available against which the temporary differences can be utilised.

The Norwegian tax authorities notified the company in 2006 of a tax audit for the period from the formation of the company in 1997 until the accounting year 2005. The company has as of today not received notice of any changes affecting the tax position of the company.

NOTE 3 SUBSIDIARIES

Investments in subsidiaries are recognised according to the cost method.

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2010	Equity per 31.12.10	Book value 2010	Book value 2009
Petrolia Drilling II AS	Oslo	100%	100%	-1,165	111,094	125,287	147,048
Petrolia Invest AS	Oslo	100%	100%	-12,407	32,959	34,500	38,300
Petrolia Drilling Ltd.	Virgin Island / Jersey	100%	100%	-569	-3,341	0	0
Total						**159,787**	**185,348**

Petrolia Drilling II AS has been impaired by mUSD 21.8 after impairment test has been made on the oilfield services segment.

Petrolia Invest AS has been impaired such that book value per 31st December 2010 is equal to the sales price of the Deepwater Driller Ltd shares which were sold in 2011.

Petrolia Drilling Ltd is controlled by a trust on Jersey. The company owned 51,5 % of PetroMena ASA which was declared bankrupt 21st December 2009.

NOTE 4 INVESTMENT IN JOINT VENTURE

Investment in joint venture is estimated according to the cost method.

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2010	Equity per 31.12.10	Book value 2010	Book value 2009
Venture Drilling AS	Kristiansand	50%	50%	39,374	48,412	19,255	52,553

Refer also note 17 in the Group accounts.

NOTE 5 BANK DEPOSITS

(Amounts in USD 1000)	2010	2009
Bank deposits	17,559	11,933
Total	**17,559**	**11,933**
Incl. deposit on suspence account as security for the bond loan	8,399	8,249
Incl. with-held employee tax	70	0

NOTE 6 INTERCOMPANY ACCOUNTS

(Amounts in USD 1000)	2010	2009
Non-current receivables		
Independent Tool Pool AS	15,196	0
Petrolia Services AS	2,264	1,466
Petrolia Drilling Ltd.	7,298	7,303
Petrolia Invest AS	6	0
Petrolia Rigs AS	18,730	0
Provision for bad debts	-7,303	-7,303
Total non-current receivables	**36,191**	**1,466**
Non-current liabilities		
Petrolia Rigs AS	0	6,141
Petrolia Drilling Ltd.	0	6
Total non-current liabilities	**0**	**6,147**

Interest on non-current intercompany accounts are calculated at NIBOR/LIBOR + 2.25%.

NOTE 7 OTHER CURRENT RECEIVABLES

(Amounts in USD 1000)	2010	2009
Customers	147	0
Prepaid expenses and VAT	369	51
Dividend Venture Drilling	0	6,974
Total	**516**	**7,025**

NOTE 8 OTHER CURRENT LIABILITIES

(Amounts in USD 1000)	2010	2009
Accrued interest expenses from bond loan	342	289
Bond loan, amortised costs	-826	0
Debt to Independent Oilfield Rentals Ltd	1,955	1,955
Accrued expenses	170	391
Legal fees	2,000	0
Administration cost	2,792	0
Parachute former CEO	799	0
Total other current liabilities	**7,232**	**2,634**

NOTE 9 EQUITY

Changes in equity of the year (Amounts in USD 1000)	Share capital	Own shares	Share premium fund	Other equity	Total
Equity 31.12.09	93,568	-486	95,352	0	188,435
Purchase/sale of treasury shares					0
Result of the year			-50,120		-50,120
Equity 31.12.10	**93,568**	**-486**	**45,232**	**0**	**138,314**

Treasury shares		2010	2009
Number of shares		525,003	525,003
Average acquitition cost per share	NOK	0.22	0.22

NOTE 10 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia ASA provide security for leasing equipment in Independet Tool Pool AS (100% owned by Petrolia Services AS) of mUSD 65.5.

NOTE 11 SHARE CAPITAL

Refer to note 21 in the Group accounts.

NOTE 12 BOND LOAN

Refer to note 9 in the Group accounts.

NOTE 13 RELATED PARTIES

Refer to note 19 in the Group accounts.

NOTE 14 EVENTS AFTER THE BALANCE SHEET DATE

Refer to note 22 in the Group accounts.

AUDITOR'S REPORT

AUDITORS REPORT

Statsautoriserte revisorer
Ernst & Young AS

Thormøhlens gate 53 D, NO-5008 Bergen
Postboks 6163 Postterminalen, NO-5892 Bergen

Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 55 21 30 00
Fax: +47 55 21 30 01
www.ey.no

Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Petrolia ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Petrolia ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

ERNST & YOUNG

2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Petrolia ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Managing Director have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Bergen, 28 April 2011
ERNST & YOUNG AS

Kjell Ove Røsok

Kjell Ove Røsok
State Authorised Public Accountant (Norway)


RESPONSIBILITY
STATEMENT

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1st of January to 31st of December 2010 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Bergen/Oslo, 28th of April 2011

Berge Gerdt Larsen Chairman of the Board	Unni F. Tefre Board member	Erik Johan Frydenbø Board member
Marit K. Instanes Board member	Sjur Storaas Board member	Kjetil Forland Managing Director

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Petrolia ASA ("Petrolia" or the "Company") is dedicated to maintaining high standards of Corporate Governance. Corporate Governance addresses the interaction between the shareholders, the Board of Directors and the Executive Management. The purpose of this document is to outline the current status of Petrolia's corporate governance policy.

Being incorporated in Norway and listed on the Oslo Stock Exchange, Petrolia is subject to the Norwegian Code of Practice for Corporate Governance of 21 October 2010 (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.

Below follows an account outlining how Petrolia has implemented the Code of Practice. This account follows the same structure as the Code of Practice and covers all sections thereof. Deviations from the Code of Practice are discussed under the relevant section.

It should be noted that due to recent events as further outlined elsewhere in this annual report, including the Company's increased focus on the oilfield services segment and also the changes in management and Board, the Company is currently in a process where its corporate governance policy and the various associated documents are being revised and updated.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

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

The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 governs the incorporation and management of Norwegian public limited companies. Further, Petrolia is under numerous obligations provided for in relevant Norwegian and other jurisdictions' laws in respect of the business operations carried out by the Company and its subsidiaries.

The Board of Directors has formulated a Code of Ethics. Guidelines on corporate social responsibility have not yet been implemented, and the Board will focus on the preparation of such guidelines moving forward.

2. BUSINESS AND OBJECT

Petrolia's business is clearly defined in the Company's Articles of Association, as follows:

"The purpose of the Company is to conduct business within the areas of petroleum, shipping, offshore, transport, trade, industry and finance and other related areas and also participate as shareholder or otherwise in other businesses".

The Company's basic value is to secure the shareholders' competitive return on the invested capital in the longer term. In accordance with this purpose the board and the management shall actively develop and control the Company and its possessions in order for the values to be made visible in the best way possible.

3. EQUITY AND DIVIDENDS

Petrolia shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile.

The Board of Directors' principal policy as regards to the payment of dividends is to maximise returns on equity primarily in terms of increase in the share price. Dividend payments will depend on Petrolia's earnings, financial situation and cash flow; possibilities for further value creation through investments taken into account.

Authorisations granted to the Board of Directors to increase Petrolia's share capital or to purchase own shares shall as a general rule be restricted to defined purposes. At each Annual General Meeting, the shareholders shall have the opportunity to evaluate and consider the board authorisations granted. 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.

4. EQUAL TREATMENT OF SHAREHOLDERS, TRANSACTIONS WITH CLOSE ASSOCIATES

Petrolia has one class of shares, and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable.

No shareholders shall be treated unequally unless it is in the Company's and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase of Petrolia's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

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

In the event of any not immaterial 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 director indirect interest in any transaction entered into by the Company.

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 MEETINGS

Through the General Meeting the shareholders exercise the highest authority in Petrolia.

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

Summons to general meetings, including supporting documentation on relevant items on the agenda, are made available on the company's website no later than 21 days prior to the general meeting. The Company's Articles of Association stipulate that documents pertaining to matters to be deliberated by the general meeting shall only be made available on the Company's 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 see to it that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

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

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

The General Meetings shall be organised in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the auditor (and, if any, the nomination committee) are present at all General Meetings. Also, the Board of Directors shall make arrangements to ensure an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman.

The Minutes of the General Meetings will be made available as soon as practicable on the announcement system of the Oslo Stock Exchange, www.newsweb.no (ticker: PDR), and on Petrolia's own web site, www.petrolia.no.

7. NOMINATION COMMITTEE

In accordance with its Articles, the Company shall have a nomination committee. The committee shall present to the General Meeting a proposal for candidates to be elected as members of the Board. The committee shall also propose to the General Meeting the Board members' remuneration. The nomination committee shall consist of three members who shall be elected by the general meeting. The committee shall be independent of the Board and the management of the Company. The general meeting shall set the committee members' remuneration. The general meeting may adopt instructions for the nomination committee. The costs of the nomination committee shall be covered by the Company.

Members to the nomination committee have not yet been appointed, and the Company plans to facilitate such appointment on the next annual General Meeting. Once appointed, their names will be published on the Company's web site.

Guidelines for the nomination committee are under preparation, and the Company will present the guidelines to the General Meeting for adoption as soon as possible.

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

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

The Articles of Association stipulate that the Board of Directors shall consist of three to five directors elected by the General Meeting.

According to the Public Limited Companies Act, the directors are appointed for a term of two years at a time, and the Company's Articles do not contain provisions deviating from this. Directors may and should be re-elected so that the entire Board of Directors is not replaced at the same time (save for in extraordinary situations). However, when re-electing members of the Board, the value of continuity should be balanced against the need for renewal, the Board's independence of the Executive Management taken into consideration. All proposed directors will be introduced in detail minimum three weeks prior to the General Meeting.

The Board of Directors comprised five directors as per 31 December 2010. The current composition of the board of directors is described on page 44 of the annual report, where information about the background and affiliations of the directors can also be found. Details on each member's attendance to Board meetings are included on page 44.

The Board shall attend to the common interests of all shareholders, and its members shall meet the Company's need for expertise, capacity and diversity. Attention should be paid that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. Three of the five members of the Board are independent of the Company's Executive Management, material business contacts and main shareholder(s). The three independent members are Erik Johan Frydenbø, Marit K. Instanes and Sjur Storaas. Mr. Frydenbø's consultancy agreement with the Company (cf. item 11 below) is not considered to imply that he is a material business contact of the Company.

None of the executive personnel of the Company are directors thereof. Members of the Board of Directors, or persons closely connected with them, shall not be employed by or have any other agreements of economic significance with any such companies. The Petrolia group cannot without the approval of the Board of Directors of Petrolia buy consultancy services from board members or from companies in which any board member is an owner, employee or otherwise has an interest. This extends to any company that according to the Public Limited Companies Act § 1-3 is in the same group of companies.

All the directors are encouraged to hold shares in Petrolia, however not to an extent which can encourage a short-term approach which is not in the best interest of Petrolia and its shareholders over the longer term. The shareholdings of the directors as per 31 December 2010 are set out in Note 44 to the consolidated annual statements.

9. THE WORK OF THE BOARD OF DIRECTORS

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

The main responsibilities of the Board of Directors are to:

- Lead Petrolia's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;

- Ensure that all instructions given by the Board of Directors are complied with;

- Ensure that the Board of Directors are well informed about the Company's and the group's financial position,

- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;

- Ensure the adequacy of the Company's Executive Management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the Executive Management and the Board of Directors,

- Agree on dividend policy;

- Annually evaluate its work, performance, composition and expertise and that of the managing director (the "MD"). The evaluation of the Board's work should, in case a nomination committee is being established, be made available to such committee; and

- Ensure that a system of direction and internal control is established and maintained as to ensure that the Company group activities are conducted in acco dance 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 must provide information in the Annual Report on how the Company's internal control procedures are organised.

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 in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors has appointed an audit committee in accordance with the requirements of Norwegian law. The committee, which is composed of Erik Johan Frydenbø and Marit K. Instanes, shall prepare the board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the company's auditor on a current basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the company may jeopardize the independence.

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

The MD is responsible for the day-to-day management of the Company. Further, the

MD is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are monthly managed.

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

10. RISK MANAGEMENT AND INTERNAL CONTROL

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

The most important risk factors applicable to the group are thoroughly considered in connection with yearly budgeting.

The audit committee reviews quarterly reports from the group companies and reports to the Board. The annual accounts for all group companies are audited by the Company's external auditor.

The Company's risk management systems are described on page 28 of this Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration to the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of Petrolia. Once appointed, the nomination committee will propose the reward for approval by the General Meeting.

The remuneration is not linked to the Company's performance. No directors have been granted or will be granted share options, and no directors are parts in incentive programs available for the Executive Management and/or other employees.

More detailed information about the reward of individual directors in 2010 is provided in Note 20 to the consolidated financial statements for the group.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are taken on, they shall be disclosed to the full Board, and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included. The Company has entered into a consultancy agreement with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 216,000 with two months termination to assist with legal matters.

12. REMUNERATION OF EXECUTIVE PERSONNEL

The MD'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 pursuant to the provisions of Section 6-16a of the Public Limited Companies Act.

Remuneration for the other members of the Executive Management is determined by the MD 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 i. a. detailed information on all elements of the remuneration. The information to the General Meeting shall pay particular attention to any changes made during the last year.

Petrolia does currently not have share option schemes or other arrangements to award shares to employees, nor are there other kinds of bonus schemes or incentives in place. Should incentives be offered to members of the Executive Management, they shall be in accordance with the principles set out in the guidelines for remuneration of Executive Management.

Details regarding management remuneration can be found in Note 20 to the consolidated financial statements.

13. INFORMATION AND COMMUNICATION

Petrolia will ensure that the shareholders receive accurate, clear, relevant and timely information related to all matters of significance to shareholders. The medium used for publication will be selected to ensure simultaneous and equal access for all equity shareholders to the information:

- Each year, Petrolia publishes an overview of the dates for major events.

- Information to shareholders is distributed through stock exchange notices and/or on www.petrolia.no. To the extent required by law, information is also sent by regular mail to shareholders.

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

The Board of Directors have adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law.

The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

14. TAKE-OVERS

The Board of Directors and the Executive Management will not seek to hinder or obstruct take-over bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

15. AUDITORS

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

Too much non-auditing work being assigned to the auditor may jeopardise his position and diminish the public confidence in the auditor's integrity and independence from Petrolia. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards.

The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the Executive Management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present.

The audit committee will adopt guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company.

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