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THE PETROLINVEST GROUP
where the holding company is
Petrolinvest S.A.
ul. Podolska 21
81-321 Gdynia

Audit Opinion and Report
on the consolidated financial statements
for the period from 1 January to 31 December 2010

BDO Sp. z o.o. Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy KRS: 0000293339, Kapitał zakładowy: 1.000.000 PLN., NIP 108-000-42-12. Biura regionalne BDO: Katowice 40-004, al. Korfantego 2, tel: +48 32 359 50 00, katowice@bdo.pl; Kraków 30-363, ul. Rydlówka 5, tel: +48 12 420 41 56, krakow@bdo.pl; Poznań 61-028, ul. Warszawska 43, tel: +48 61 650 30 80, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel: +48 71 734 28 00, wroclaw@bdo.pl

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AUDIT OPINION for the Shareholders and Supervisory Board of PETROLINVEST S.A.

We have audited the accompanying consolidated financial statements of the Group, where the holding company is Petrolinvest S.A. ("the Holding Company") with its registered office in Gdynia, at ul. Podolska 21, consisting of:

- the consolidated profit and loss account for the period from 1 January to 31 December 2010, showing a net loss of **155 749** thousand zł, of which a net loss attributable to the Holding Company's shareholders of **149 247** thousand zł;
- the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a net loss of **128 098** thousand zł, of which a net loss attributable to the Holding Company's shareholders of **122 940** thousand zł;
- the consolidated balance sheet prepared as at 31 December 2010, showing total assets and liabilities of **1 184 959** thousand zł;
- the statement of changes in consolidated shareholders' equity for the period from 1 January to 31 December 2010, showing an increase in shareholders' equity of **294 697** thousand zł;
- the consolidated cash flow statement for the period from 1 January to 31 December 2010, showing a net cash increase of **19 994** thousand zł;
- significant accounting policies and notes to the financial statements.

The Holding Company's Management Board is responsible for the preparation in accordance with binding regulations of the consolidated financial statements and the Directors' Report on the Group's activities.

The Holding Company's Management Board and members of its Supervisory Board are responsible for ensuring that the consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act of 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments), hereinafter referred to as "the Accounting Act".

Our responsibility was to audit the consolidated financial statements and to express an opinion on the consistency of these consolidated financial statements with the applicable accounting policies, and on whether the consolidated financial statements give a true and fair view, in all material respects, of the Group's financial result and financial position.

We performed the audit of the consolidated financial statements in accordance with:

- Chapter 7 of the Accounting Act,
- the auditing standards issued by the Polish National Chamber of Certified Auditors.



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We planned and performed the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatements. In particular, our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that our audit provided a reasonable basis for our opinion.

- 1) Prior to the issue of the present opinion we had received no balance confirmation of loan receivables totaling 144 170 thousand zł; for this reason we are unable to confirm the accuracy of the amounts listed in the consolidated balance sheet under "Other financial assets" in the amount of 98 709 thousand zł and under "Short-term investments" in the amount of 45 461 thousand zł.
- 2) As described in Note 36 to the accompanying consolidated financial statements, the Holding Company has concluded agreements with companies from its main shareholders' group, establishing the methods based on which the said companies enable the Holding Company to use their assets as credit collateral. The above agreements contain a clause granting the companies from the main shareholders' group the right (call option) to convert liabilities into the Holding Company's share capital as part of the target capital waiving the existing shareholders' preemptive rights, as well as other embedded derivative instruments. In previous years the loans received by the Holding Company from the main shareholder had also contained a call option. Unable to precisely estimate some of the assumptions, the Holding Company did not perform a valuation of the embedded derivative instruments contained in the above mentioned agreements. The effects of the valuation of the embedded derivative instruments would affect the financial result for the year ended 31 December 2010 and the financial result for the previous year.

In our opinion, except for the effects of the above qualifications, the audited consolidated financial statements, in all material respects:

- give a true and fair view of the Group's financial position as at 31 December 2010, as well as of its financial result for the period from 1 January to 30 December 2010;
- have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations issued in the form of regulations by the European Commission, and in issues not regulated by these standards - in accordance with the requirements of the Accounting Act and the related implementing provisions, as well as on the basis of properly kept books of account;
- are consistent with the laws and regulations applicable to the Group.

Without further qualifying our opinion we draw your attention to the following matters:

- a) In Note No. 2 to the accompanying consolidated financial statements the Management of the Holding Company listed the factors that pose a potential threat to the Group's going concern, as well as the actions undertaken to eliminate them. In 2006 the Group commenced the realization of an investment program meant to develop the Group's operations in the area of exploring for and subsequently mining hydrocarbons. Although the Group's further growth and

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continuation of operations depend on the realization of these plans, as at the date of the accompanying consolidated financial statements there is no certainty that the Group will achieve its goals in the planned period of time.

Realization of the investment program depends on the Group's ability to obtain sufficient financing on suitable terms. The investment program is being financed from the Holding Company's funds, loans from its main shareholder and borrowed funds.

As described more extensively in Note 2 to the consolidated financial statements, the Holding Company's main shareholder, based on annexes signed to the Agreement of 20 March 2009, undertook to take actions aimed at obtaining financing for the realization of its investment projects.

As at the date of the present opinion, no General Shareholders Meeting resolutions have been passed declaring the amount of funds engaged, and credit agreement negotiations aimed at restructuring the debt at the lending banks have not been completed with the signing of appropriate annexes. No conditions precedent to obtaining financing from external entities have been fulfilled either.

The main shareholder's failure to fulfill its obligations, the inability to maintain or obtain further sources of financing, as well as failure to fulfill the conditions precedent to obtaining financing will prevent the Group from realizing the investment program and will have a negative effect on the Group's financial position, financial result and its ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis and contain no adjustments relating to different methods of valuation and classification of assets and liabilities, which could turn out to be necessary if the Group was unable to continue as a going concern for a period of 12 months of the balance sheet date.

- b) In Note No. 17 to the consolidated financial statements the Group presented the most significant assumptions taken into account in the impairment testing of the assets taken over along with the acquired shares of subsidiaries and co-subsidiaries. The assumptions adopted by the Holding Company's Management are based on analyses and experiences of the Group's companies, as well as on work performed by an independent expert. These assumptions, such as the value of oil production, depend on future events and circumstances, which cannot be determined today and whose possible effect on these assumptions, and thus on the Group's financial result, is unknown.
- c) In Note 34.1 to the consolidated financial statements the Group presented its licenses to explore for and mine hydrocarbons on the territory of the Republic of Kazakhstan. The described licenses contain specific license obligations and investment programs, which if breached or not met by the Group's companies, may result in a suspension of the license or taking away of the rights arising thereof. Because the obligations are to be fulfilled in the future, as at the date of the present opinion there is an uncertainty whether all of the license obligations will be met in accordance with the license requirements and the approved investment programs, and whether the licenses to explore for and mine hydrocarbons will not be suspended or taken away in the future.
- d) As described in more detail in Note 17.2 to the consolidated financial statements, the deadline for extending the exploration period of one of the licenses to explore for and mine

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hydrocarbons on the territory of the Republic of Kazakhstan expired on 29 June 2009. The Holding Company's Management is expecting to sign an annex to the contract with the Ministry of Oil and Gas of the Republic of Kazakhstan, extending the exploration period under this license. As at the issue of the present opinion the Holding Company's Management is convinced that the said annex will be signed in the very near future.

The Directors Report on the Group's activities includes all information required by article 49 par. 2 of the Accounting Act and by the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2009 Journal of Laws No. 33, item 259 with subsequent amendments), and the information contained therein is consistent with the information presented in the audited consolidated financial statements.

Warsaw, 29 April 2011

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Authorized Audit Company No. 3355

Auditor in charge:

Anna Bernaziuk, PhD
Certified Auditor No. 173

On behalf of BDO Sp. z o.o.:

André Helin, PhD
Senior Partner & CEO
Certified Auditor No. 90004



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Audit Report
on the consolidated financial statements of
THE PETROLINVEST GROUP
where the holding company is
Petrolinvest S.A.
for the period from 1 January to 31 December 2010

BDO Sp. z o.o. Sąd Rejonowy dla M. St. Warszawy, XIII Wydział Gospodarczy KRS: 0000293339, Kapitał zakładowy: 1.000.000 PLN., NIP 108-000-42-12. Biura regionalne BDO: Katowice 40-004, al. Korfantego 2, tel: +48 32 359 50 00, katowice@bdo.pl; Kraków 30-363, ul. Rydlówka 5, tel: +48 12 420 41 56, krakow@bdo.pl; Poznań 61-028, ul. Warszawska 43, tel: +48 61 650 30 80, poznan@bdo.pl; Wrocław 53-332, ul. Powstańców Śląskich 7a, tel: +48 71 734 28 00, wroclaw@bdo.pl

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TABLE OF CONTENTS

I. GENERAL INFORMATION	3
II. FINANCIAL ANALYSIS	11
III. DETAILED INFORMATION	17

I. GENERAL INFORMATION

1. Information about the Holding Company

1.1. Name and legal status

The Company does business as PETROLINVEST Spółka Akcyjna [joint-stock company].

1.2. Registered office

ul. Podolska 21, 81-321 Gdynia

1.3. Areas of activity

In accordance with the National Court Register and the Company's Statute, its activities consist of:

- 1) services associated with oil and gas extraction (PKD 11.20.Z);
- 2) manufacture of refined petroleum products (PKD 23.20.A);
- 3) processing of oil refinery products (PKD 23.20.B);
- 4) service installation of metal structures (PKD 28.11.C);
- 5) retail sale of fuels (PKD 50.50.Z);
- 6) production of gas fuels (PKD 40.21.Z);
- 7) installation of gas systems (PKD 45.33.C);
- 8) other building installation (PKD 45.34.Z);
- 9) wholesale of solid, liquid and gas fuels and their derivatives (PKD 51.51.Z);
- 10) transport of freight by road using specialized vehicles (PKD 60.24.A);
- 11) rental of trucks with driver (PKD 60.24.C);
- 12) reloading of goods at seaports (PKD 63.11.A);
- 13) reloading of goods at other reloading centers (PKD 63.11.C);
- 14) warehousing and storage of goods at seaports (PKD 63.12.A);
- 15) warehousing and storage of goods at other storage sites (PKD 63.12.C);
- 16) other activities in support of land transport (PKD 63.21.Z);
- 17) other financial intermediation, otherwise unclassified (PKD 65.23.Z);
- 18) rental of other land transport vehicles (PKD 71.21.Z);
- 19) wholesale of motor vehicle parts and accessories (PKD 50.30.A);
- 20) retail sale of motor vehicle parts and accessories (PKD 50.30.B);
- 21) retail sale at non-specialized stores (PKD 52.1);
- 22) transport of oil and gas via pipelines (PKD 60.30.Z);
- 23) accounting and bookkeeping; tax advisory (PKD 69.20.Z);
- 24) activities of head offices and holdings, excluding financial holdings (PKD 70.10.Z);
- 25) other business and management consulting (PKD 70.22.Z).

1.4. Legal bases for the Company's operations

PETROLINVEST S.A. operates on the basis of:

- the Company's Statute prepared in the form of a notarial deed on 22 December 2006 (Rep. A No. 13503/2006) with subsequent amendments,
- the Code of Commercial Partnerships and Companies,
- license for the sale of liquid fuels for the period from 1 March 2009 to 28 February 2029 issued on 7 July 2008 by the President of the Energy Regulatory Office.

1.5. Registration at Business Court

On 29 December 2006 the Company was entered in the National Court Register at the Regional Court Gdańsk-Północ in Gdańsk, VIII Business Division Registration Section, in number KRS 0000270970.

1.6. Registration at Tax Office and Voivodship Statistical Office

NIP 586-10-27-954
REGON 190829082

1.7. Share capital and equity

As at 31 December 2010 the share capital amounted to 505 177 thousand zł and consisted of 50 517 656 shares with a nominal value of 10 zł per share.

The following changes were made in the share capital in the year 2010 and before the end of the audit:

Series	Issue date	Number of shares	Nominal value of shares	Share issue price
Series S*	2009-12-25	300 000	3 000 000,00	28,4100
Series P	2010-01-11	70 800	708 000,00	24,2856
Series V	2010-02-25	1 313 780	13 137 800,00	21,8654
Series V	2010-03-18	1 973 681	19 736 810,00	19,0000
Series V	2010-03-18	1 440 354	14 403 540,00	20,8282
Series V	2010-03-18	3 824 241	38 242 410,00	20,5544
Series V	2010-06-09	2 323 777	23 237 770,00	12,9100
Series V	2010-07-30	188 500	1 885 000,00	10,6100
Series V	2010-08-03	754 004	7 540 040,00	10,6100
Series V	2010-08-13	1 885 014	18 850 140,00	10,6100
Series V	2010-08-13	2 827 520	28 275 200,00	10,6100
Series V	2010-09-15	1 447 396	14 473 960,00	11,8918
Series V	2010-09-15	1 021 733	10 217 330,00	11,8918
Series P	2010-09-15	84 821	848 210,00	11,8918
Series P	2010-09-15	314 379	3 143 790,00	11,9000
Series B	2010-11-16	1 850 000	18 500 000,00	10,0000
Series B	2010-12-09	800 000	8 000 000,00	10,0000
Series B	2010-12-09	6 571 057	65 710 570,00	10,0000
Series B	2011-01-18	2 500 000	25 000 000,00	10,0000
Series B	2011-01-26	1 800 000	18 000 000,00	10,0000
Series B	2011-02-10	1 900 000	19 000 000,00	10,0000
Series B	2011-03-08	2 410 348	24 103 480,00	10,0000
Series B	2011-03-18	1 168 595	11 685 950,00	10,0000
Total			387 700 000,00	

*Issue registered in 2010

According to the information provided by the Management Board, as at 31 December 2010 the Holding Company had the following shareholders:

Shareholder	Number of shares	% of votes at General Meeting
Prokom Investments S.A.	11 366 001	22,50%
Osiedle Wilanowskie Sp. z o.o.	2 344 715	4,64%
Ryszard Krauze	3 586	0,01%
Other shareholders	36 803 354	72,85%

In addition, as at 31 December 2010 the Group's equity consisted of:

- capital contributions 37 831 thousand zł;
- foreign exchange differences on currency translation of a foreign entity (27 271) thousand zł;
- other capital 900 228 thousand zł;
- accumulated profit/loss from previous years (893 492) thousand zł;
- non-controlling interests 21 371 thousand zł.

As at 31 December 2010 the Group's equity totaled 543 844 thousand zł.

1.8. The Company's Management

As at 31 December 2010 the Management Board comprised:

- Bertrand Le Guern - President of the Management Board
- Marek Pietruszewski - Vice-President of the Management Board
- Franciszek Krok - Member of the Management Board
- Roman Niewiadomski - Member of the Management Board
- Maciej Wantke - Member of the Management Board

The following changes were made in the Company's Management Board in the audited period and before the end of the audit:

- 30 June 2010 - end of term and resignation from seeking reelection of Paweł Gricuk and Marcin Balicki;
- Bertrand Le Guern - appointed President of the Management Board based on Resolution No. 1 passed by the Supervisory Board on 9 September 2010;
- Marek Pietruszewski - appointed Member of the Management Board based on Resolution No. 2 passed by the Supervisory Board on 9 June 2010; on 30 June 2010 appointed Vice-President of the Management Board by Ryszard Krauze;
- Maciej Wantke - appointed Member of the Management Board based on Resolution No. 1 passed by the Supervisory Board on 9 September 2010;
- Roman Niewiadomski - appointed President of the Management Board on 9 July 2010, dismissed from the position of President of the Management Board and appointed Member of the Management Board based on a resolution passed by the Supervisory Board on 9 September 2010;
- Franciszek Krok - appointed Member of the Management Board based on Resolution No. 1 passed by the Supervisory Board on 9 September 2010.

The above changes have been submitted to and registered with the relevant registration court.

2. The composition of the Group as at the balance sheet date and changes therein in the audited period

2.1 Holding Company

PETROLINVEST S.A.

Reporting period	- 1 January to 31 December 2010
Total assets and liabilities	- 1 239 137 thousand zł
Net profit/loss	- (36 765) thousand zł;
Increase in equity	- 386 030 thousand zł
Increase in cash	- 20 628 thousand zł
Sales revenue	- 149 130 thousand zł
Auditor	- BDO Sp. z o.o., ul. Postępu 12, Warszawa
Audit opinion	- qualified, with emphasis of matter

2.2. Subsidiaries

As at 31 December 2010 the PETROLINVEST Group comprised the following (direct and indirect) subsidiaries:

Company name	Country	Holding company's interest	Consolidation method	Balance sheet date	Auditor/audit opinion
UAB Petrolinvest Mockavos Perpyla	Lithuania	87%	Acquisition accounting	31 Dec 2010	No audit requirement
PETROLINVEST GAZ S.A.**	Poland	100%	Acquisition accounting	31 Dec 2010	BDO Sp. z o.o. audit in process
SIGNA ENTERPRISES LIMITED***	Cyprus	100%	Acquisition accounting	31 Dec 2010	No audit requirement
Occidental Resources, Inc.	USA	88,1%	Acquisition accounting	31 Dec 2010	Hansen, Barnett & Maxwell P.C.
OilTechnoGroup*	Kazakhstan	88,1%	Acquisition accounting	31 Dec 2010	Mintax Audyt
TOO EmbaJugNieft TOO Company Profit	Kazakhstan	79%	Acquisition accounting	31 Dec 2010	No audit requirement
Silurian Sp. z o.o.	Poland	60%	Acquisition accounting	31 Dec 2010	No audit requirement

* interest in OilTechnoGroup (OTG) is indirect through Occidental Resources Inc., which holds 100% of OTG

** company name changed from TPG GAZ S.A. to PETROLINVEST GAZ S.A.

*** interest in SIGNA ENTERPRISES LIMITED is indirect through Petrolinvest Gaz S.A., which holds 100% of Signa

All of the consolidated entities had the same balance sheet dates as the Holding Company.

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2.3. Entities excluded from consolidation

All of the companies comprising the PETROLINVEST Group have been consolidated.

3. Information about the audited financial statements

We have audited the consolidated financial statements of the PETROLINVEST Group prepared for the period from 1 January to 31 December 2010, consisting of:

- the consolidated profit and loss account for the period from 1 January to 31 December 2010, showing a net loss of **155 749** thousand zł, of which a net loss attributable to the Holding Company's shareholders of **149 247** thousand zł;
- the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a net loss of **128 098** thousand zł, of which a net loss attributable to the Holding Company's shareholders of **122 940** thousand zł;
- the consolidated balance sheet prepared as at 31 December 2010, showing total assets and liabilities of **1 184 959** thousand zł;
- the statement of changes in consolidated shareholders' equity for the period from 1 January to 31 December 2010, showing an increase in shareholders' equity of **294 697** thousand zł;
- the consolidated cash flow statement for the period from 1 January to 31 December 2010, showing a net cash increase of **19 994** thousand zł;
- significant accounting policies and notes to the financial statements.

4. Information about the entity authorized to conduct audits and the certified auditor performing the audit

The consolidated financial statements of the PETROLINVEST Group for the year 2010 have been audited by BDO Sp. z o.o. with its registered office in Warsaw, ul. Postępu 12, an entity authorized to audit financial statements, registered with the National Chamber of Certified Auditors in number 3355.

The auditor was selected in Resolution No. 1 passed by the Company's Supervisory Board on 20 July 2010.

The audit was conducted based on an audit agreement signed on 26 July 2010 under the direction of Anna Bernaziuk, PhD, Certified Auditor No. 173. It was performed at the Company's offices in the period from 31 January 2011, intermittently until the issue of the audit opinion. It was preceded with a review of the financial statements for the 1st half of 2010 and an interim audit.

We hereby declare that BDO Sp. z o.o., members of its management, the certified auditor and team performing the audit of the above-described financial statements meet the conditions required to issue an objective and independent opinion on the audited financial statements - as provided for in article 56 par. 3 and 4 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and on public supervision (2009 Journal of Laws No. 77, item 649).

The Management of the Holding Company provided the auditor with access to all of the requested data and provided all the information and explanations necessary to perform the audit, as well as informed of all significant post-balance sheet events.

The auditor was not limited in selecting the appropriate auditing methods.

5. Information about the financial statements for the previous financial year

The opening balance was based on the consolidated financial statements prepared for the period from 1 January to 31 December 2009, which had been audited by Ernst & Young Audit Sp. z o.o. and given the following qualified opinion with emphases of matter:

As described in more detail in Notes 13 and 35 to the accompanying financial statements, the Company is a party to agreements with companies from its main shareholders' group, establishing the methods based on which the said companies enable the Company to use their assets as credit collateral. The above agreements contain a clause granting the companies from the main shareholders' group the right (call option) to convert a liability into the Company's share capital as part of the target capital waiving the existing shareholders' preemptive rights, as well as other embedded derivative instruments. In previous years the Company had received loans from the main shareholder which contained a call option. Unable to precisely estimate some of the assumptions, the Company did not perform a valuation of the embedded derivative instruments contained in the above mentioned agreement, and did not present to us a valuation of the said loans to their fair values as at the date on which the terms of the agreements had been changed. A valuation of the above described embedded derivative instruments, and a new valuation of the loans to their fair values as at the date on which the agreements had been annexed, would have affected the financial result for the year ended 31 December 2009.

As described in more detail in Note 21 to the accompanying financial statements, the Company acquired subsidiaries and co-subsiidiaries, and recognized goodwill, which as at 31 December 2009 amounted to 350 million zł. In our opinion, the holding company should have separated the value of the acquired license as part of settling its acquisitions of subsidiaries and co-subsiidiaries, as well as recognized a provision for deferred income tax relating to the above licenses. The accompanying consolidated financial statements contain no relevant adjustments.

Without further qualifying our opinion, we draw your attention to the following matters:

- a) *In Note 21 to the consolidated financial statements the Group presented the most significant assumptions taken into account in the impairment testing of goodwill and the other assets taken over along with the acquired companies. The assumptions adopted by the Management are based on analyses and experiences of the Group's companies, as well as on work performed by an independent expert. These assumptions, such as the value of oil production, depend on future events and circumstances, which cannot be determined today and whose possible effect on these assumptions, and thus on the Group's financial result, is unknown.*
- b) *In Notes 16 and 33 to the consolidated financial statements the Group presented its licenses to explore for and mine hydrocarbons on the territory of the Republic of Kazakhstan. The described licenses contain specific license obligations, which if breached or not met by the Group's companies, may result in a suspension of the license or taking away of the rights arising thereof.*

As described in more detail in Note 16 to the consolidated financial statements, the deadline for extending one of the licenses expired on 29 June 2009. The holding company's Management is expecting to sign an annex to the contract with the Ministry of Oil and Gas of the Republic of Kazakhstan, extending the exploration period under this license for another two years. As

at the issue of the present opinion the holding company's Management is convinced that the said annex will be signed in the very near future.

Because the above license obligations are to be fulfilled in the future, as at the date of the present opinion there is an uncertainty whether all of the license obligations will be met in accordance with the license requirements and the approved investment programs, and whether the licenses to explore for and mine hydrocarbons will not be suspended or taken away in the future.

As disclosed in Note 2 to the accompanying consolidated financial statements the Management of the holding company listed the factors that pose a potential threat to the Group's going concern. In 2006 the Group commenced the realization of an investment program meant to develop the Group's operations in the area of exploring for and subsequently mining hydrocarbons. The Group's further growth and continuation of operations depend on the realization of these plans.

The investment program is being conducted on the territory of the Republic of Kazakhstan, which is characterized by a relatively young legal and tax system. The absence of a reference to well established legal and tax regulations may lead to vagueness and inconsistency of binding regulations. Differences of opinion may arise with regard to legal interpretation of tax regulations, as well as of the regulations relating to the mining of hydrocarbons, both within the government organs and between the government organs and businesses, leading to areas of uncertainty and conflict. These occurrences may raise the risk of investment in the country well above that usually found in countries with better developed systems, which may have a direct effect on the valuation of the Group's assets.

Because the project is in its early stages, as at the date of the preparation of the accompanying financial statements there is no certainty that the planned and incurred expenses will result in the Group achieving its goals. The investment program is being financed from the Group's own funds, loans from its main shareholder and borrowed funds. The realization of the investment program depends on the Group's ability to obtain sufficient external financing.

As described more extensively in Note 2 to the accompanying consolidated financial statements, in March 2010 the Company gained access to new financing sources. Some of this financing was obtained subject to conditions precedent described in more detail in Note 43 to the accompanying consolidated financial statements.

Failure to meet the conditions precedent to obtaining the above financing or to obtain further financing will prevent the Group from realizing the investment program and will have a negative effect on its operations, financial position, financial result and ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis and contain no adjustments relating to different methods of valuation and classification of assets and liabilities, which could turn out to be necessary if the Group was unable to continue as a going concern for a period of 12 months of the balance sheet date.

In its consolidated financial statements published thus far (the most recent for 12 months ended 31 December 2009), the excess of the price paid over the fair value of the acquired net assets of exploratory and mining companies had been presented as goodwill. The Group has decided to make an adjustment to this area of the financial statements for the 12 months ended 31 December 2010.

At this time the excess is recognized as a license. In accordance with the requirements of IAS 1 and IAS 8, the adjustment was introduced retrospectively. Consolidated balance sheets have been presented for the period of 12 months ended 31 December 2010 and 2009, and as at 1 January 2009, i.e. the first day starting the last presented period.

No error adjustment was made with regard to the exploration and mining companies that held licenses on the territory of the Russian Federation, which had been signed in 2008 and sold in 2009 (more in Note 14.7). The Holding Company's Management made this decision, because the adjustment would have expended itself in equity and would have had no significant effect on the consolidated financial statements.

Note 8 to the consolidated financial statements presents the effect of the adjustment of error of previous periods on the consolidated profit and loss account and the consolidated balance sheet.

The Group's consolidated financial statements for the period from 1 January to 31 December 2009 were approved in Resolution No. 3 passed by the General Meeting of 30 June 2010.

The consolidated financial statements for the year 2009 were filed with the National Court Register on 20 July 2010, and have been published in Polish Monitor B No. 437, item 2452 dated 23 February 2011.

II. FINANCIAL ANALYSIS

Presented below are selected consolidated balance sheet and consolidated profit and loss account items, as well as key financial ratios, compared to analogical amounts for previous years.

1. Main consolidated balance sheet items

(in '000 zł)

Item	31.12.2010	% of balance sheet total	31.12.2009	% of balance sheet total	31.12.2008	% of balance sheet total
ASSETS						
Fixed assets	1 052 763	88,8	959 088	96,2	1 128 964	90,2
Exploration and mining licenses	350 887	29,6	329 409	33,1	451 259	36,0
Goodwill	75	-	0	-	0	-
Intangible fixed assets	84	-	195	-	765	0,1
Tangible fixed assets	48 672	4,1	53 498	5,4	62 070	5,0
Expenses for exploration and evaluation of resources	522 603	44,1	469 135	47,0	497 550	39,7
Investment properties	2 567	0,2	2 567	0,3	2 616	0,2
Other financial assets	98 759	8,3	75 664	7,6	92 350	7,4
Long-term receivables	22 297	1,9	22 204	2,2	21 132	1,7
Long-term deposits	40	-	88	-	1 222	0,1
Deferred tax	6 779	0,6	6 328	0,6	0	-
Fixed assets held for sale	13 773	1,2	11 409	1,1	29 225	2,3
Current assets	118 423	10,0	27 090	2,7	94 204	7,5
Inventory	1 424	0,1	1 315	0,1	3 646	0,3
Trade and other receivables	8 571	0,7	4 967	0,5	8 520	0,7
Income tax receivables	20	-	18	-	58	-
Prepayments	7 264	0,6	7 611	0,8	10 759	0,9
Short-term investments	87 967	7,5	40	-	47 431	3,8
Cash and cash equivalents	13 177	1,1	13 139	1,3	23 790	1,8
TOTAL ASSETS	1 184 959	100,0	997 587	100,0	1 252 393	100,0

1. Main consolidated balance sheet items, continued

Item	31.12.2010	% of balance sheet total	31.12.2009	% of balance sheet total	31.12.2008	% of balance sheet total
LIABILITIES AND EQUITY						
Total equity	543 844	45,9	249 147	25,0	262 064	20,9
Equity attributed to holding company shareholders	522 473	44,1	222 618	22,3	196 735	15,7
Share capital	505 177	42,6	215 266	21,6	63 481	5,1
Capital contributions	37 831	3,2	0	-	0	-
Foreign exchange differences on currency translation of a foreign entity	(27 271)	(2,3)	(53 578)	(5,4)	33 930	2,7
Other capital	900 228	76,0	805 175	80,7	428 376	34,2
Accumulated profit/loss from previous years	(893 492)	(75,4)	(744 245)	(74,6)	(329 052)	(26,3)
Non-controlling interests	21 371	1,8	26 529	2,7	65 329	5,2
Long-term liabilities	280 890	23,7	469 733	47,1	742 545	59,3
Interest bearing bank credits and loans	73 448	6,2	279 929	28,1	584 113	46,7
Long-term cost provisions	9 643	0,8	14 434	1,4	6 567	0,5
Provision for deferred income tax	0	-	0	-	7 684	0,6
Finance lease payables	54	-	27	-	145	-
Other long-term liabilities	197 745	16,7	175 343	17,6	144 036	11,5
Short-term liabilities	360 225	30,4	278 707	27,9	247 784	19,8
Short-term cost provisions	25 969	2,2	18 946	1,9	39 858	3,2
Current portion of interest bearing bank credits and loans	258 754	21,9	167 603	16,7	88 270	7,0
Finance lease payables	46	-	118	-	231	-
Trade and other payables	73 849	6,2	89 546	9,0	116 515	9,4
Accruals	1 607	0,1	2 494	0,3	2 910	0,2
TOTAL LIABILITIES AND EQUITY	1 184 959	100,0	997 587	100,0	1 252 393	100,0

2. Main profit and loss account items

(in '000 zł)

Item	01.01.2010	% of sales	01.01.2009	% of sales	01.01.2008	% of sales
	31.12.2010	revenue	31.12.2009	revenue	31.12.2008	revenue
Continuing operations						
Revenue from the sale of goods for resale and finished products	149 231	99,5	75 066	99,1	255 000	99,9
Revenue from the sale of services	726	0,5	674	0,9	261	0,1
Sales revenue	149 957	100,0	75 740	100,0	255 261	100,0
Cost of goods for resale and raw materials sold	133 314	88,9	59 816	79,0	235 603	92,3
Use of materials and energy	2 334	1,6	2 225	2,9	3 420	1,3
Employee benefits	16 429	11,0	100 217	132,3	34 212	13,4
Depreciation	4 125	2,8	4 036	5,3	3 011	1,2
Third party services	38 898	25,9	24 967	33,0	19 522	7,6
Taxes and charges	2 856	1,9	5 773	7,6	3 293	1,3
Other costs by nature	1 789	1,2	1 500	2,0	3 975	1,6
Operating costs	199 745	133,2	198 534	262,1	303 036	118,7
Gross sales profit (loss)	(49 788)	(33,2)	(122 794)	(162,1)	(47 775)	(18,7)
Other operating revenue	2 550	1,7	4 670	6,2	1 327	0,5
Other operating costs	43 494	29,0	87 117	115,0	42 661	16,7
Financial revenue	1 784	1,2	10 130	13,4	9 725	3,8
Financial costs	70 971	47,3	162 804	215,0	40 000	15,7
Revaluation of investments	(187)	(0,1)	89 834	118,6	0	-
Gross profit (loss)	(159 732)	(106,5)	(447 749)	(591,2)	(119 384)	(46,8)
Income tax	3 983	2,7	8 876	11,7	(9 823)	(3,8)
Net profit (loss) from continuing operations	(155 749)	(103,9)	(438 873)	(579,4)	(129 207)	(52,7)
Profit (loss) from discontinued operations	0	-	(8 391)	(11,1)	(172 465)	(67,6)
Net profit (loss)	(155 749)	(103,9)	(447 264)	(590,5)	(301 672)	(120,2)
Profit/loss of holding company shareholders	(149 247)	(99,5)	(415 193)	(548,2)	(299 928)	(117,5)
Profit/loss of non-controlling interests	(6 502)	(4,3)	(32 071)	(42,3)	(1 744)	(0,7)

3. Key financial ratios

	2010	2009	2008
Liquidity ratios			
Current ratio			
$\frac{\text{total current assets}}{\text{short-term liabilities}}$	0,3	0,1	0,4
Quick ratio			
$\frac{\text{total current assets} - \text{inventory}}{\text{short-term liabilities}}$	0,3	0,1	0,4
Operating ratios			
Receivable days			
$\frac{\text{average gross trade receivables (*)} \times 365 \text{ days}}{\text{sales revenue}}$	19	39	18
Inventory days			
$\frac{\text{average inventory (*)} \times 365 \text{ days}}{\text{cost of goods for resale and raw materials sold}}$	4	15	9
Profitability ratios			
Net sales profitability			
$\frac{\text{net profit/loss}}{\text{sales revenue}}$	(103,9%)	(590,5%)	(120,2%)
Gross sales profitability			
$\frac{\text{gross sales profit/loss}}{\text{sales revenue}}$	(33,2%)	(162,1%)	(18,7%)
Return on assets			
$\frac{\text{net profit/loss}}{\text{total assets}}$	(13,1%)	(44,8%)	(24,5%)
Return on equity			
$\frac{\text{net profit/loss}}{\text{equity}}$	(28,6%)	(179,5%)	(117,1%)
Debt ratios			
Payable days			
$\frac{\text{average trade receivables (*)} \times 365 \text{ days}}{\text{operating costs}}$	27	20	10
Debt rate			
$\frac{\text{total liabilities}}{\text{total liabilities and equity}}$	54,1%	75,0%	79,1%
Share efficiency ratios			
Book value per share			
$\frac{\text{equity}}{\text{number of shares}}$	16,42	18,43	42,88
Profit/loss per shares			
$\frac{\text{net profit/loss for the last 12 months}}{\text{number of shares}}$	(4,70)	(33,08)	(50,22)

(*) Average receivables, inventory and payables calculated as the mathematical averages of their opening and closing balances.

4. Remarks

Compared to the previous year, the Group's total assets and liabilities have gone up by 18,78%. The main reason for this change was an increase in the expenses incurred for exploration and evaluation of resources, as well as in short-term investments.

The percentage share of fixed assets is down to 88,8% of total assets and liabilities in the audited period from 96,2% the year before. The structure of fixed assets has not changed considerably from last year; they continue to consist primarily of expenses for exploration and evaluation of resources, which account for 44,1% of the balance sheet total. Exploration and mining licenses are the second greatest fixed assets item, accounting for 29,6%.

In the audited period current assets increased from 2,7% to 10% of the balance sheet total following an increase in short-term investments, which consist primarily of the loans granted to companies from outside the PETROLINVEST Group.

Under liabilities and equity, there has been a gradual rise in the percentage share of equity: from 25% of total liabilities and equity as at 31 December 2009 to 45,9% as at 31 December 2010. This increase occurred despite the incurrance of a net loss due to numerous share issues with a waiver of preemptive rights, which took place in 2010.

The percentage share of long-term liabilities in total liabilities and equity is down from 47,1% as at 31 December 2009 to 23,7% as at 31 December 2010, mainly due to the repayment of a significant portion of a bank credit by the Holding Company.

As at 31 December 2010 short-term liabilities amount to 30,4% of the balance sheet total. They are made up primarily of the short-term portion of bank credits and loans. The rise in the value of this item compared to 31 December 2009 is a result of the fact that a greater portion of liabilities is becoming due and payable in 2011.

Sales revenue is up by 98%, due mainly to the Holding Company's greater ability to obtain liquefied petroleum gas in 2010.

Despite a significant rise in sales revenue, operating costs went up by only 1%, thereby reducing the sales loss by 59%. Other operating costs fell by 43 623 thousand zł, due mainly to a drop in the costs of commissions charged by the main shareholder for providing assets to be used as credit collateral. In 2009 the costs of the above commissions due since 2007 were listed under other operating costs.

Financial costs are down from last year due to a lower valuation of financial instruments and lower costs of a discount of a liability arising out of commission for bank credit collateral. The above changes have brought the net loss down by 65,2% compared to the previous year.

The liquidity ratios are above the recommended norms. They have improved from the year before.

The operating ratios have improved compared to the previous year, due mainly to an increase in sales. The profitability ratios have improved due to a significant drop in net loss. The worsening of the payable days ratio shows that payables are paid after a longer period than in previous years. The debt rate is improving as new shares are being issued and equity goes up. The book value per share is falling because the book value of net assets is growing at a slower pace than the number of shares issued. The net loss per share is down from last year due to a drop in net loss and an increase

in the number of shares.

In Note 2 to the accompanying consolidated financial statements the Management of the Holding Company listed the factors that pose a potential threat to the Group's going concern, as well as the actions undertaken to eliminate them. In 2006 the Group commenced the realization of an investment program meant to develop the Group's operations in the area of exploring for and subsequently mining hydrocarbons. Although the Group's further growth and continuation of operations depend on the realization of these plans, as at the date of the accompanying financial statements there is no certainty that the Group will achieve its goals in the planned period of time.

Realization of the investment program depends on the Group's ability to obtain sufficient financing on suitable terms. The investment program is being financed from the Holding Company's funds, loans from its main shareholder and borrowed funds.

As described more extensively in Note 2 to the consolidated financial statements, the Holding Company's main shareholder, based on annexes signed to the Agreement of 20 March 2009, undertook to take actions aimed at obtaining financing for the realization of the Group's investment projects.

As at the date of the present opinion, no General Shareholders Meeting resolutions have been passed declaring the amount of funds engaged, and credit agreement negotiations aimed at restructuring the debt at the lending banks have not been completed with the signing of appropriate annexes. No conditions precedent to obtaining financing from external entities have been fulfilled either.

The main shareholder's failure to fulfill its obligations, the inability to maintain or obtain further sources of financing, as well as failure to fulfill the conditions precedent to obtaining financing will prevent the Group from realizing the investment program and will have a negative effect on the Group's financial position, financial result and its ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis and contain no adjustments relating to different methods of valuation and classification of assets and liabilities, which could turn out to be necessary if the Group was unable to continue as a going concern for a period of 12 months of the balance sheet date.

III. DETAILED INFORMATION

1. Accounting methods

The entities covered by the consolidated financial statements of the PETROLINVEST Group apply the same accounting principles and methods in the valuation of their individual assets and liabilities.

2. Methods used to prepare the consolidated financial statements

The consolidated financial statements of the PETROLINVEST Group have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations issued in the form of regulations by the European Commission, and in issues not regulated by these standards - in accordance with the requirements of the Accounting Act and the related implementing provisions.

The consolidated financial statements have been prepared on the basis of consolidation documentation prepared in accordance with the Minister's of Finance Decree of 25 September 2009 on the special methods used by entities other than banks, insurers and reinsurers to prepare the consolidated financial statements of groups (2009 Journal of Laws No. 169, item 1327), consisting of, among others:

- the financial statements of the entities included in the consolidation;
- information about the holding company's interests, direct and indirect, in the other entities comprising the group;
- a statement of consolidation adjustments and eliminations, including eliminations of results unrealized by the consolidated entities, contained in the value of assets;
- calculation of goodwill;
- impairment tests.

3. Information about selected significant consolidated balance sheet and consolidated profit and loss account items

Financial assets and liabilities

As described in Note 36 to the accompanying consolidated financial statements, the Holding Company has concluded agreements with companies from its main shareholders' group, establishing the methods based on which the said companies enable the Holding Company to use their assets as credit collateral. The above agreements contain a clause granting the companies from the main shareholders' group the right (call option) to convert liabilities into the Holding Company's share capital as part of the target capital waiving the existing shareholders' preemptive rights, as well as other embedded derivative instruments. In previous years the loans received by the Holding Company from the main shareholder had also contained a call option. Unable to precisely estimate some of the assumptions, the Holding Company did not perform a valuation of the embedded derivative instruments contained in the above mentioned agreements. The effects of the valuation of the embedded derivative instruments would affect the financial result for the year ended 31 December 2010 and the financial result for the previous year.

Investments

Prior to the issue of the opinion we had received no balance confirmation of loan receivables totaling 144 170 thousand zł; for this reason we are unable to confirm the accuracy of the amounts listed in the consolidated balance sheet under "Other financial assets" in the amount of 98 709 thousand zł and under "Short-term investments" in the amount of 45 461 thousand zł.

Licenses

In Note No. 17 to the consolidated financial statements the Group presented the most significant assumptions taken into account in the impairment testing of the assets taken over along with the acquired shares of subsidiaries and co-subsidiaries. The assumptions adopted by the Holding Company's Management are based on analyses and experiences of the Group's companies, as well as on work performed by an independent expert. These assumptions, such as the value of oil production, depend on future events and circumstances, which cannot be determined today and whose possible effect on these assumptions, and thus on the Group's financial result, is unknown.

In Note 34.1 to the consolidated financial statements the Group presented its licenses to explore for and mine hydrocarbons on the territory of the Republic of Kazakhstan. The described licenses contain specific license obligations and investment programs, which if breached or not met by the Group's companies, may result in a suspension of the license or taking away of the rights arising thereof. Because the obligations are to be fulfilled in the future, as at the date of the present opinion there is an uncertainty whether all of the license obligations will be met in accordance with the license requirements and the approved investment programs, and whether the licenses to explore for and mine hydrocarbons will not be suspended or taken away in the future.

The remaining consolidated balance sheet and consolidated profit and loss account items have been described in the notes to the consolidated financial statements and in the Directors' Report on the Group's activities.

4. Additional information

Additional information on accounting policies and the notes to the financial statements have been prepared completely and correctly, in accordance with the requirements of International Financial Reporting Standards, and in matters not regulated by these standards - in accordance with the requirements of the Accounting Act.

5. Statement of changes in consolidated shareholders' equity

The data listed in the statement of changes in consolidated shareholders' equity are consistent with the consolidated balance sheet, and show truly and fairly the changes made in the Group's equity.

6. Consolidated cash flow statement

The consolidated cash flow statement has been prepared in accordance with the provisions of IAS 7, using the indirect method, and is consistent with the consolidated balance sheet, the consolidated profit and loss account and the books of account.

7. Directors' Report

In accordance with the requirements of article 49 of the Accounting Act and of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2009 Journal of Laws No. 33, item 259 with subsequent amendments), the Holding Company's Management Board prepared a Directors' Report on the activities of the PETROLINVEST Group. The information presented in the Directors' Report is consistent with the information presented in the audited consolidated financial statements.

8. Management's Declaration

The Holding Company's Management submitted a written declaration that it has not omitted any information material to the consolidated financial statements, and has disclosed all contingent liabilities and significant post-balance sheet events pertaining to the PETROLINVEST Group.

9. Compliance with binding regulations

In the course of the audit we found no breaches of binding regulations with an effect on the consolidated financial statements.

We draw your attention to the fact that the Group's tax settlements and financial statements may be subject to inspection by the tax organs. Polish tax regulations change frequently and contain inconsistencies resulting in different, often contradictory interpretations of the same regulations by both business entities and the various tax organs. Because of uncertainty as to the final interpretation of certain tax regulations, the amounts disclosed in the financial statements may change at a later date, after having been inspected by the tax organs.

Warsaw, 29 April 2011

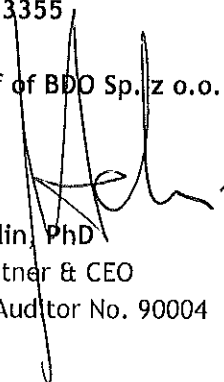
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On behalf of BDO Sp. z o.o.:



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