

PETROLINVEST S.A.

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

I. GENERAL NOTES

1. Background

Petroinvest Spółka Akcyjna is the legal successor of Petroinvest Spółka z ograniczoną odpowiedzialnością which was incorporated on the basis of a Notarial Deed dated 31 October 1995. On 29 December 2006, a resolution of the Shareholders' Meeting of Petroinvest Spółka z ograniczoną odpowiedzialnością was registered based on which Petroinvest Spółka z ograniczoną odpowiedzialnością was transformed into Petroinvest Spółka Akcyjna (hereinafter the 'Company').

The Company's registered office is located in Gdynia, at ul. Podolska 21.

On 29 December 2006, the Company was entered in the Register of Entrepreneurs of the National Court Register of the District Court Gdańsk- Północ in Gdańsk, VIII Economic Department, Entry No. KRS 0000270970.

The Company was issued with tax identification number (NIP) 586-10-27-954 on 23 February 1995 and statistical number (REGON) 190829082 on 9 January 2007.

The Company is the parent company of the Petroinvest capital group. In addition, the Company belongs to the ultimate level capital group, in which the parent company is Prokom Investments. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in note 35 of the additional notes and explanations ('additional notes') to the audited financial statements for the year ended 31 December 2009.

The principal activities of the Company are as follows:

- oil-field and gas-field development,
- wholesale of solid, liquid and gas fuels and derivative products,
- retail of fuels,
- production of gas fuels,
- services consisting in installation of metal constructions,
- development of gas installations.

As at 31 December 2009, the Company's issued share capital amounted to 215,266 thousand zlotys. Equity as at that date amounted to 647,976 thousand zlotys.

Based on current reports available to the public, in accordance with the requirements of Article 56 of the Act on public trading and terms and conditions for introducing financial instruments to organized public trading and on public companies dated 29 July 2005 (Journal of Laws No. 185 / 2009, item 1439 (further 'current reports'), the Company's shareholding structure as at 31 December 2009 was as follows:

Petrolinvest S.A.
*Long-form auditors' report supplementing the independent auditors' opinion
for the year ended 31 December 2009
(in thousand zlotys)*

	Number of shares	Number of votes	Par value of shares	% of issued share capital
PROKOM INVESTMENTS S.A. together with Osiedle Wilanowskie	9,617,307	9,617,307	96,173,070	44.68%
Ryszard Krauze	3,586	3,586	35,860	0.02%
Other shareholders	11,905,706	11,905,706	119,057,060	55.30%
Total	<u>21,526,599</u>	<u>21,526,599</u>	<u>215,265,990</u>	<u>100%</u>

In accordance with the excerpt from the National Court Register dated 5 February 2010 and in accordance with current reports, during the financial year and during the period from the balance sheet date to the date of the opinion, the following movements took place in the share capital of the Company:

	Number of shares	Par value of shares
Opening balance	6,348,092	63,480,920
Share capital increase – issue of shares, class G	2,613,163	26,131,630
Share capital increase – issue of shares, class H	447,942	4,479,420
Share capital increase – issue of shares, class K	599,212	5,992,120
Share capital increase – issue of shares, class L	2,100,000	21,000,000
Share capital increase – issue of shares, class M	730,000	7,300,000
Share capital increase – issue of shares, class N	1,052,000	10,520,000
Share capital increase – issue of shares, class Q	2,778,991	27,789,910
Share capital increase – issue of shares, class P	300,000	3,000,000
Share capital increase – issue of shares, class R	600,000	6,000,000
Share capital increase – issue of shares, class T	1,453,571	14,535,710
Share capital increase – issue of shares, class U	2,503,628	25,036,280
Balance as at 31 December 2009	<u>21,526,599</u>	<u>215,265,990</u>
Share capital increase – issue of shares, class PB	70,800	708,000
Share capital increase – issue of shares, class S	300,000	3,000,000
Balance as at 22 March 2010	<u>21,897,399</u>	<u>218,973,990</u>

As at 22 March 2010, the Company's Management Board was composed of:

Paweł Gricuk - President
Marcin Balicki - Vice President

During the reporting period and during the period from the balance sheet date to the date of this report, the following changes took place in the composition of the Management Board:

On 16 January 2009, Mr. Zenon Grablewski resigned as Vice-president of the Management Board and Mr. Marcin Balicki resigned as Board Member and was appointed as Vice-president of the Management Board.

2. Financial Statements

On 22 December 2006 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 11 June 2009 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 1 July 2009 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2009.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued a qualified auditors' opinion including emphases of matter dated 22 March 2010, stating the following:

'To the Supervisory Board of Petroinvest S.A.

1. We have audited the attached financial statements for the year ended 31 December 2009 of Petroinvest S.A. ('the Company') located in Gdynia at 21 Podolska Street, containing:
 - the balance sheet as at 31 December 2009 with total assets amounting to 1 019 829 thousand zlotys,
 - the income statement for the period from 1 January 2009 to 31 December 2009 with a net loss amounting to 330 951 thousand zlotys,
 - the statement of comprehensive income for the period from 1 January 2009 to 31 December 2009 with a total comprehensive loss amounting to 330 951 thousand zlotys,

- the statement of changes in equity for the period from 1 January 2009 to 31 December 2009 with a net increase in equity amounting to 197 633 thousand zlotys,
 - the cash flow statement for the period from 1 January 2009 to 31 December 2009 with a net cash inflow amounting to 2 759 thousand zlotys and
 - the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act, dated 29 September 1994 (Journal of Laws 2009, No. 152, item 1223 with further amendments - 'the Accounting Act'),
 - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Council of Statutory Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. The financial statements for the proceeding financial year ended 31 December 2008 were subject to our audit and we issued qualified opinion including emphases of matter on these financial statements, dated 30 April 2009. The modification paragraphs pertain to issues also discussed in points 5 and 7 below hereof opinion.
5. As further described in notes 14 and 35 to the attached financial statements, the Company is a party of agreements with the companies from the principal shareholder's capital group in order to establish rules, on which the mentioned companies enable the Company to use their assets as bank loan collateral. The above mentioned agreements contain a clause on an authorisation granted to the companies from the principal

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelnie i jasno'

shareholder's capital group for a conversion request that the Company would issue shares as part of its target capital and offer the shares precluding the pre-emptive rights of the existing shareholder ('call option') as well as other embedded derivatives. In the previous years, the Company received loans from the Company's principal shareholder which contained call option. Since the Company was not able to make a precise assessment of certain assumptions, it has neither made any valuation of the embedded derivative instruments being part of the above mentioned agreements nor has it presented to us any valuation of the loans to fair values as at the date of the modification of the loan agreements. If the valuation of the above mentioned embedded derivative instruments as well as new valuations of the loans to their fair values as at the date of signing the amendments to the loan agreements had been performed, it would have affected the net result for the year ended 31 December 2009.

6. In our opinion, except for the effects of the matters described in paragraph 5, the attached financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2009 to 31 December 2009, as well as its financial position³ as at 31 December 2009;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
- are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company's Articles of Association.

7. Without further qualifying our opinion, we draw attention to the following issues:

(a) In notes 3 and 23 to the attached financial statements, the Company presented shares in subsidiaries and jointly controlled entities at cost less impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, the Petroinvest Capital Group ('the Capital Group') of which the Company is the dominant entity, prepared consolidated financial statements dated 22 March 2010 ('the consolidated financial statements'). The consolidated net loss of the Capital Group for the year ended 31 December 2009 amounted to 440 665 thousand zlotys, the consolidated net assets to 311 517 thousand zlotys and the consolidated total assets to 1 059 957 thousand zlotys.

In note 21 to the consolidated financial statements, the Company presented the most important assumptions underlying an impairment test of goodwill and other assets acquired together with the newly acquired entities. The assumptions adopted by the Company's Management Board were based on the Capital Group's entities' own experience and research as well as the results of the assessments performed by an independent industry expert. These assumptions concerning, for instance, the level of crude oil production, depend on future conditions and circumstances, which cannot be defined today and which potential impact on the Company's financial results is unknown.

(b) In notes 16 and 33 to the consolidated financial statements, the Capital Group disclosed matters relating to licences for exploration and extraction of hydrocarbons

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

resources in the Republic of Kazakhstan. The licences provide certain obligations of the Capital Group's entities which, if breached or not complied with, may result in the rights under the licences being suspended or licences being cancelled.

As further described in note 16 to the consolidated financial statements, as at 29 June 2009, the prolongation date concerning one of the licences expired. The Management Board of the Company expects signing the amendment with Kazakhstan's Energy Ministry that would prolong this licence for the next two years. As at the date of this opinion, the Management Board of the Company is certain that the above-mentioned amendment will be signed in the nearest future.

- (c) As the above-mentioned licence obligations will be realized in the future, there is an uncertainty at the date of this auditors' opinion whether all licence obligations will be met in accordance with the conditions of the licences as well as the accepted investment programs, and whether the licences for exploration and extraction of hydrocarbons resources will not be suspended or cancelled in the future.
- (d) In accordance with disclosures made in note 2 to the attached financial statements, the Company's Management Board pointed to some potential threats to the Company's going concern. In 2006 the Company started an investment program aiming at the expansion of the Company's activities in the area of exploration and subsequent extraction of hydrocarbons. The further development and going concern assumption of the Company depends on realisation of these plans.

The investment program is run in the Republic of Kazakhstan, which has relatively young legal and tax system. The lack of reference to well established legal and tax regulations in this country may result in lack of clarity and integrity in the regulations. Frequent contradictions may arise in legal interpretations of tax regulations, as well as regulations applicable to the exploration and development of hydrocarbons, both within government bodies and between companies and government bodies, which may create uncertainties and conflicts. These facts create investment risks in this country, which is substantially more significant than those typically found in countries with more developed systems, which may have a direct impact on the valuation of the Company's assets.

Due to the start-up phase of the investments, as at the date of the attached financial statements, there is uncertainty as to whether the Company will achieve the established goals as a result of capital expenditures planned and incurred to date. The investment program is financed from the Company's own resources, loans received from its principal shareholder and external resources. The success of the investment program depends on the ability to obtain sufficient external financing by the Company.

As further described in note 2 to the attached financial statements in March 2010 the Company gained access to new sources of financing. The part of the above-mentioned financing was obtained subject to conditions precedent to closing further described in note 43 to the attached financial statements.

Failure to meet conditions precedent and to obtain further financing may result in suspending the investment program and may have a negative impact on the business, financial position, results of operations and the Company's ability to continue as a going concern.

The attached financial statements were prepared on the assumption that the Company will continue as a going concern and do not include any adjustments relating to different method of valuation and classification of assets and liabilities that might have been necessary if the Company were unable to continue as a going concern for 12 months from the balance sheet date.

8. We have read the Directors' Report for the period from 1 January 2009 to 31 December 2009 and the rules of preparation of annual financial statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009, No. 33, item 259).'

We conducted the audit of the Company's financial statements during the period from 23 November 2009 to 27 November 2009 and from 25 January 2010 to 22 March 2010. We were present at the Company's head office from 23 November 2009 to 27 November 2009 and from 1 February 2010 to 12 February 2010.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 22 March 2010, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2008 were audited by Michał Rybus, key certified auditor no. 9872, acting on behalf of Ernst & Young Audit sp. z o.o., with its registered office in Warsaw at Rondo ONZ 1, entered on the list of auditors kept by the National Chamber of Certified Auditors under no. 130. The key certified auditor issued a qualified opinion on the financial statements for the year ended 31 December 2008 concerning lack of valuation of the embedded derivative instruments and loans to fair values as at the date of the modification of the loan agreements and with emphases of matter. The emphases of matter related to the variability of assumptions made for impairment tests,

⁴ Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

uncertainty concerning fulfillment of concession obligations and potential going concern issues.

The Company's financial statements for the year ended 31 December 2008 were approved by the General Shareholders' Meeting on 30 June 2009, and the shareholders resolved to cover the net loss for the period from 1 January 2008 to 31 December 2008 in the amount of 236,015 thousand zlotys from future profits.

The financial statements for the financial year ended 31 December 2008, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the coverage of loss and the Directors' Report, were filed on 15 July 2009 with the National Court Register.

The balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2008, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the coverage of loss were published in Monitor Polski B No. 329 on 10 February 2010.

The closing balances as at 31 December 2008 were correctly brought forward in the accounts as the opening balances at 1 January 2009.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2007 - 2009. The ratios were calculated on the basis of financial information included in the financial statements for years ended 31 December 2009 and 31 December 2008 and do not take into account any implications of the qualification included in the auditors' opinion.

	2009	2008	2007
Total assets	1,019,829	1,050,265	925,585
Shareholders' equity	647,976	450,343	417,770
Net profit/ loss	-330,951	- 236,015	-17,027,
Return on assets (%)	-32.5%	-22.5%	-1.8%
$\frac{\text{Net profit/loss} \times 100}{\text{Total assets}}$			
Return on equity (%)	-73.5%	-56.5%	-5.4%
$\frac{\text{Net profit/loss} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	-437.0%	-92.5%	-7.7%
$\frac{\text{Net profit/loss} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1.1	1.4	1.1
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0.01	0.03	0.1
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	22 days	11 days	24 days
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$			

	2009	2008	2007
Creditors days	22 days	11 days	11 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	7 days	4 days	15 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	88.3%	91.3%	90.6%
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
Debt ratio (%)	36.5%	57.1%	54.9%
(Total liabilities and provisions) x 100			
Total assets			
Rate of inflation:			
yearly average	3.5%	4.2%	2.5%
December to December	3.5%	3.3%	4.0%

3.2 Comments

The following trends may be observed in 2009 based on the above financial ratios:

In 2009, all profitability ratios deteriorated compared to the year ended 31 December 2008 and 31 December 2007 which was the result of higher net loss incurred in the current year than that incurred in 2008 or 2007.

In 2009 ROA decreased by 10 pp. compared to 2008, i.e. from -22.5% to -32.5%. In 2007 ROA was -1.8%.

ROE decreased by 17 pp. from -56.5% in 2009 to -73.5% in 2008. In 2007 ROE was -5.4%. Net Profit Margin decreased in 2009 compared to 2008 and 2007 and was -437% (in the prior years it was -92.5% and -7.7%, respectively).

Liquidity I decreased from 1.4 as at 31 December 2008 to 1.1 as at 31 December 2009. As at 31 December 2007 it amounted to 1.1. Liquidity III decreased from 0.03 as at 31 December 2008 to 0.01 as at 31 December 2009. As at 31 December 2007, Liquidity III amounted to 0.1.

Debtors Days ratio, which in 2009 amounted to 22 days, was higher than in 2008 when it amounted to 11 days. In 2007 it amounted to 24 days. Creditors Days ratio amounted to 22

days in 2009 and increased compared to 2008 and 2007 when it amounted to 11 days. Inventory Days ratio increased compared to 2008 from 4 to 7 days in 2009. In 2007 it was 15 days.

Stability of financing showed a 3 pp decrease from 91.3% as at 31 December 2008 to 88.3% as at 31 December 2009. As at 31 December 2006, Stability of financing was 90.6%. Debt ratio showed an over 20 pp decrease and was 36.5% as at 31 December 2009, while as at 31 December 2008 – 57.1%. As at 31 December 2007, Debt ratio was 54.9%.

3.3 Going concern

In Note 2 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2009, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2009.

However, in note 2 of the additional notes to the audited financial statements for the year ended 31 December 2009, the Management Board has stated that there are circumstances indicating significant uncertainty as to the Company's ability to continue as a going concern. The Management Board has also described the actions planned and taken by the Company to eliminate that uncertainty.

We have addressed the issue of the Company's ability to continue as a going concern in the auditors' opinion on the financial statements for the year ended 31 December 2009 (see also section I.2.1 of this Report).

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the WF-Fakir computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act, including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfillment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2009.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2009.

Included in our auditors' opinion is qualification which relate to the lack of valuation of the embedded derivative instruments and loans to fair values as at the date of the modification of the loan agreements.

3. Additional Notes to the Financial Statements

The additional notes to the financial statements for the year ended 31 December 2009 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2009 to 31 December 2009 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of

Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

6. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- Prospecto Sp. z o.o. (Marek Kajdanowicz, Actuary, License No. 62) – valuation of provisions for retirement, pension and posthumous benefits for the employees of Petroinvest S.A. as at 31 December 2009,
- Gdańska Agencja Nieruchomości (Beata Jezierska, Property valuer, License No. 2757) – valuation of land property (operat szacunkowy) located in Przybiernowo and Żabowo as at 31 December 2009,
- McDaniel & Associates Consultants Ltd. – report from July 2009 presenting prospective resources of the company Profit, based on which impairment of the investments in this company was recognized.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Michał Rybus
certified auditor
no. 9872

Warsaw, 22 March 2010