



***Petrolinvest***

PETROLINVEST

Spółka Akcyjna

MANAGEMENT BOARD REPORT  
ON THE ACTIVITIES OF THE ISSUER  
FOR THE YEAR ENDED 31 DECEMBER 2009

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1. SELECTED FINANCIAL DATA

1.1. Selected financial data of PETROLINVEST S.A.

	<i>for 12 months</i>		<i>for 12 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
1. Net revenue from the sale of products, goods and materials	75 740	255 261	17 449	72 269
2. Profit (loss) from operations	(185 850)	(63 112)	(42 816)	(17 868)
3. Profit (loss) before tax	(332 632)	(239 551)	(76 632)	(67 821)
4. Profit (loss) for the period attributable to equity holders of the parent	(330 951)	(236 015)	(76 245)	(66 820)
5. Cash flows from operating activities	(24 395)	(6 038)	(5 620)	(1 709)
6. Cash flows from investing activities	(72 819)	(172 759)	(16 776)	(48 911)
7. Cash flows from financing activities	99 973	149 304	23 032	42 271
8. Net cash flows, total	2 759	(29 493)	636	(8 350)
9. Weighted average number of shares issued in units	13 518 960	6 111 350	13 518 960	6 111 350
10. Number of diluting potential ordinary shares	0	469 793	0	469 793
11. Earnings (loss) per share (in PLN/EUR)	(24.48)	(38.62)	(5.64)	(10.93)
12. Diluted earnings (loss) per share (in PLN/EUR)	(24.48)	(35.86)	(5.64)	(10.15)
	<i>as at</i>		<i>as at</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
13. Total assets	1 019 829	1 050 265	248 242	251 717
14. Liabilities and provisions for liabilities	371 853	599 922	90 515	143 783
15. Non-current liabilities	242 839	508 082	59 111	121 772
16. Current liabilities	129 014	91 840	31 404	22 011
17. Equity attributable to equity holders of the parent	647 976	450 343	157 727	107 934
18. Issued capital	215 266	63 481	52 399	15 215
19. Weighted average number of shares issued in units	13 518 960	6 111 350	13 518 960	6 111 350
20. Number of diluting potential ordinary shares	0	469 793	0	469 793
21. Book value per share (in PLN/EUR)	47.93	73.69	11.67	17.66
22. Diluted book value per share (in PLN/EUR)	47.93	68.43	11.67	16.40
23. Declared or paid dividend per share (in PLN/EUR)	0.00	0.00	0.00	0.00

1.2. Average PLN/EUR exchange rate fixed by NBP

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2009</i>	<i>2008</i>
	<i>as at</i>	
	<i>31 December</i>	<i>31 December</i>
	<i>2009</i>	<i>2008</i>
average rate in the period	4.3406	3.5321
rate at the end of the period	4.1082	4.1724

The following Management Board Report on the activities of PETROLINVEST S.A. was drawn up from the point of view of PETROLINVEST Group, as the Management Board believes that when describing the activities of the Issuer, it is not possible to treat PETROLINVEST S.A. separately from the whole PETROLINVEST Group.

## 2. CHARACTERISTICS OF PETROLINVEST GROUP

### 2.1. STRUCTURE OF PETROLINVEST GROUP

#### 2.1.1. Structure of PETROLINVEST Group as of 31 December 2009

PETROLINVEST Group is comprised of parent entity - PETROLINVEST S.A. (the Company) as well as subsidiary companies. For the needs of this Report, the parent company, its subsidiaries and a jointly-controlled entity TOO COMPANY PROFIT are referred to as PETROLINVEST Group (the Group).

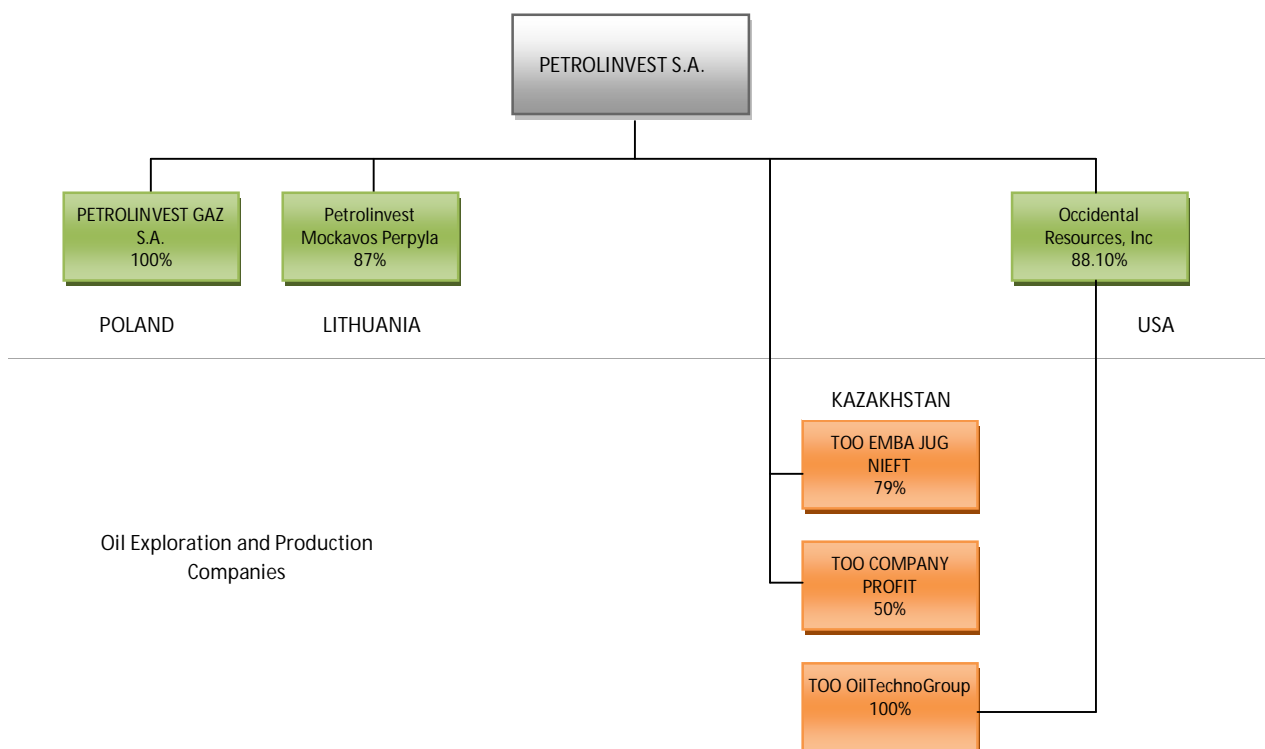
As of 31 December 2009, PETROLINVEST S.A. possessed stock/shares in the following companies:

Company name	Share capital	Shareholding	Consolidation method
Occidental Resources, Inc. (U.S.A.) <sup>(1)</sup>	199 332.77 USD	88.10%	Full
TOO EMBA JUG NIEFT (Republic of Kazakhstan)	145 000.00 KZT	79.00%	Full
TOO COMPANY PROFIT (Republic of Kazakhstan)	164 600.00 KZT	50.00%	Proportionate
UAB Petrolinvest Mockavos Perpyla (Lithuania)	2 000 000.00 LTL	87.00%	Full
PETROLINVEST GAZ S.A. (Poland)	15 720 325.00 PLN	100.00%	Full

<sup>(1)</sup> Occidental Resources, Inc. owns 100% of the shares in OilTechnoGroup, registered in the Republic of Kazakhstan.

<sup>(2)</sup> The business name of the subsidiary TPG GAZ S.A. was changed to PETROLINVEST GAZ S.A. on 28 September 2009.

PETROLINVEST Group diagram as of 31 December 2009.



#### 2.1.2. Changes in the structure of PETROLINVEST Group in 2009

Taking into account the difficulties in getting access to financing for the maximum scope of investment activities, and also considering the reserves estimated by the independent competent person McDaniel & Associates Consultants for each concession and the results of analyses and discussions with the competent person regarding the possible economic effects of production from the individual concessions—the Management Board of PETROLINVEST S.A. decided that investment activities should be focused around concessions with the highest short-term value increase potential—that is the Kazakh concessions. With respect to the concessions of the Russian companies as the least prospective, the Management Board decided to discontinue exploration on the territory of the Russian Federation and to dispose of all Russian assets, including:

- 59.999% shares in OOO Siewiergeofizyka
- 59.99% shares in OOO Nieftiegeoserwis
- 59% shares in ZAO Pechora-Petroleum.

The transaction was finalised on 29 September 2009, that is when all conditions of the agreements dated 25 June 2009 (details in point 3.2.3 of the Report) had been met.

Taking into account the stage of advancement of prospecting work on the individual Kazakh concessions, the size of identified prospective resources, results of the drillings already completed, as well as the assessment of prospective resources drawn up by McDaniel&Associates Consultants Ltd. in July 2009, in the third quarter 2009 the Management Board decided to take steps to sell the stake in TOO COMPANY PROFIT. It is possible, however, that the Company may continue to finance partly the work and/or activities of TOO COMPANY PROFIT to the extent that they will allow to maintain the concession until the stake in the company is sold or access to financial resources is provided, allowing all the planned investment projects to be completed, even if that means that the expected NPV of the project does not fully cover the expenditures incurred to date. The ongoing prospecting work may translate into higher prospective resources or a reclassification of prospective resources to the proven category, which in both cases may lead to a reassessment of the fair value of the net assets associated with the project delivered by TOO COMPANY PROFIT, which—as at 30 June 2009 were recognised as impaired and written down to the level following from the evaluation of resources prepared by the independent competent person McDaniel & Associates Consultants, i.e. to USD 5.2m.

## 2.2. DESCRIPTION OF THE GROUP'S ENTITIES INCLUDED IN CONSOLIDATION

The main areas of business activities of PETROLINVEST Group include:

- activities incidental to oil and gas exploration and extraction,
- wholesale of solid, liquid and gaseous fuels and related products,
- retail sale of automotive fuel,
- manufacture of gaseous fuel,
- services connected with installation of metal structures,
- gas fittings and installations.

Range of activity of individual Group entities:

Company name	Range of activity
PETROLINVEST S.A.	investing in entities prospecting for and extracting oil as well as trade in liquid fuels
Occidental Resources, Inc.	investing in entities prospecting for and extracting oil
TOO OilTechnoGroup*	prospecting for and extracting oil and gas
TOO EMBA JUG NIEFT	prospecting for and extracting oil and gas
TOO COMPANY PROFIT	prospecting for and extracting oil and gas
UAB Petrolinvest Mockavos Perpyla	liquid fuel handling/trans-shipment services
PETROLINVEST GAZ S.A	trade in liquid fuels (currently not engaged in business activities, on 2 February 2007 the Company received a URE license for LPG sales)

*(\*) the holding in TOO OilTechnoGroup (OTG) is indirect via Occidental Resources Inc., which owns 100% of the shares in OTG*

PETROLINVEST S.A., the parent entity of PETROLINVEST Group, was incorporated pursuant to Resolution of the Shareholders' Meeting of Petrolinvest Sp. z o.o. (limited liability company) dated 22 December 2006 regarding its transformation into Spółka Akcyjna (a joint stock company). The Company was registered with the National Court Register kept by the District Court, VIII Economic Department of the National Court Register, under entry no. KRS 0000270970 on 29 December 2006. The Company was granted statistical REGON number 190829082. The registered office of PETROLINVEST S.A. is located in Poland, at Podolska 21, Gdynia.

Gas trading activities are carried out by the Company' branch with a self-balancing set of accounts: PETROLINVEST Spółka Akcyjna – Oddział LPG (LPG Branch) headquartered in Gdynia. The Branch was separated on 1 July 2008. The Branch was granted statistical REGON number 190829082-00022.

On 16 July 2007, rights to shares of PETROLINVEST S.A. were first quoted on the Warsaw Stock Exchange.

The parent entity and the other entities of the Group have an unlimited period of operation.

As of the date of this Report, the largest shareholder of PETROLINVEST S.A. is Prokom Investments S.A. The controlling entity of Prokom Investments S.A. is Mr. Ryszard Krauze.

### 2.3. INFORMATION ABOUT PETROLINVEST GROUP'S CORE PRODUCTS, GOODS AND SERVICES AS WELL AS MARKETS AND SOURCES OF SUPPLY

PETROLINVEST Group's sales revenues in 2009, as in the previous periods, mainly came from activities connected with LPG trade, carried out by the parent company PETROLINVEST S.A. The activities of the Oil Exploration and Production Companies of PETROLINVEST Group, at the current stage of the project, do not generate any material revenues.

Size and product structure of the Company's sales revenues (by value)

	31 December 2009		31 December 2008		change %
	value in PLN '000	share in %	value in PLN '000	share in %	
Sales of goods, including:	75 066	99.11%	255 000	99.9%	29.44%
Autogas	49 174	65.51%	187 491	73.5%	26.23%
gas to foreign tax warehouses	4 797	6.13%	34 900	13.7%	13.74%
gas for heating purposes	6 603	8.80%	18 684	7.3%	35.34%
gas in bottles	14 492	19.31%	13 925	5.5%	104.07%
Sales of services	674	0.89%	261	0.1%	258.10%
TOTAL	75 740	100.00%	255 261	100.0%	29.67%

Size and product structure of the Company's sales revenues (by volume)

	31 December 2009		31 December 2008		change %
	volume in tons	share in %	volume in tons	share in %	
Autogas	31 135.19	69.88%	91 123.37	74.55%	34.17%
gas to foreign tax warehouses	2 716.14	6.10%	16 965.07	13.88%	16.01%
gas for heating purposes	3 643.14	8.17%	8 607.42	7.04%	42.33%
gas in bottles	7 062.17	15.85%	5 538.32	4.53%	127.51%
TOTAL	44 556.64	100.00%	122 234.18	100.0%	36.45%

In 2009, the Company made a number of changes to the operations of the LPG Segment which involved narrowing down the turnover in those segments that did not generate satisfactory sales profitability levels. As a result, the sales of bottled gas became more prominent in the overall structure of the Company's products and increased as a percentage of revenues from 6% to 19% over 2009 (from 5% to 16% in volume) followed by sales of gas for heating purposes, which increased from 7% to 9% of revenues. Similar to the year before, the dominant product of the Company's turnover is autogas; however its share of 2009 sales revenues was at 66% compared to 74% in 2008 (70% compared to 75% volume-wise). The largest movement was recorded in sales of gas to foreign tax warehouses; this product's share of sales revenues and sales volume declined from 14% to 6% in 2009.

The Company did not make any sales to foreign markets in the period covered by the Report.

The structure of recipients is dispersed; cooperation with no one contracting party exceeded 10% of the value of sales in 2009.

Company supply structure:

	31 December 2009	31 December 2008
	share in %	share in %
Purchase of goods, including:	65.11%	87.10%
Orlen Gaz Sp. z o.o.	31.30%	13.10%
Glob-Terminal Sp. z o.o.	26.90%	0.00%
SIA "INTER GAZ"	15.90%	0.00%
RUNITEK GmbH	10.10%	0.00%
PREEM PETROLEUM AB	9.90%	12.10%
Morgan Stanley	0.00%	20.70%
STATOIL ASA	0.00%	17.20%
SHELL	0.00%	7.70%
Remaining	5.90%	29.20%
Purchase of services	34.89%	12.90%
TOTAL	100.0%	100.0%

In 2009, the Company expanded cooperation with Orlen Gaz Sp. z o.o., whose supplies reached 31% of total goods purchased and also started cooperation with new suppliers: Glob-Terminal Sp. z o.o. (27% supplies), SIA "INTER GAZ" (16% supplies) and RUNITEK GmbH (10% supplies). The extend of cooperation with those suppliers reached 84%, indicating a higher degree of supplier concentration of purchases compared to the year before. None of the entities listed above are related to PETROLINVEST Group.

Company territorial structure of supply:

	31 December 2009 <i>share in %</i>	31 December 2008 <i>share in %</i>
Domestic	72.40%	24.30%
Foreign	27.60%	75.70%
TOTAL	100.0%	100.0%

In 2009, the Company's LPG supplies came primarily from domestic suppliers. The decrease of foreign supplies in the Company's territorial structure of supply was primarily attributable to rescheduling LPG deliveries under long-term contracts.

As indicated above, the activity of PETROLINVEST Group Oil Exploration and Production Companies, at the current stage of the Project, are not generating revenues, while their purchases are mainly connected with prospecting activities. These companies are delivering their investment programs using mainly local subcontractors and suppliers of well construction materials. In certain areas they use foreign suppliers, mainly coming from European Union countries. Any works of material importance for prospecting activities are commissioned to recognised international entities.

### 3. SIGNIFICANT FACTORS FOR THE DEVELOPMENT OF PETROLINVEST GROUP

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#### 3.1. DESCRIPTION OF FUNDAMENTAL RISKS AND THREATS

Among the most important risk factors affecting PETROLINVEST Group's business activities in the area of prospecting and extraction are:

- ✓ the risk of not discovering oil deposits – the prospecting and extraction of oil is connected with a high level of risk. PETROLINVEST Group at the current stage of its development is carrying out prospecting work and is not yet involved in extraction. At the current stage of prospecting PETROLINVEST Group cannot guarantee that it will find oil in the areas where prospecting is taking place. Furthermore, there is a risk that any deposits discovered will not have the character of mineral reserves, which means that they will not be suitable for profitable, economic extraction;
- ✓ the risk connected with the assessment of the size and value of resources – at the current stage of prospecting, the Company does not have all information available that would allow it to make a precise estimation of potential resources in all areas where prospecting is taking place and classify them as probable, proven or possible. Despite the fact that PETROLINVEST Group uses the latest technology to assess resources and size of resources, there are also risks connected with the quantification of oil and gas reserves, production rates of individual wells and actual values of resources;
- ✓ the risk connected with geological characteristics of discovered deposits that may require higher capital expenditure;
- ✓ the risk connected with access to warehouse, transport and transmission infrastructure – such access depends to a large extent on the discretionary decisions of governments in individual countries and consortia of companies controlling transmission infrastructure;
- ✓ the risk connected with obtaining new resources when resources in place have been greatly reduced – the size of fields and reserves discovered in the future may not counterbalance the decline in reserves already being developed;
- ✓ operational risk connected with carrying out prospecting and extraction activities – prospecting and extraction activities and the distribution of oil and gas is prone to natural disasters, human error, terrorist attacks or other events that can cause oil and gas leaks, explosions, fires, damage to property and damage to the environment;
- ✓ the risk connected with the lack of experience in prospecting and extraction – the Group only started Prospecting and Extraction activities in 2006 and does not have extensive experience in prospecting for natural resources;
- ✓ the risk of being dependent on qualified staff in respect of prospecting and extraction – the Group cannot guarantee that there will be no problems connected with access to suitably qualified staff;
- ✓ risks connected with competition and consolidation of competitive companies;
- ✓ risk connected with environmental protection regulations – the risk that more rigorous requirements regarding activity in the oil and gas sector will be introduced causing significantly more financial obligations and a deterioration in the Group's prospects for development. Additionally, there is a risk that regulations shall be introduced limiting the emission of greenhouse gases, which in consequence will cause investment expenditures and operating costs to increase;
- ✓ risks connected with weather conditions that can have a negative impact on the delivery of prospecting and extraction work according to schedule;
- ✓ insurance risk – despite the fact that the Group has a rational insurance policy, its insurance may not be sufficient to cover all possible losses or liabilities;
- ✓ risk connected to concessions, licenses and permits – gaining appropriate documents is dependent on the undertaking of legal activities by various interested parties, including ecological organisations or other non-governmental organisations, which constitutes a high risk of delay in issuing or extending concession. Very rigorous formal requirements making it difficult to carry out the conditions of concessions can influence the risk of concessions being suspended, limited or withdrawn;
- ✓ the risk connected with being dependent on subcontractors and the reliability of contractors – not being able to find within an appropriate timescale qualified subcontractors and their non-reliability can lead to stoppages in work or additional costs;

- ✓ legal risk connected with the necessity of adhering to a wide range of formal requirements of law that are binding in areas where Group entities carry out prospecting and extraction work;
- ✓ political, social and economic risk in countries where prospecting and extraction work is taking place – bureaucratization of procedures, limitations to the free market, changes in government, changes in government policy and applied practices and a lack of fiscal stability can exert negative effects on the financial situation of the Group;
- ✓ the risk connected with export restrictions – any domestic and international restrictions on exports and imports may have an adverse effect on current and future operations of the Oil Exploration and Production Companies;
- ✓ the risk connected with fluctuations of the tenge and foreign exchange controls – losses may arise if inflation processes occur, such as: devaluation of the national currency, introduction of government price control to curb inflation, and rising interest rates;
- ✓ the risk of changes in tax laws and inconsistency in their execution – the Oil Exploration and Production Companies may be exposed to the risk of paying excessive taxes and penalties if they do not comply with currently enacted tax laws;
- ✓ the risk of legal restrictions on acquisition and ownership of land – any restrictions of use of ownership of land and commercial real estate may have a negative impact on future operations of the Oil Exploration and Production Companies;
- ✓ the risk of unfavourable world oil prices – it is possible that during the execution of the project the 2008 slump in oil prices may be repeated, which may affect the Group's financial results and results of operations;
- ✓ the risk connected with limited access to sources of financing – the situation on global financial markets has a direct impact on the availability as well as the terms and conditions of financing that can be obtained for business operations. At this stage of prospecting and extraction, difficulties in access to financing may impact the ability to deliver economic goals and, in consequence, impact the Group's financial results and results of operations.

Among the most important risk factors affecting PETROLINVEST Group's business activities in the area of LPG sales are:

- ✓ frequent changes in the legal and regulatory environment;
- ✓ risk of competition from companies with a stronger position, which are able to influence negatively the Group's ability to buy and sell raw materials as well as competition from companies without technical support that apply price dumping. Additionally, there is a risk of oversupply in the domestic market resulting from chaotic imports from the East, leading to disadvantageous prices and making it necessary to sell goods below purchase costs;
- ✓ the risk of the development of the grey zone lowering the attractiveness of the goods offered by the Group;
- ✓ the risk of being dependent on a defined group of suppliers from Eastern and Northern Europe;
- ✓ the risk of losing recipients' trust as a result of possible breakages in the rhythm and continuity of deliveries, non-deliveries or quality discrepancies;
- ✓ storage risks – connected with storage capacity limitations in the event of a fall in LPG prices and the necessity of stopping sales of supplies that were contracted earlier in order to wait for the market to offer more advantageous prices; the risk of failure to fulfil legal obligations with respect to obligatory stocks;
- ✓ commodity price risk that the Group is exposed to as prices may change between a binding purchase decision is made and the goods are made available for resale;
- ✓ foreign exchange risks connected with possible depreciation of the zloty in the face of high proportion of imports in LPG deliveries;
- ✓ the risk of unfavourable world LPG prices and considerable fluctuations in those prices, which may lead to generating insufficient margins on the domestic market or incurring occasional losses.

3.2. REVIEW OF THE MOST IMPORTANT EVENTS AND SIGNIFICANT AGREEMENTS CONCLUDED THAT HAVE HAD AN IMPACT ON THE ACTIVITY OF PETROLINVEST GROUP AND THE RESULTS ACHIEVED IN 2009 OR THAT MAY HAVE AN IMPACT IN FUTURE YEARS

3.2.1. Prospecting and extraction

- ✓ In July 2009, the Company received reports on the size and value of reserves and resources of contracts owned by PETROLINVEST Group prepared by McDaniel & Associates Consultants, an independent competent person engaged by the Company.

On 2 July 2009, the Company published a Mc Daniel & Associates Consultants' report on the resources of the OTG Contract (the key company of PETROLINVEST Group):

The Management Board of the Company would like to draw attention to the following:

- The Report estimates the prospective resources of the OTG Contract at over 1.9bn boe (barrels of oil equivalent), i.e. doubles the productive geological potential of the Contract as compared to the report published in January 2008.
- The quantity of resources risked using all the five parameters that – in accordance with the internationally recognised standards – are usually taken into account when assessing the risk profile of exploration work was increased from 174 million boe to 450 million boe, which confirms that the OTG Contract is one of the largest prospecting concessions in Kazakhstan, both in view of its geological potential and also—more importantly—the value of hydrocarbons present in the area.
- The Report considers in detail the recently acquired seismic and its interpretations, and describes the test results for the most important wells drilled by PETROLINVEST over the past three years in Kazakhstan:
  - a) K-3 on the Koblandy structure where drilling is completed and where natural gas and crude oil flows were found to confirm the presence of hydrocarbon reserves in the Koblandy structure.
  - b) Shyrak-1, at the time of the research drilled to a depth of 1,231.5 metres, where there were gas shows during drilling and possible bitumen or oil traces.
- The results of the drilling of K-3, despite non-completion of production testing, allowed McDaniel & Associates Consultants to reassess the Geological Chance of Success (of discovering crude oil) radically from 18% (Koblandy structure as at January 2008) to 32%-45%.
- The effects of interpretation of seismic research also allowed to identify new prospects within the OTG Contract area:
  - a) Ayganym – 240 million barrels of prospective resources
  - b) Tamdy – 180 million barrels of prospective resources
  - c) Utektas – 244.5 million barrels of prospective resources
  - d) Damba – 108.5 million barrels of prospective resources.

On 16 July 2009, the Company published a report on the crude oil and natural gas reserves and resources of the TOO EMBA JUG NIEFT (henceforth "Emba"), TOO COMPANY PROFIT (henceforth "Profit") and AKTAU TRANZIT (henceforth "Aktau") Contracts, prepared by McDaniel & Associates Consultants.

The Management Board of the Company would like to draw attention to the following:

- The Report contains an assessment of reserves, contingent resources and prospective resources of the Emba, Profit and Aktau Contracts, corresponding to the PETROLINVEST Group's interests in the Contracts:
  - a) Reserves (proven plus probable plus possible) – 1.97 million boe (barrels of oil equivalent)
  - b) Contingent resources – (1C+2C+3C) – 6.3 million boe
  - c) Prospective resources (unrisked mean estimate) – 89.7 million boe
  - d) Prospective resources fully risked using all the parameters prescribed by the internationally recognised standards (risked mean estimate) – 15.8 million boe.
- As a result of the exploration work carried out and the acquisitions made, the PETROLINVEST Group's share of the prospective resources of the three Contracts, risked using all the five parameters that – in accordance with the internationally recognised standards – are usually taken into account when assessing the risk profile of exploration work, has increased from 40.8 million boe to nearly 90 million boe, its share of the contingent resources has decreased from 7.7 million boe to 6.3 million boe, while its share of the reserves has risen from 1.5 million boe to 1.97 million boe.
- Together with the resources which the Independent Competent Person has assigned to the OTG Contract, the volume of confirmed prospective resources controlled by the PETROLINVEST Group exceeds 2 Bboe (billion barrels of oil equivalent).
- The Report considers in detail the seismic preceding the preparation of the report and its interpretations, and describes the test results for the most important wells drilled by PETROLINVEST Group over the past three years in the areas covered by the Contracts in Kazakhstan.
- In the case of the Emba Contract area, the largest property reviewed by the Report, the geological chance of success rose as a result of the work conducted to date to 13%-31% (from the previously estimated level of 12%-23%).

On 16 July 2009, the Company published a report on the evaluation of the crude oil and natural gas reserves and resources of the TOO OiiTechnoGroup, TOO EMBA JUG NIEFT, TOO COMPANY PROFIT and AKTAU TRANZIT Contracts, prepared by McDaniel & Associates Consultants.

The Company's Management Board would like to draw attention to the following:

- According to the Report, the reserves and resources controlled by the PETROLINVEST Group are valued as follows:
  - a) Prospective resources (risk-weighted) – USD 2.766bn,

- b) Contingent resources – USD 38.3m,
- c) Reserves – USD 8.8m.
- According to McDaniel & Associates Consultants, the reserves and resources of each Contract are valued as follows:
  - a) The OTG Contract:
    - (i) Prospective resources (risk-weighted) – USD 2.628bn,
  - b) The Emba Contract
    - (i) Reserves – USD 8.8m
    - (ii) Prospective resources (risk-weighted) – USD 132.6m,
  - c) The Aktau Contracts
    - (i) Contingent resources – USD 38.3m,
  - d) The Profit Contract
    - (i) Prospective resources (risk-weighted) – USD 5.2m.
- The Management Board would like to point out that in the case of prospective resources the evaluation methodology was adopted taking into account the sizes and parameters of the individual geological structures located in the Contract areas, along with all the risk factors identified by McDaniel & Associates Consultants at the current stage of work, and the expenditures necessary to reclassify the resources and commence commercial production in the Contract areas.
- The Management Board would also like to emphasize that reclassifying prospective resources as contingent resources or reserves may result in a significant increase in the value of such resources (or, to be more precise, the part of such resources to which such reclassification applies) relative to the evaluation presented in the McDaniel & Associates Consultants report. The current stage of work on the Koblandy structure (discounted value: USD 1.7bn) and the Shyrak structure (discounted value: USD 126m) indicates that the probability of such reclassification is the highest in the case of these structures.
- ✓ In 2009, following the strategy of focusing on highly-effective investments adopted towards the end of 2008, the Company sold all its Russian assets: 59.999% of the shares in OOO Siewiergeofizyka, 59.99% of the shares in OOO Nief tiegeoserwis, and 59% of the shares in ZAO Pechora-Petroleum (details in point 3.2.3. of the Report).
- ✓ In 2009, PETROLINVEST Group carried out prospecting and research work in the scope presented below, taking into account the delays in access to the planned sources of finance for investments.

OIL TECHNO GROUP (subsidiary of Occidental Resources, Inc.)

The OTG concession is the key concession for the whole PETROLINVEST Group, for which the independent competent person (McDaniel & Associates Consultant) estimated by far the largest prospective resources at a level of ca. 1.9bn boe (barrels of oil equivalent), specifying their risked mean estimate at USD 2,628.5m. This concession has the largest investment programme in place, which is expected to lead to crude oil and natural gas production being started as soon as possible. Consequently, the independent competent person is expected to reclassify a significant portion of prospective resources to the proven category.

On 14 September 2009, the Company was informed that TOO OilTechnoGroup had signed an annex to the OTG Contract no. 993 for hydrocarbon exploration and production with the Ministry of Energy and Natural Resources of the Republic of Kazakhstan. In compliance with the decision of the Ministry of Energy and Natural Resources of the Republic of Kazakhstan, the annex prolonged the exploration period of the Contract to 18 March 2011 and committed TOO OilTechnoGroup to spending additional USD 23,000 thousand in capital expenditure in the extended prospecting period.

The following works were carried out in 2009:

- ✓ A work programme performance report for 2008 was prepared and filed with competent local inspection authorities. The document was admitted without reservations.
- ✓ Drilling of Shyrak 1 with a planned depth of 7,000m was continued. The well was drilled to a depth of 1,231m and piped with 340mm pipes to a depth of 1,229m.
- ✓ Testing of Koblandy 3 was ongoing. The results obtained during drilling and preparations for production testing—and in particular the gas and oil flows obtained—indicate that hydrocarbon deposit(s) have been discovered in the previously identified geological structures that served as the basis for estimations of the quantity of resources made by the independent competent person.
- ✓ Interpretation of 2D and 3D seismic data, as well as gravimetric and microseismic data from the Koblandy, Tamdy, Bestau, Shyrak, Sarkol, Damba, Utekas, and Aiganym areas was ongoing, using the results of Koblandy 3 and the results of Shyrak 1 obtained to date.
- ✓ The efforts to temporarily secure the Koblandy 3 (K-3) well were finalised.
- ✓ 44 new seismic profiles with a total length of ca. 920 linear km from the south-eastern part of the of the contract area were processed. The profiles were acquired for exploration and preparing the Sarkol and Damba prospects for drilling.
- ✓ Seismic and K-3 well data were integrated for the additional interpretation of the Koblandy 3D survey. The interpretation also contained calibration of the velocity model, the following Pre-SDM calibration and seismic inversion and AVO. The aim of the new interpretation was to determine changes in lithology and properties of reservoir rocks to locate future sites for drilling.
- ✓ Work on 2D seismic data from the north-eastern part of the contract area was ongoing to incorporate the results of Shyrak 1 well obtained to date; the work involved primarily adjusting processing to PreSDM.

- ✓ A work programme performance report for 2009 and a schedule of works for 2010 were prepared and filed with competent local inspection authorities. Both documents were admitted and approved.

#### TOO EMBA JUG NIEFT

The prospective resources of the Emba concession were estimated by McDaniel & Associates Consultant at 84.3 million barrels of oil equivalent, their risked estimated value as at 30 June 2009 is USD 132.6m. Furthermore, reserves (proven plus probable plus possible) were estimated at 1.97 million boe, their value was estimated at USD 8.8m. The aggregate value of reserves and prospective resources for this concession is USD 93.1m.

On 16 November 2009, the Company received a decision of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan prolonging the prospecting period of the Emba Contract to 29 June 2011.

The following works were carried out in 2009:

- ✓ A work programme performance report for 2008 was prepared and filed with competent local inspection authorities. The document was admitted without reservations.
- ✓ Processing of 3D seismic data obtained from the north-west part of the contract area was continued.
- ✓ Design work and preparations for drilling were ongoing.
- ✓ Preliminary interpretation of 3D seismic images from 2006 and 2008 in conjunction with information on the regional geology and paleogeography of the south-east part of the North Caspian Lowland was commenced in order to determine the potential of sub-salt formations and choose prospects for drilling.
- ✓ Interpretation of geophysical and geological data was ongoing in order to determine the potential of sub-salt formations, including prognostic resources (sub-salt prospect Zhusalisay).
- ✓ Interpretation was ongoing to rank prospects in supra-salt structures for the needs of selecting sites for exploration drilling.
- ✓ The first stage of processing of 3D seismic image was finalised (basic processing, stack and post stack migration) and the data from the new 3D image were combined with the 3D image taken in 2006.
- ✓ A work programme performance report for 2009 and a schedule of works for 2010 were prepared and filed with competent local inspection authorities. The work programme performance report for 2009 was admitted while the schedule of works for 2010 will be approved after an annex extending the prospecting period has been signed.

#### TOO COMPANY PROFIT

The prospective resources of the Profit concession were estimated by McDaniel & Associates Consultant at 5.5 million barrels of oil equivalent, and their risked value was estimated at USD 5.2m.

In 2009, following the strategy of focusing on highly-effective investments, the Management Board decided to take steps to sell the stake in TOO COMPANY PROFIT. It is possible that PETROLINVEST S.A. may continue to finance TOO COMPANY PROFIT partly, to the extent that it will allow to maintain the concession until the stake in the company is sold or access to financial resources is provided, allowing for all the planned investment projects to be completed.

The following works were carried out in 2009:

- ✓ A work programme performance report for 2008 was prepared and filed with competent local inspection authorities. The document was admitted without reservations.
- ✓ Work on a new prospecting project on the contract area was continued.
- ✓ Design work and preparations for drilling were continued.
- ✓ Interpretation of geophysical and geological data was ongoing in order to determine the prognostic resources for prospects in the north-east part of the contract area.
- ✓ Reinterpretation of the 2D seismic image together with the results of the drillings was ongoing in order to select prospects for drilling, with a particular emphasis on the north-east part of the contract area.
- ✓ A work programme performance report for 2009 and a schedule of works for 2010 were prepared and filed with competent local inspection authorities. Both documents were admitted and approved by the competent authorities.

Events pertaining to concessions held by entities with whom the Company has conditional investment agreements.

#### AKTAU TRANSIT

The concessions owned by Aktau Transit were covered by the independent competent person's report from McDaniel & Associates Consultant who estimated the conditional resources for those concessions at a level of 6.3 million barrels of oil equivalent with a value of USD 38.3m.

- ✓ Work programme performance reports for 2008 and schedules of works for 2009 for the Zhangurshi and Tyubedzhik concessions were prepared and filed with competent local inspection authorities. The documents were admitted without reservations.
- ✓ Trial production of crude oil was continued on the Zhangurshi Concession within a trial exploitation project.
- ✓ Drilling and testing of new wells was continued on the Tyubedzhik Concession.

#### 3.2.2. Gas sales

- ✓ The Company continued the process of improving effective management of the Group initiated last year, and on 16 March 2009 it was given consent by the Extraordinary General Meeting of PETROLINVEST S.A. to widen the scope of the

Company's activities by adding accounting, book-keeping and auditing activities, tax consultancy, activities of head offices and holding companies, except financial holding companies, and other business and management consulting activities (details in point 5.1. of the Report).

- ✓ On 7 May 2009, the EGM of PETROLINVEST S.A. adopted a resolution giving consent to sell, lease or otherwise dispose of the organised part of the Company's enterprise involved in gas trading in favour of TPG GAZ Spółka Akcyjna headquartered in Łubiana ("TPG")<sup>1</sup>. The decision was taken with a view to increase the value of the Company and its capital assets by working out such a management structure that would enable the Company to focus to a greater extent on prospecting and production, as well as to create market value for TPG (wholly-owned by the Company) as a specialised entity and a leader in LPG trading in Poland and Central East Europe (details in point 5.1. of the Report).
  
- ✓ On 4 November 2009, the Company and Morgan Stanley Capital Group, Inc. concluded an LPG supply agreement. The agreement provides that the Company will purchase 140,000 tons of LPG in total between the years 2010 to 2011 with an estimated value of USD 90,000,000.  
The agreement allows Morgan Stanley to generate a slightly higher margin than that generated on agreements with other recipients. In connection with the conclusion of this Agreement, the parties renounced their mutual claims for non-deliveries of LPG under agreements that were in force in 2008 and committed to terminate court proceedings in Poland and the UK immediately.  
The agreement with Morgan Stanley meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.
  
- ✓ On 10 November 2009, the Company entered into two agreements for purchases of liquefied propane-butane mix with a new LPG supplier (the "Agreement") with an estimated aggregate value of USD 52,200,000.  
The terms and conditions of the Agreements do not vary from market terms used for land and sea deliveries, as appropriate. Deliveries of LPG will be made according to the "CIF Gdynia" and "DAF or CPT Polish boarder" formulas in accordance with Incoterms 2000. The Agreements cover LPG deliveries for 12 months with an option to extend for subsequent periods.  
The estimated value of each of the agreements is USD 26,100,000 and exceeds 10% of the Company's equity, thus meeting the criteria of a significant agreement.  
Up to the date of approval of the Management Board Report, deliveries under those agreement have not yet been started.

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<sup>1</sup> The business name of the subsidiary TPG GAZ S.A. was changed to PETROLINVEST GAZ S.A. on 28 September 2009.

### 3.2.3. Financial area

- ✓ On 13 January 2009, the Company signed an agreement with PROKOM Investments S.A. ("Prokom") pertaining to:
- conditional acquisition by the Company from Prokom of accounts receivable associated with the financing of prospecting works on the Bozoba field which belongs to BMB Munai, as well as accounts receivable and rights pertaining to indirect acquisition of shares in BMB Munai (BMB Munai is involved in testing the B-200 well located on the Bozoba field),
  - replacing the Call option available to Prokom under loan agreements extended in 2006-2008 to finance acquisitions of oil prospecting and extraction companies in Kazakhstan and Russia, as well as the prospecting works carried out by those companies, with the Call option granted under the agreement,
  - expanding the scope of the Call option to all accounts receivable by Prokom from the Company.

The Agreement envisages that Prokom shall transfer to the Company:

- accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A. which shall entitle Prokom to a PLN 44,633,884 account receivable from the Company, reflecting interest accrued as at 30 September 2008; and
- rights and obligations under the share sale agreement of 20 December 2007 concluded between Prokom and Mars International Worldwide Inc. pertaining to indirect acquisition of shares in BMB Munai, one of the companies of Capital Energy S.A. group; the transfer entitles Prokom to a PLN 20,250,000 account receivable from the Company;

additionally, if the transfer of the accounts receivable and rights specified above (or any other collateral established in connection with the above-mentioned loan agreement) should require any consent or permit from any administrative authorities, corporate authorities, or third parties, the Company and Prokom agreed to co-operate in good faith to obtain such consents or permits as quickly as possible. Specifically, until the consent of the consortium's agent bank is granted, the transfer of the accounts receivable and rights specified above is effectively only a commitment.

Furthermore, the parties confirmed in the Agreement that apart from the accounts receivable described above:

- the aggregate value of trade accounts receivable by Prokom from the Company which arose in the course of regular business activities of both companies, with accrued interest, is PLN 2,100,629.79 as at 13 January 2009 (as per the correction made in the annex dated 28 January 2009); and
- the aggregate value of accounts receivable by Prokom from the Company under the loans extended by Prokom, with accrued interest, was PLN 218,922,996.05 as at 13 January 2009.

As at 13 January 2009, the aggregate balance of the above-listed accounts receivable by Prokom from the Company, including the accounts receivable transferred on condition, was PLN 285,907,509.84; with the reservation that the interest accrued on the Capital Energy S.A. account receivable was calculated as of 30 September 2008.

As provided in the agreement, Prokom has the right to demand that the Company transfer to Prokom (on one or many occasions) such a number of Company shares that is the quotient of the value of Prokom's accounts receivable (or a portion thereof) with accrued interest and the average closing price of one Company share at the WSE in the three months preceding the date on which Prokom makes the demand. The Company will be obliged to transfer to Prokom, or issue and offer to Prokom, the shares specified in such a demand within five days from the date of the request, however not later than within three years from 13 January 2009. The Company may also fulfil this obligation by taking a resolution on a share capital increase in the Company—within the limits of authorised capital as envisaged in Par. 11 of the Company's Statutes—through the issuance of Company shares that will be offered exclusively to Prokom, excluding the pre-emptive rights of the remaining shareholders.

Prokom will be obliged to cover the shares subscribed for (pay for the shares acquired) in the manner described above—with a financial contribution (in cash) which shall be made (which shall be paid) by netting outstanding accounts receivable by the Company from Prokom under a given share subscription (sale) agreement and accounts receivable by Prokom from the Company.

The provisions of the Agreement described above—referring to Prokom's rights—replaced, in respect of the loan agreements concluded between Prokom and the Company, the Call Option granted to Prokom on 6 June 2008.

The following events took place in execution of the Agreement discussed above in 2009:

- On 28 January 2009, the Company received from Prokom Investments S.A.:
  - a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the aggregate amount of all accounts receivable by Prokom from the Company as specified in the Agreement with accrued interest, the value of which as of 13 January 2009 was made public in current report no. 4/2009 published by the Company on 14 January 2009, and (ii) the average closing price of one Company share at the WSE in the three months preceding 28 January 2009, i.e. Petrolinvest share price quote of PLN 45.9387; and
  - a call to offer to Prokom, within five days from 28 January 2009, to subscribe for 2,100,000 ordinary bearer Petrolinvest shares at an issue price of PLN 45.9387 per share, that is for a total consideration of PLN 96,471,270.00.

In the statement delivered to the Company, Prokom indicated that the aggregate amount of the accounts receivable which served as the basis for calculating the number of shares participating in the call comprised:

- all trade accounts receivable by Prokom from the Company which arose in the course of regular business activities of both companies, with interest accrued thereon as at 13 January 2009, which amount to PLN 2,100,629.79; and

– a fraction of accounts receivable by Prokom from the Company under the loans extended by Prokom, comprised of a principal amount following from the loan agreement concluded on 2 October 2006 of up to PLN 92,370,640.21 and interest accrued thereon—following from the same loan agreement—of up to PLN 2,000,000. On 9 February 2009, the Company concluded a netting agreement with Prokom Investments S.A., which qualified as a significant agreement, exercising the call referred to above (details in point 3.2.4 of the Report). In consequence of the exercise of the call, Prokom Investments S.A.'s receivables totalling PLN 96,471,270.00 were converted to the Company's equity.

2. On 31 July 2009, the Company received from Prokom:
- a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the aggregate amount of interest payable on Accounts Receivable under the Loans extended by Prokom accrued from 28 January 2009 to 30 July 2009 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 49.4060, and
  - a call to offer to Prokom, within five days from 31 July 2009, to take up:
    - 2,720,716 ordinary bearer Petrolinvest shares at an issue price of PLN 45.9387 per share, that is for a total consideration of PLN 124,986,156.11,
    - 58,275 ordinary bearer Petrolinvest shares at an issue price of PLN 49.4060 per share, that is for a total consideration of PLN 2,879,134.65,that is on aggregate 2,778,991 ordinary bearer Petrolinvest shares at a weighted average issue price of PLN 46.0114 per share.

In the statement delivered to the Company Prokom indicated that the aggregate amount of the accounts receivable, which served as the basis for calculating the number of shares participating in the call:

- in point b) first subpoint above, totalling PLN 124,986,163.01, comprised:
  - all accounts receivable by Prokom from the Company under the Loans extended by Prokom together with interest accrued to 28 January 2009, totalling PLN 124,976,468.68, which comprise the principal amount of PLN 107,599,770.75 and interest of PLN 17,376,697.93;
  - interest on trade accounts receivable by Prokom from the Company which arose in the course of regular business activities of both companies accrued for the period from 13 January 2009 to 28 January 2009 totalling PLN 9,694.33,
- in point b) second subpoint above, interest payable on Accounts Receivable under the Loans defined in appendix no. 1 to the agreement dated 13 January 2009 accrued for the period from 28 January 2009 to 30 July 2009 totalling PLN 2,879,175.04.

On 3 August 2009, in order to perform the call, the Company concluded a netting agreement with Prokom Investments S.A., which qualified as a significant agreement (details in point 3.2.4. of the Report).

In consequence of the exercise of the call, Prokom Investments S.A.'s receivables totalling PLN 127,865,266.50 were converted to the Company's equity.

- ✓ On 20 March 2009, the Company concluded an agreement with its majority shareholder, Prokom Investments S.A. ("Prokom"), which sets out the terms and conditions for cooperation in seeking financing for the Company.

In the Agreement, Prokom committed to take appropriate actions to obtain a PLN 150 million financing for the Company's operations (the "Financing"), while the Company committed to accept the Financing obtained by Prokom under the Agreement. The Financing will be provided on the basis of loan agreements or other agreements of similar nature, on an arm's length basis, or as a direct equity investment into Petrolinvest shares, with the reservation that the loans or similar agreements will be uncollateralized and subordinated to the Company's bank debt, unless otherwise agreed by the parties.

The Financing will be provided to the Company by Prokom, or another entity appointed by Prokom (Prokom or another entity appointed by Prokom henceforth referred to as the "Financing Entity"), based on agreements which should stipulate the authority of the Financing Entity to file a conversion request for an outstanding amount of the Financing, with accrued interest and other costs resulting from the Financing documents, to be converted, either fully or partially, into Petrolinvest equity (the "Request").

If the Financing Entity should have the intention to make a direct equity investment into Petrolinvest shares, the Request will apply accordingly to an issue of Petrolinvest shares on terms stipulated in the Agreement.

The Request will be irrevocable and may be made by the Financing Entity at any date set by the Financing Entity or at the date stipulated in the Financing document. Subscription and payment for the shares in execution of the Request will be made within two months from the date of the Request. If the share issue is not made from the authorised capital, the deadline for subscription and payment for the shares in execution of the Request will be four months from the date of the Request.

Once the Request is made, the Company is committed to take all actions necessary to increase the share capital through the issue of new Petrolinvest shares ("New Shares") within the timeframe specified in the Request in exchange for a cash contribution at an issue price per New Share equal to an average close price of the Company's shares at the Warsaw Stock Exchange ("WSE") from 180 quoting days preceding the date of the Request, or—if the Financing Entity shall decide so—at an issue price per New Share equal to the close price of the Company's shares at the WSE from the day preceding the date of the Request, in each case reflecting the effects of possible distribution of the shares.

The New Shares will first be issued within the scope of the authorised capital, and the Company is obliged to provide such a level of authorised capital that allows for an issue of the New Shares to be effected within its limits.

If a Request is made for full or partial conversion of the outstanding amount of the Financing, the New Shares shall be paid for by way of contractual netting of accounts receivable by the Financing Entity and accounts receivable by the Company under the New Share issue.

If, in execution of the Agreement, Prokom should obtain financing from another Financing Entity, other than Prokom, then Prokom shall be entitled to remuneration from the Company equal to 2% (net) of the value of the Financing so obtained.

The Agreement provides that the Financing should be obtained by 31 December 2010.

The Agreement was concluded at arm's length.

The Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

- ✓ On 29 April 2009, the Company entered into an agreement with GEM Investments Advisers, Inc ("GEMIA") and GEM Global Yield Fund Limited ("GEM") under which a PLN 200 million financing was made available to the Company through an equity line of credit (the "Agreement") and which provides that subscription warrants convertible into 1,300,000 Petrolinvest shares are to be issued to GEM at PLN 60 per share (aggregate value PLN 78 million) (the "Warrants").

The Agreement gives the Company the option to demand within three years from the date of the Agreement that GEM subscribe for subscription warrants, exercise the rights to subscribe for the shares, and take up Petrolinvest shares issued within the scope of the authorised capital, the total issue price of which shall not exceed PLN 200 million, provided that the number of warrants and shares in one draw will not be higher than seven times the average turnover volume of Petrolinvest shares during 15 trading days preceding the day on which the Company uses the equity line of credit that has been granted to it. The Company may decide when to use the equity line of credit at its own discretion, depending on its current capital requirements, and use each tranche of the financing as needed. The Company is not obliged to use the full amount of the equity line of credit.

Petrolinvest shares issued under the Agreement will be taken up in exchange for cash contributions. The issue price per share will vary depending on the time when the Company chooses to use the equity line of credit and will be determined using 90% of the average Petrolinvest close price quoted on 15 consecutive quoting days preceding the day on which the subscription warrants conferring the right to subscribe for the shares are taken up ("Subscription Date").

In each draw, as a rule GEM will be obliged to take up subscription warrants conferring rights to subscribe for Petrolinvest shares—and following that the Company's shares—that represent no less than 50% and no more than 200% of such number of Company shares that the Company sets out at the moment it decides to use the equity line of credit, which does not in any way reduce the amount of the credit line.

On a day falling within 4 months from the earliest Subscription Date on which the subscription warrants were taken up and for which Petrolinvest shares have not yet been issued ("Closing Date"), the Management Board will adopt a resolution to issue such a number of Company shares—within the scope of the authorised capital and excluding the pre-emptive rights—that corresponds to the number of subscription warrants held by GEM on the Closing Date (the "Shares") (as provided in the Agreement, appropriate consents from the Chairman of the Company's Supervisory Board and the Supervisory Board itself will be given on the Closing Date as well). The Agreement provides that the Shares will be offered and taken up by GEM on the Closing Date. Immediately following the registration of the Shares in the National Court Register, the Company will take all actions necessary to introduce the Shares to trading at the WSE.

As provided in the Agreement, the Company paid PLN 2,000,000 remuneration to GEMIA on the first Subscription Date.

In addition, the Company agreed to issue Warrants convertible into Petrolinvest shares at an issue price of PLN 60 per share (the price may change in certain circumstances) as follows: (i) 650,000 Warrants issued within the scope of the authorised capital, immediately following registration by the court of the amendments to the Company's statutes determining the authorised capital; and (ii) another 650,000 Warrants pursuant to an appropriate resolution of the Company's Extraordinary General Meeting convened within 60 days from the date of the Agreement. If the EGM does not take the resolution, the Company will issue the Warrants referred to in point (ii) from the authorised capital.

The Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

The equity line of credit is a recognised solution used in US and UK markets that provides a flexible mechanism of increasing share capital – by amounts and on dates suited to the Company's current requirements.

The GEM Group is a US-based private equity group founded in 1991, with offices in New York, London, and Beijing. The GEM Group manages US\$ 3.4 billion worth of assets and has completed more than 200 transactions in 29 countries across the world. It specialises in private investments but also invests in publicly-listed companies. The GEM Group operates in the US and internationally, across a broad spectrum of industries and transactional structures. Investments of GEM Group usually involve engagement in shares. GEM Group often provides financing for an entire undertaking or acts as the leading investor.

By the end of the period covered by the Report, the Company has obtained over PLN 42.9 million through the equity line of credit by issuing 1,200,000 shares to GEM Global Yield Fund (details in point 3.2.4. of the Report).

- ✓ On 14 May 2009, the Company signed three agreements regulating the terms and conditions of using the assets made available by third parties to collateralise the repayment of its credit facility:
  - An agreement with Prokom Investments S.A. (henceforth "Prokom", "Agreement I"), setting forth the terms on which PROKOM makes its assets available to the Company to use as security for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego,
  - An agreement with Osiedle Wilanowskie Sp. z o. o. (henceforth "Osiedle Wilanowskie", "Agreement II"), setting forth the terms on which Osiedle Wilanowskie makes its assets available to the Company to use as security for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego,

- An agreement with Agro Jazowa S.A.<sup>2</sup> (henceforth "Agro Jazowa", "Agreement III"), setting forth the terms on which Agro Jazowa makes its assets available to the Company to use as security for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego.

The average value of the assets encumbered by Prokom, Osiedle Wilanowskie and Agro Jazowa as collateral for the Company's credit facility under Agreements I, II and III, according to professional surveyor's reports and stock quotes, in the period from the encumbrance date to the date of signing of Agreements I, II and III amounted to PLN 642.67 million (PLN 860 million maximum in the period). In exchange for the benefits provided by entities acting as second parties to the agreements—i.e. the possibility of the Company using those entities' financial and physical assets to collateralise the credit facility taken out by the Company to finance the investments of the oil prospecting and extraction companies of PETROLINVEST Group in Kazakhstan and the Russian Federation—those entities are entitled to a fee. The fee will be calculated for the full period of encumbrance using the value of the assets made available for that purpose and an average cost of obtaining debt financing by the entities that have made the assets available, which in the encumbrance period is on average 7%. For the purpose of calculating the remuneration referred to above, the parties agreed that the cost of obtaining the financing is 6.5%.

As provided in Agreements I, II and III, the fees for using the assets made available by Prokom, Osiedle Wilanowskie and Agro Jazowa do not have to be settled in cash but may be converted into Petrolinvest shares in proportions agreed during the term of the agreements. The fees may be prepaid; however, the prepayment may not be higher than the fee due for the period ending on the prepayment date.

As provided in the agreements, Prokom, Osiedle Wilanowskie and Agro Jazowa (henceforth "the Demanding Party") have the right to demand that the Company transfer to the Demanding Party (on one or many occasions) such a number of Company shares that is the quotient of the amount of the Demanding Party's accounts receivable (or a portion thereof) and the average closing price of one Company share at the WSE in the three months preceding the date of the demand made by the Demanding Party. The Company will be obliged to transfer to the Demanding Party, or issue and offer the shares specified in such a demand within five days from the date of the request, however not later than within three years from freeing the Encumbered Assets from encumbrance. The Company may also fulfil this obligation by taking a resolution on a share capital increase in the Company—within the limits of authorised capital as envisaged in Par. 11 of the Company's Statutes—through the issuance of Company shares that will be offered exclusively to the Demanding Party, precluding the pre-emptive rights of the remaining shareholders with the consent of the Supervisory Board.

The Demanding Party will be obliged to cover the shares subscribed for (pay for the shares acquired) in the manner described above—with a financial contribution (in cash) which shall be made (which shall be paid) by netting outstanding accounts receivable by the Company from the Demanding Party under a given share subscription (sale) agreement and accounts receivable by the Demanding Party from the Company under the agreements.

The Management Board wishes to point to the fact that in the credit facility agreement the Banks that finance the Company's prospecting activities have obtained an above-standard comfort of collateral for the project and the accompanying, standard risks have been greatly reduced. At the same time, the Company gained access to financing that would be impossible to get without the support of Prokom, Osiedle Wilanowskie and Agro Jazowa which provided their own assets as collateral for the credit facility. Please note that the financing that has been obtained for the prospecting and extraction project at its early stage is more of an equity investment than a debt instrument; hence, the overall cost of obtaining it, which involves the cost of obtaining and servicing the credit facility and the cost of obtaining collateral in the amount stipulated above, should be considered favourable.

Osiedle Wilanowskie and Agro Jazowa are subsidiaries of Prokom and have been in close cooperation with Prokom from the beginning of the project of obtaining finance for the Company's operations from the Banks in an effort to make it possible for the Company to draw the credit facility on the best possible terms. Those efforts are connected with the performance of the Support Agreement concluded on 21 March 2007 between Prokom, PKO BP S.A. and the Company where Prokom committed to support the Company's investment projects financed by the Banks. In compliance with the Support Agreement, Prokom's receivables following from Agreement I are subordinated to the receivables due under the credit facility agreement dated 21 March 2007 referred to above.

As at the date of conclusion of the agreement, the total amount of prepayments payable to Prokom, Osiedle Wilanowskie and Agro Jazowa towards remuneration due for providing assets as collateral for the credit facility was PLN 89,835,945.14 in compliance with the documents provided to the Company at that time. The agreements collectively meet the criteria of a significant agreement because the aggregate value of their subject matters, to the extent that had been delivered up to the date of conclusion of the Agreements, exceeds 10% of the Company's equity (Osiedle Wilanowskie and Agro Jazowa are subsidiaries of Prokom).

In execution of the agreements concluded on 14 May 2009, which regulate the terms and conditions of using the assets made available to collateralise the credit facility, on 30 November 2009 the Company received:

1. from Prokom Investments S.A.:
  - a) a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the account payable to Prokom by the Company for the prepayments defined in the Agreement with Prokom and listed in the request, totalling PLN 76,557,181.40 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 35.3415; and

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<sup>2</sup> On 30 September 2009, Prokom Investments S.A. became the legal successor of AGRO JAZOWA S.A.

- b) a call to offer to Prokom, within five days from 30 November 2009, 2,166,212 ordinary bearer Petrolinvest shares, at an issue price of PLN 35.3415 per share, i.e. for a total consideration of PLN 76,557,181.40;
2. from Osiedle Wilanowskie Sp. z o.o.:
  - a) a request to transfer to Osiedle Wilanowskie a number of shares that corresponds to the quotient of (i) the account payable to Osiedle Wilanowskie by the Company for the prepayments defined in the Agreement with Osiedle Wilanowskie and listed in the request, totalling PLN 11,924,787.56 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 35.3415; and
  - b) a call to offer to Osiedle Wilanowskie, within five days from 30 November 2009, 337,416 ordinary bearer Petrolinvest shares, at an issue price of PLN 35.3415 per share, i.e. for a total consideration of PLN 11,924,787.56.

In compliance with the provisions of the Agreements concluded on 14 May 2009, the above-mentioned accounts payable could have been satisfied with cash. The payment of those accounts through a share issue, at a market price higher than the current stock exchange price and not lower than the price offered to investors in the issue preceding the date of the calls was a favourable solution from the Company's perspective, taking into account the Company's financial needs.

On 4 December 2009, the Company concluded netting agreements with Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o. which delivered the calls discussed above and which qualified as significant agreements (details in point 3.2.4. of the Report).

In consequence of the exercise of the calls, the receivables of Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o. totalling PLN 88,481,968.96 were converted to the Company's equity.

- ✓ On 25 June 2009, the Company signed agreements with Ms. Tatiana Pilipienko, Mr. Sergey Dokuchaev, and Mr. Aidar Mardanshin (the "Buyers") (the "Agreements") which oblige the Company to dispose in favour of the Buyers of the following:
  - an aggregate of 59.999% of the shares in OOO Siewiergeofizyka headquartered in Ukhta, Komi Republic, Russian Federation ("Siewiergeofizyka") ("Siewiergeofizyka Shares"), including 24.999% of the shares in Siewiergeofizyka in favour of Ms. Tatiana Pilipienko, 10% of the shares in Siewiergeofizyka in favour of Mr. Sergey Dokuchaev, and 25% of the shares in Siewiergeofizyka in favour of Mr. Aidar Mardanshin;
  - an aggregate of 59.99% of the shares in OOO Nieftiegeoserwis headquartered in Ukhta, Komi Republic, Russian Federation ("Nieftiegeoserwis") ("Nieftiegeoserwis Shares"), including 24.99% of the shares in Nieftiegeoserwis in favour of Ms. Tatiana Pilipienko, 10% of the shares in Nieftiegeoserwis in favour of Mr. Sergey Dokuchaev, and 25% of the shares in Nieftiegeoserwis in favour of Mr. Aidar Mardanshin; and
  - an aggregate of 59% shares in ZAO Pechora-Petroleum headquartered in Ukhta, Komi Republic, Russian Federation ("Pechora-Petroleum") ("Pechora-Petroleum Shares"), including 24.50% of the shares in Pechora-Petroleum in favour of Ms. Tatiana Pilipienko, 9.75% of the shares in Pechora-Petroleum in favour of Mr. Sergey Dokuchaev, and 24.75% of the shares in Pechora-Petroleum in favour of Mr. Aidar Mardanshin.

The aggregate purchase price of Siewiergeofizyka Shares was set at USD 1,800, provided however that if, while the Buyers are in the possession of Siewiergeofizyka Shares, C1 or C2 hydrocarbons are discovered on the Vysovskye Concession and are placed in the national resources register, each of the Buyers will be obliged to pay in favour of the Company an additional compensation of USD 2 for each ton of C1 hydrocarbons placed in the national resources register and USD 1 for each ton of C2 hydrocarbons placed in the national resources register; however, the aggregate amount of such additional compensation will not exceed USD 6,000,000 per Buyer.

The aggregate purchase price of Nieftiegeoserwis Shares was set at USD 180, provided however that if, while the Buyers are in the possession of Nieftiegeoserwis Shares, C1 or C2 hydrocarbons are discovered on the Yermalovskye Concession or the Yuzhno-Nyertsovskye Concession and are placed in the national resources register, each of the Buyers will be obliged to pay in favour of the Company an additional compensation of USD 2 for each ton of C1 hydrocarbons placed in the national resources register and USD 1 for each ton of C2 hydrocarbons placed in the national resources register; however, the aggregate amount of such additional compensation will not exceed USD 6,000,000 per Buyer.

The aggregate purchase price of Pechora-Petroleum Shares was set at USD 360, provided however that if, as a result of the first two drillings on the Porozhskye Concession and the Vyerkhnye-Pechorskyye Concession, hydrocarbons are discovered that reach confirmed commercial flow rates of 10 tons per day, each of the Buyers will be obliged to pay USD 2,000,000 in favour of the Company.

One of the conditions precedent of the Agreements was the consent from the Company's financing banks and gaining all other necessary consents and representations regarding the renouncement of rights, including priority rights. Another condition precedent of the disposal of Siewiergeofizyka Shares by the Company was the renouncement by Mr. Valery Garipov of his right to additional consideration payable by the Company under the agreement concluded on 3 May 2006, while a condition precedent to the disposal of Pechora-Petroleum Shares by the Company was the renouncement by Mr. Valery Garipov, Mr. Aleksey Hitrov, and Ms. Olga Ramzenkova of their rights to additional consideration payable by the Company under the agreements concluded on 12 February 2007.

The Agreements meet the criteria of significant agreements because their value exceeds 10% of the Company's equity.

The Management Board believes that the execution of those agreements helped to reduce the liabilities of PETROLINVEST Group while retaining the option of the Group participating in the potential increase in value of the assets that have been sold.

On 29 September 2009, the Company received a consent from PKO BP S.A., acting as the Facility Agent for the facility extended to the Company under the credit facility agreement dated 21 March 2007 as amended, for the Company to carry out activities resulting from the agreements concluded on 25 June 2009 with Ms. Tatiana Pilipienko, Mr. Sergey

Dokuchaev, and Mr. Aidar Mardanshin in respect of disposing of shares/stocks in the companies operating in the Russian Federation. As a result of this consent being given, the conditions precedent of the share sale agreements pertaining to shares/stocks in OOO Siewiergeofizyka, OOO Nieftieoserwis and ZAO Pechora-Petroleum had been met.

On 2 October 2009, in connection with the disposal of the Russian assets, the Company signed three agreements with ZAO "Neva-Expo" with its registered office in the Russian Federation (the "Assignee") under which the Company transferred to the Assignee loan receivables due to the Company from:

- OOO Siewiergeofizyka, totalling USD 18,572,000 with accrued interest, for a consideration of USD 300;
- OOO Nieftieoserwis, totalling USD 8,239,500 with accrued interest, for a consideration of USD 300; and
- ZAO Pechora-Petroleum, totalling USD 10,462,000 with accrued interest, for a consideration of USD 300.

Please note that the balance-sheet value of the receivables from the loans advanced to those companies is zero zloty. Following the Management Board decision to give up the investments in the Russian oil exploration and production companies, those loans were written off as part of the revaluation of net assets associated with the projects developed in the Russian Federation, of which the Company informed the public in the 2008 annual report.

The agreements meet the criteria of significant agreements because their nominal value exceeds 10% of the Company's equity.

- ✓ On 24 November 2009, the Company and Polskie Górnictwo Naftowe i Gazownictwo S.A. (henceforth "PGNiG") entered into a Framework Cooperation Agreement, setting out the terms of cooperation in respect of oil prospecting and extraction activities of PETROLINVEST Group, acquiring new projects, and setting out the terms of future acquisition of interests in Petrolinvest's assets or Petrolinvest shares by PGNiG.

In particular, in the agreement the parties defined the following:

- The principles of exercising operating control and managing the entire geological work carried out by OTG and TOO Emba Jug Nieft on the Kazakhstan concessions (henceforth "the Concessions"). The control involves:
  - a) Setting up a four-member Steering Committee consisting of two representatives of the management boards of both PGNiG and the Company,
  - b) Setting up a team in charge of operating management and cooperation (Operating Committee), with the reservation that PGNiG will have the right to appoint the Chairman of the Operating Committee.
  - c) The Company ensuring that a person indicated by the Management Board of PGNiG is appointed to the Company's Supervisory Board.
- The obligation of PGNiG to present, for a certain fee, a concept of geological work on the Concession areas and the obligation of the Company to treat the companies of PGNiG Group as the preferred contractors, with consideration to all applicable laws. With this concept in mind, the Parties will take a joint decision with respect to geological work, including, in particular, drilling of a deep well.
- The obligation to inform one another, in the scope permitted by law, about any planned exploration and extraction undertakings in the former countries of the Commonwealth of Independent States and to take actions to ensure there is cooperation in such undertakings. In particular, if efforts are undertaken to acquire shares/stocks in new hydrocarbon exploration and extraction companies, the parties will provide mutual support in respect of the due diligence process, designing the structure of the potential transaction, and joint financing of the potential acquisition.
- The parties agreed the terms and conditions on which PGNiG will have the option to acquire Petrolinvest shares or an interest in Petrolinvest's assets, including in particular PGNiG's right to negotiate such acquisition at any time; the obligation of the Company to inform PGNiG about discussions with other entities regarding their equity or organisational involvement in the Company's prospecting and extraction undertakings, acquisitions of Petrolinvest's assets or acquisitions of Petrolinvest shares; the timeframe in which PGNiG has the right to use the option to purchase Petrolinvest's assets or Petrolinvest shares on terms at least as favourable as those offered by the Company to a third party.
- The obligation of the Company to ensure that the liabilities of TOO Emba Jug Nieft to entities of PGNiG Group are settled on or before 15 December 2009. All the liabilities were settled by the deadline agreed by the parties.

From the Company's perspective, the conclusion of the agreement with PGNiG opens a new phase in the execution of the oil prospecting and production strategy in Kazakhstan. The cooperation with PGNiG provides the Company with support from another industry player, the advantage of many years of experience of PGNiG Group in the field of prospecting and extraction in the oil and gas sector, and the organisational and capital resources of PGNiG Group. The conclusion of the agreement also means that the Polish incumbent, PGNiG, has gained, apart from operating control, the option to add the assets held by PETROLINVEST Group in Kazakhstan to its own production asset portfolio in the future.

During PETROLINVEST S.A.'s negotiations regarding the conclusion of the cooperation agreement with PGNiG S.A., on 29 September 2009 the Management Board received information from TOO Emba Jug Nieft that a bankruptcy petition had been filed by PNiG Kraków Sp. z o.o. with a competent court in the Republic of Kazakhstan. On 2 October 2009, PNiG Kraków Sp. z o.o. and TOO Emba Jug Nieft, and PNiG Kraków Sp. z o.o. and PETROLINVEST S.A. concluded arrangement agreements in which the parties agreed on the following: timetable of payment of liabilities due to PNiG Kraków Sp. z o.o. by TOO Emba Jug Nieft, that TOO Emba Jug Nieft shall renounce all and any claims pertaining to the quality of work already completed, and that all execution and bankruptcy motions filed by PNiG Kraków Sp. z o.o. shall be withdrawn. All provisions of those arrangement agreements were delivered on time.

- ✓ The entities of PETROLINVEST Group concluded the following significant agreements with the banks in 2009 in connection with the existing credit facility or loan agreements:

- On 20 February 2009, the Company was informed that Occidental Resources, Inc. gave a guarantee to Bank CenterCredit JSC to collateralise the loan taken out by TOO OilTechnoGroup. The guarantee agreement was a significant agreement (details in point 7.2. of the Report).
  
- On 18 March 2009, the Company and PKO BP, acting as the Facility Agent, entered into a pledge agreement over the shares of Occidental Resources Inc. ("ORI"). The Pledge Agreement was concluded in execution of the obligation provided for in the pledge agreement concluded with PKO BP on 30 December 2008. The Pledge Agreement established a pledge over 75,947,519 ORI shares.  
The nominal value of each ORI share is USD 0.001. The Pledged ORI Shares are the Company's long-term equity investment. The Company owns shares representing 88.10% of ORI share capital and carrying 88.10% of the votes at the company's general meeting. The nominal value of the Pledged ORI Shares is USD 75,947.52 and they represent a 38.10% stake in ORI share capital. The Pledge Agreement was concluded in order to secure receivables due under the Credit Facility Agreement dated 21 March 2007 concluded between the Company, PKO BP and Bank Gospodarstwa Krajowego. The receivables that have been secured comprise all amounts due, including the principal amount, interest and other lending costs that the Company agreed to pay under the Credit Facility Agreement. The principal amount of the facility under the Credit Facility Agreement at the moment of establishing the pledge was USD 100,184,412.75 and PLN 2,183,100.  
The book value of the Pledged ORI Shares, which were pledged in accordance with the agreement dated 18 March 2009, entered in the Company's books of account is PLN 135,623.2 thousand.  
The pledged ORI Shares were deemed significant value assets because their value exceeded 10 percent of the Company's equity.  
The aggregate nominal value of the shares pledged as security for the credit facility agreement with PKO BP and BGK is USD 175,613.91 thousand and their share in ORI share capital is 88.10%. The book value of the Pledged ORI Shares entered in the Company's books of account is PLN 546,102.2 thousand.
  
- On 30 March 2009, the Company concluded with the bank PKO BP and Bank Gospodarstwa Krajowego Bank Państwowy ("BGK") – an annex to the Credit Facility Agreement dated 21 March 2007 and with PKO BP acting as the facility agent – agreements for the transfer of rights under loan agreements extended by the Company to companies of PETROLINVEST Group with a book value of USD 72,678,500, including interest, in order to collateralise the Credit Facility Agreement.  
The Annex was concluded in order to regulate the mutual rights and obligations of the parties to the Credit Facility Agreement in connection with an earlier decline in value of a portion of the credit facility collateral portfolio, and also in connection with additional collateral being provided by the Company on 30 December 2008 and 18 March 2009 in the form of a pledge over 88.1% of the shares in Occidental Resources, Inc. owned by the Company.  
On the terms set out in the Annex to the Credit Facility Agreement, the Consortium confirmed that it did not recognise the decline in value of the portion of the collateral portfolio below the level required by the Credit Facility Agreement as an event of default. Also, the Company provided additional collateral in the form of a transfer as collateral of receivables totalling USD 72,678,500 from loans extended by the Company pursuant to Transfer Agreements and committed to provide further collateral in the future, including a pledge over the Company's shares and stocks and transfer as collateral of USD 56,136,000 loan receivables with accrued interest.  
The Annex to the Credit Facility Agreement is treated as a significant agreement because the value of its subject matter exceeds 10% of the Company's equity. The rights provided for in the Transfer Agreement are treated as significant value assets because their value exceeds 10% of the Company's equity.
  
- On 29 September 2009, as the Company had been given consent to carry out activities resulting from the share sale agreements concluded on 25 June 2009 pertaining to the disposal of shares/stocks in the companies operating in the Russian Federation, the Company provided additional collateral to PKO BP S.A. and Bank Gospodarstwa Krajowego for the credit facility agreement dated 21 March 2007 in the form of a transfer of accounts receivable for the premiums payable to PETROLINVEST S.A. under the share sale agreements referred to above. The aggregate maximum value of the premiums that the buyers will be obliged to pay to the Company if certain conditions regarding the discovery of hydrocarbons are met is USD 42m.  
The receivables transfer agreement is a significant agreement because the value of the rights transferred under the agreement exceeds 10% of the Company's equity.

*Events occurring after the end of the reporting period*

- ✓ On 25 February 2010, in execution of the agreements dated 14 May 2009 setting forth the terms on which Prokom Investments S.A. and Agro Jazowa S.A. have made their assets available to the Company to use as security for the credit facility provided by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego (the "Credit Facility Agreement") (the "Agreement with Prokom"), the Company received from Prokom:
- a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the account payable to Prokom by the Company for the prepayments defined in the Agreement with Prokom and listed in the request, totalling PLN 28,726,325.21 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 21.8654; and
  - a call to offer to Prokom, within five days from 25 February 2010, 1,313,780 ordinary bearer Petrolinvest shares, at an issue price of PLN 21.8654 per share, i.e. for a total consideration of PLN 28,726,325.21.
- The accounts payable quoted in the request and the call arose under the Agreement with Prokom and the Agreement with Agro Jazowa. Prokom became the legal successor of Agro Jazowa after the merger.
- In compliance with the agreements dated 14 May 2009 mentioned above, Prokom could have demanded that the receivables listed above be satisfied in cash. Settling those accounts with share issues at an issue price higher than the current stock price was beneficial to the Company, considering its current financial needs.
- Subscription warrants over series V shares were offered and subscribed for within the scope of the conditional share capital increase and series V shares were also subscribed for on 25 February 2010 (details in point 3.2.4 of the Report).
- ✓ On 9 March 2010, the management board of the European Bank for Reconstruction and Development adopted resolutions approving the Bank's financing for the Company's operations in the form of a USD 50m loan convertible into shares. The Management Board would like to point out that the EBRD's decision was preceded by several months' due diligence covering geological, technical, environmental, economic, financial, and legal aspects. As the EBRD's management board resolved to approve the financing, the agreement with the EBRD, apart from providing finance for the Company's investment activities in Kazakhstan, will also involve some actions to be taken by the Company in consultation with the EBRD, aimed at enhancing the Company's corporate governance standards and ensuring that the highest environmental protection standards are applied.
- ✓ On 16 March 2010, TOO OilTechnoGroup, a Kazakh law entity controlled by the Company, ("OTG") and the Company concluded a farm-out agreement with TOTAL E&P KOBLANDY, a French law company belonging to TOTAL Group ("Total"), setting forth the terms and conditions of joint continuation of work on the OTG Concession.
- In the Agreement, Total committed to finance work on the OTG Concession totalling USD 70 million, including drilling the Koblandy-4 well on the Koblandy structure (the "Costs"). In exchange for the financing, OTG committed to transfer a 50% interest in the OTG Concession to Total.
- In addition:
- after commercial production of hydrocarbons is commenced, OTG will refund 50% of the Costs incurred by Total (plus interest equal to LIBOR + 5% p.a.) from OTG's share in production or from proceeds from the sale of that production,
  - after oil discovery in the Koblandy-4 well is officially confirmed, two more wells will be drilled and financed in proportion to Total's and OTG's interests in the OTG Concession; in this case, OTG will have the option of financing its share of the costs of drilling those wells from funds provided by Total; if OTG decides to use this option, Total will acquire another 30% interest in the OTG Concession, provided that an appropriate consent from the Ministry of Energy and Mineral Resources ("MEMR") is obtained.

Furthermore, as provided in the Agreement, the Company and OTG will continue to have exclusive operations on the Shyrak structure located on the OTG Concession while Total will retain the right to join those operations on the terms and conditions stipulated in an agreement. The Agreement provides that Total will become the operator for all the work on the OTG Concession (except for the work on the Shyrak structure) on the basis of a Joint Operations Agreement that will be concluded by and between the parties based on a model contract prepared by the Association of International Petroleum Negotiators ("JOA"), which is a recognised international standard in the oil industry, regulating the terms and conditions of cooperation among partners on the same concession.

The Agreement was concluded with the following conditions precedent:

- obtaining a consent from the Kazakh MEMR to execute the agreement and MEMR's consent to extend the prospecting period of the OTG Concession by a minimum 3 years to ensure proper evaluation of discovered reserves, with the obligation to incur expenditures of up to USD 60 million that will involve making the Koblandy-4 well on the Koblandy structure,
- OTG and Total signing an annex to the concession agreement relating to the OTG Concession,
- terminating the agreement between the Company and PGNIG S.A. that was the subject of current report no. 105/2009 dated 25 November 2009 to the extent applicable to the OTG Concession,
- obtaining appropriate consents from the Company's and OTG's financing banks and clearing the pledge over the OTG Concession,
- concluding an agreement providing that a pledge over 50% of the OTG Concession owned by OTG should be established in favour of Total,
- the Company providing a guarantee of performance by OTG of some of the obligations resulting from the Agreement,
- obtaining other necessary consents, including documents confirming that such consents have been obtained, and delivering the documentation specified in the Agreement to Total.

The offer to conclude a farm-out agreement whereby Total would commit itself to cover the costs of making a new exploration well on the Koblany structure in exchange for 50% of the OTG Concession was made to the Company during negotiations on 23 December 2009.

The Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

The Management Board would like to stress that strategic partnership with TOTAL Group, one of the world's largest oil companies, confirms the success of the strategy adopted by the Management Board and the Company's shareholders in respect of the OTG Concession. The partnership with Total Group will allow for the geological and economical potential of the OTG Concession to be put to full use in the shortest possible timeframe.

Engaging TOTAL Group was preceded by an in-depth analysis of all available geological documentation accumulated during the Company's over 3 years' involvement on the OTG Concession, and in particular—the results of the K-3 well which confirmed the presence of hydrocarbons in the largest structure on the OTG Concession—Koblandy.

The investments and operating support of one of the largest oil companies in the world, with its experience, know-how, organizational and financial resources—and also present in the oil industry in Kazakhstan (Kashagan field)—will significantly accelerate the development of the field and reduce operating and financial risks, which will in effect contribute to the OTG Concession quickly gaining in value and production being started on commercial scale.

- ✓ On 15 and 17 March 2010, the outstanding balance of the credit facility extended to the Company under the credit facility agreement dated 21 March 2007 by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego was reduced by PLN 74m. The reduction of the outstanding balance was possible thanks to the fact that Prokom Investments S.A. had repaid the whole PLN 74m on the dates required by the Banks. Furthermore, on 18 March 2010 the Company received PLN 30m financing from Prokom, which was essential to improve the Company's financial liquidity. Those payments delivered by Prokom are related, among other things, to the execution of the Support Agreement concluded on 21 March 2007 between Prokom, PKO BP S.A. and the Company which provides that Prokom is obliged to support the Company's investment projects financed by the Bank.
  
- ✓ On 18 March 2010—in compliance with the provisions of the agreement dated 13 January 2009 concluded with Prokom regarding, among other things, expanding the scope of the call option to cover all accounts receivable by Prokom from the Company ("Agreement with Prokom I"), and the agreements concluded on 14 May 2009 with Prokom, AGRO JAZOWA S.A. and Osiedle Wilanowskie Sp. z o.o. setting forth the terms on which those entities have made their assets available to the Company to use as security for the credit facility extended by the consortium of PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego ("Agreement with Prokom II") ("Agreement with Agro Jazowa") ("Agreement with Osiedle Wilanowskie"):
  1. the Company received from Prokom, filed in compliance with the Agreement with Prokom I and the Agreement with Prokom II:
    - a) a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the accounts payable to Prokom by the Company for the early repayment by Prokom on 15 and 17 March 2010 of PLN 74,062,500.00 of the credit facility extended to the Company by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the agreement dated 21 March 2007 and for a PLN 2,960,488.15 advance towards the fee for providing and maintaining collateral for the credit facility and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 20.5544; and
    - b) a call to offer to Prokom, within five days from 17 March 2010, 3,747,273 ordinary bearer Petrolinvest shares at an issue price of PLN 20.5544 per share, i.e. for a total consideration of PLN 77,022,948.15;
  2. the Company received from Osiedle Wilanowskie, filed in compliance with the Agreement with Osiedle Wilanowskie:
    - a) a request to transfer to Osiedle Wilanowskie a number of shares that corresponds to the quotient of (i) the account payable to Osiedle Wilanowskie by the Company as an advance towards the fee for providing and maintaining collateral for the credit facility which is equal to PLN 1,582,031.05 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 20.5544; and
    - b) a call to offer to Osiedle Wilanowskie, within five days from 17 March 2010, 76,968 ordinary bearer Petrolinvest shares at an issue price of PLN 20.5544 per share, i.e. for a total consideration of PLN 1,582,031.05;
  3. the Company received from Prokom, filed in compliance with the Agreement with Prokom I:
    - a) a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the account payable to Prokom by the Company for the payment of PLN 30,000,000.00 to the Company's account on 18 March 2010 and (ii) the average closing price of one Company share on the WSE in the last 3 months preceding the date of placing the request, i.e. Petrolinvest share price quote of PLN 20.8282; and
    - b) a call to offer to Prokom, within five days from 18 March 2010, 1,440,354 ordinary bearer Petrolinvest shares at an issue price of PLN 20.8282 per share, i.e. for a total consideration of PLN 29,999,891.18.

The accounts receivable by Prokom quoted in the request and the call referred to in point 1 above arose under the Agreement with Prokom II and the Agreement with Agro Jazowa. After the merger, Prokom became the legal successor of Agro Jazowa.

Subscription warrants over series V shares were offered and subscribed for within the scope of the conditional share capital increase and series V shares were also subscribed for on 18 March 2010. Payments for the Series V Shares were made by netting mutual accounts receivable/accounts payable by the Company and the subscribers. On 18 March 2010, in

execution of the calls referred to above, the Company entered into netting agreements qualifying as significant agreements (details in point 3.2.4. of the Report).

In compliance with the agreements of 13 January 2009 and 14 May 2009, the accounts payable to Prokom and Osiedle Wilanowskie quoted above could have been satisfied in cash. Settling those accounts with share issues is beneficial to the Company, considering its current financial needs.

The early repayment of PLN 74m of the Company's credit facility by Prokom and providing the Company with PLN 30m in cash, and at the same time converting the resultant liabilities of the Company towards Prokom to equity, is a much needed step towards reducing the share of debt in the Company's asset financing structure and directly translates into lower costs connected with servicing the debt.

In consequence of the exercise of the calls, the receivables of Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o. totalling PLN 108,604,870.38 were converted to the Company's equity.

- ✓ On 18 March 2010, the Company concluded an agreement with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and GEM Global Yield Fund Limited (collectively, the "Investors") under which financing of up to PLN 127.5 million is to be made available to the Company, through the issue by the Company of unsecured convertible bonds with a total nominal value of up to PLN 112.5 million and pre-paid subscription warrants for a total amount of PLN 15 million with an exercise price of PLN 19 per share (the "Agreement"), and, furthermore, the delivery to the Investors of up to 2,400,000 subscription warrants issued based on Resolution No. 1 of the Extraordinary General Meeting of the Company of 30 December 2009 (the "EGM Resolution") entitling their holders to subscribe for up to 2,400,000 shares in the Company issued for PLN 35 per share (for the first tranche consisting of 1,200,000 warrants) and PLN 47.5 per share (for the second tranche consisting of 1,200,000 warrants), with a total value of PLN 99 million (the "Warrants"). Each of the Investors is entitled to acquire a relevant part, as specified in the Agreement, of the bonds and warrants to be issued under the Agreement (the "Relevant Part").

The Agreement permits the Company, subject to certain conditions, to issue up to four tranches of convertible bonds or pre-paid subscription warrants with a total issue price of PLN 22.5 million (the first tranche), and PLN 30 million (each of the remaining tranches). The Investors also have the right to demand that the Company issue the remaining tranches and accordingly to purchase bonds or pre-paid subscription warrants issued under such tranches. The price at which bonds from the particular tranches can be converted into the Company's shares is PLN 19 (the first tranche), PLN 22 (the second tranche), PLN 30 (the third tranche) and PLN 36 (the fourth tranche) for one share in the Company, provided, however, that if the mean of the three lowest closing prices (determined based on the exchange listing prices of the Company's shares) of the Company's shares over 20 consecutive trading days immediately preceding the date on which the bondholder submits a notice converting his bonds into the Company's shares is lower than the basic conversion price applicable to the relevant tranche, as stated above, then the conversion price for the bonds referred to in the conversion notice will be equal to that mean price. The possibility of reducing the conversion price based on the aforementioned rule does not apply to bonds issued in the first tranche. The conversion price is subject to adjustment in accordance with agreed formulae upon certain corporate events affecting the Company.

If, during the effective term of the Agreement, the closing price of the Company's shares remains, for any 15 trading days out of any 30 consecutive trading days, above the price levels specified for the relevant bond tranches (i.e. PLN 26 for the second tranche, PLN 36 for the third tranche, and PLN 42.5 for the fourth tranche) following the issue of the previous tranche, the Company will, subject to certain conditions, be entitled to issue the relevant bond (or pre-paid subscription warrant) tranche and demand that the Investors purchase such bonds or pre-paid subscription warrants.

Assuming that the agreement is performed in its entirety in terms of the issue of the convertible bonds and the warrants, and the conversion of all these instruments into shares at a price equal to the base conversion price applicable to the convertible bonds or the exercise price applicable to the warrants, the weighted average issue price of the shares subscribed for by the Investors would be PLN 29.92 per share.

In connection with the fact that in order for the Company to issue the bonds, the Company needs to obtain the prior consent of its financing banks, the bonds may only be issued after such required consent has been procured. Before such consent has been obtained, each of the Investors is entitled to demand that the Company issues, for such Investor's benefit, pre-paid subscription warrants in a number not exceeding the quotient of the value of the given Investor's Relevant Part for the given bond tranche and the basic bond conversion price for the given tranche, which will enable the given Investor to become entitled to subscribe for the same number of shares as he would be entitled to if an equivalent amount of bonds of the same tranche were issued, and at an exercise price corresponding to the conversion price which would apply to the given bond tranche, if such were issued. Moreover, the Company may require the Investors to purchase such pre-paid warrants on the same terms on which it would if it requested that Investors purchase a given tranche of convertible bonds, if such were issued. If subscription warrants are issued in place of the bonds, the Company will, on such issue date, receive funds equal to the funds it would obtain if a relevant part of the bond tranche were issued. Pre-paid subscription warrants issued by the Company in place of the bonds will entitle their holders to subscribe for shares by 31 December 2014. Upon exercising the warrant the pre-paid amount will be credited towards the issue price of the shares subscribed for in the exercise of the warrant. Furthermore, if the issue price of the shares subscribed for in the exercise of the warrant is lower than the issue price applicable on the date such warrant is issued, the Company will be required to issue additional warrants to such warrant holder, whose total number shall be the quotient of (i) the difference between the total amount pre-paid towards the warrants being exercised by the given holder at the given time and the total issue price of the shares subscribed for in the exercise of the warrants, and (ii) the share issue price applicable to the warrants on their relevant exercise date.

The Agreement requires the Company to pay to the warrant holder who exercises his share subscription right a contractual penalty in an amount determined in accordance with a formula provided in the Agreement if, within the

timeframe specified in the Agreement, shares in the Company are not recorded in such warrant holder's securities account in a number stated in the warrant exercise notice. The amount of the contractual penalty depends on how many shares to be subscribed for in the exercise of the warrants failed to be recorded in such warrant holder's securities account and on the time by which such entry was delayed compared to the timeframe provided for recording such shares in such warrant holder's securities account. If a contractual penalty is paid in the manner stated above, the given warrant holder may not seek damages for the relevant delay in excess of such contractual penalty paid.

The negotiations between the Company and the Investors entered the stage of firm commitments on 12 March 2010.

The Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

The Company's management board would like to emphasize that the execution of the Agreement, which has been previously announced by the Company, together with the resolution of the management board of the European Bank for Reconstruction and Development, which the Company announced in current report no. 14/2010 dated 9 March 2010 and the farm-out agreement with the Total Group, which the Company announced in current report no. 16/2010 dated 17 March 2010, closes the financing of another stage of development of PETROLINVEST Group with respect to the licenses held by OilTechnoGroup and Emba Jug Nieft.

- ✓ On 18 March 2010—in compliance with the provisions of the agreement with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and GEM Global Yield Fund Limited—the Company received from the Investors requests to issue, in lieu of convertible bonds of the first tranche, the relevant number of pre-paid subscription warrants. In consequence of the receipt of the request, on the same day, the Company issued to the Investors 1,973,681 pre-paid subscription warrants, which entitle their holders to subscribe for 1,973,681 series V shares in the Company. Furthermore, the Company issued to the Investors 1,200,000 subscription warrants, issued gratuitously, which entitle their holders to subscribe for 1,200,000 series V shares in the Company (details in point 3.2.4).

#### 3.2.4. Capital area

In 2009, the Company finalised the issue of 3,061,105 series G and H shares initiated in Q4 2008. The shares were subscribed for by Kazakh shareholders in execution of the agreement for the sale of shares/stocks in TOO EMBA YUG NIEFT and Occidental Resources Inc. in favour of PETROLINVEST S.A. The Company also carried out subsequent share issues totalling 5,034,783 shares, primarily in order to be able to deliver the oil exploration and extraction project, thus obtaining gross proceeds of PLN 117.5 million, and carried out the issues of 7,382,619 shares in total in order to perform the call option agreement with Prokom Investments S.A. and to perform the loan collateral agreements concluded with entities of Prokom Group, which resulted in the conversion of PLN 312.8m debt (gross) to the Company's equity.

- ✓ On 12 March 2009, the District Court for Gdańsk-Pólnoc of Gdańsk, VIII Economic Department of the National Court Register, in a secret ballot registered the share capital increase of the Company effected by way of:
  - an issue of 2,613,163 ordinary series G bearer shares each of a nominal value of PLN 10, and
  - an issue of 447,942 ordinary series H bearer shares each of a nominal value of PLN 10.

In consequence:

- the Company's share capital after the registration reached PLN 121,084,090 and
- the total number of votes attached to all Company shares issued, following the registration, reached 12,108,409.

The goal of the issues of the series G and H shares was to execute the investment agreements pertaining to the acquisition of shares and stocks in TOO EMBA YUG NIEFT and Occidental Resources Inc. (details are given in the Management Board Report on the Activities of PETROLINVEST Group for 2008).

The Series G and H shares were registered with the National Depository for Securities (KDPW) and introduced to public trading on the main list in the ordinary course of action on 10 July 2009.

- ✓ **Timetable of events relating to the issue of series K shares**
  - 13 January 2009** The Management Board resolved to increase the Company's share capital by PLN 5,992,120 via the issuance of 599,212 series K registered shares each of a nominal value of PLN 10. In the Company's best interest, the pre-emptive rights of the existing shareholders to the Series K Shares were fully and completely excluded. The issue price of the Series K Shares was set at PLN 10, taking into account the conditions prevailing on securities markets and the goals of the issue of the Series K Shares.

Management decided that the Series K Shares would be offered in a private placement to the Company's executives, employees and associates, as well as the executives, key employees and associates of the companies of PETROLINVEST Group. The Company believes that because the exercise of the Company's existing incentive programmes is doubtful, and their attractiveness – low, because of the execution price of subscription warrants which stands at PLN 227 per one Company share, the issue of the Series K Shares is the only realistic aspect of the incentive programme for top management.

The Series K Shares will participate in dividends starting from 1 January 2008 (as provided in the Management Board resolution dated 20 March 2009 amending the resolution dated 13 January 2009 in that respect). The Series K Shares could be paid for only by cash contributions.

The Series K Shares were convertible into ordinary bearer shares after they had been paid for in full (pursuant to Management Board Resolution dated 28 April 2009 registered shares were converted into bearer shares).

- 6 February 2009* Ending of the offer for the series K shares. Payments towards the Series K Shares were made at 25% of the issue price for each share, which is compliant with the Management Board Resolution on a share capital increase in the Company dated 13 January 2009. The Company received total gross proceeds of PLN 5,992,120 as a result of the Offering.
- 16 February 2009* Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration of the Series K and L shares, the Company's share capital was increased to PLN 90,473,040 and the total number of votes resulting from all of the Company's shares issued reached 9,047,304.
- 1 July 2009* Decision by the KDPW to admit the series K shares to the National Depository for Securities on the condition that the operator of the regulated market decides to introduce the Series K Shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 7 July 2009* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of ordinary series K bearer shares of the Company to public trading on the main list.
- 10 July 2009* Registration of the series K shares with the KDPW and introduction of the shares to public trading on the main list in the ordinary course of action.
- ✓ **Timetable of events relating to the issue of series L shares**
- 28 January 2009* The Management Board resolved to increase the Company's share capital by PLN 21,000,000 via the issuance of 2,100,000 series L bearer shares each of a nominal value of PLN 10. In the Company's best interest, the pre-emptive rights of the existing shareholders to the Series L Shares were fully and completely excluded. The issue price of the Series L Shares was set at PLN 45.9387. The issue price was determined taking into account the provisions of the agreement concluded by the Company with Prokom Investments S.A. on 13 January 2009, which regulates the terms and conditions of satisfying accounts receivable by Prokom Investments S.A. from the Company, as well as the wording of the transfer request and the call for a share offering delivered to the Company by Prokom Investments S.A. on 28 January 2009. The Series L Shares were offered in a private placement to Prokom Investments S.A. It was specifically stated that payments for the Series L Shares would be made entirely by netting mutual accounts receivable/accounts payable before the date on which the share capital increase is filed with a register court, in the timeframe and manner specified in the subscription agreement for the Series L Shares. The Series L Shares will participate in dividends starting from 1 January 2008 (as provided in the Management Board resolution dated 20 March 2009 amending the resolution dated 13 January 2009 in that respect). The Series L Shares could be paid for only by cash contributions.
- 9 February 2009* Ending of the offer for the Series L Shares. The Company concluded a netting agreement with Prokom Investments S.A. on 9 February 2009 under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for the Series L Shares totalling PLN 96,471,270.00 with (i) an outstanding account payable in connection with the performance by the Company of its obligation to repay the principal amount of the loan due under the agreement dated 2 October 2006 concluded between Prokom and the Company of up to PLN 92,370,640.21, (ii) an outstanding account payable in connection with the performance by the Company of its obligation to repay interest accrued under the loan agreement of up to PLN 2,000,000.00, and (iii) an outstanding trade account payable which arose in the course of regular business activity of the Company and Prokom, with interest accrued thereon, amounting to PLN 2,100,629.79, all payable to Prokom. The netting agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity. As a result of the netting, the cash contribution due by Prokom Investments S.A. to the Company in connection with the subscription by Prokom for the Series L Shares was fully covered.
- 16 February 2009* Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration of the Series K and L shares, the Company's share capital was increased to PLN 90,473,040 and the total number of votes resulting from all of the Company's shares issued reached 9,047,304.
- The other events until introduction of the series L shares to trading at the WSE were parallel to the events connected with the issue of the series K shares (details above).
- ✓ **Timetable of events relating to the issue of series M shares**
- 28 January 2009* The Management Board resolved to increase the Company's share capital by PLN 4,500,000 via the issuance of 450,000 series M bearer shares each of a nominal value of PLN 10, and later amended the resolution on 2 March 2009 so that the resolution now envisages an increase by up to 7,300,000 via the issuance of up to 730,000 ordinary series M bearer shares. The pre-emptive rights of the existing shareholders to the Series M Shares were fully and completely excluded. The issue price of the Series M Shares was set at PLN 10. The issue price was determined taking into account the conditions prevailing on securities markets and the goals of the issue of the Series M Shares.

The Series M Shares were offered in a private placement to the Company Supervisory Board Members, the Company's employees and associates, as well as the executives, employees and associates of the companies of its capital group not included in the incentive programme connected with the issue of the series K shares. The goal of the issue of the Series M Shares was to implement the incentive programme for the Supervisory Board members and associates of the Company.

The Management Board resolution, as amended on 2 March 2009, provides that subscription agreements for the series M shares could have been concluded until 15 July 2009. Payments for the Series M Shares could be made in full before the date on which the share capital increase is filed with a register court, in the timeframe specified in the subscription agreement for the Series M Shares. The Series M Shares will participate in dividends starting from 1 January 2008 (as provided in the Management Board resolution dated 20 March 2009 amending the resolution dated 13 January 2009 in that respect). The Series M Shares could be paid for only by cash contributions.

- 16 March 2009* The EGM passed a resolution regarding allocation of ordinary series M bearer shares to members of the Company's Supervisory Board.
- 16 April 2009* Ending of the offer for the Series M Shares. On 16 April 2009, 730,000 Series M shares were subscribed for. The Company received gross proceeds of PLN 7,300,000 as a result of the offering.
- 5 May 2009* Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration of the Series M Shares, the Company's share capital was increased to PLN 128,384,090 and the total number of votes resulting from all of the Company's shares issued reached 12,838,409.
- 1 July 2009* Decision by the KDPW to admit the Series M Shares to the National Depository for Securities on the condition that the operator of the regulated market decides to introduce the Series M Shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 7 July 2009* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series M Shares to public trading on the main list.
- 10 July 2009* Registration of the Series M Shares with the KDPW and introduction of the shares to public trading on the main list in the ordinary course of action.
- ✓ **Timetable of events relating to the issue of series N shares**
- 17 July 2009* The Management Board adopted a resolution regarding the free-of-charge issue of no more than 1,052,000 registered subscription warrants to the exclusion of pre-emptive rights of the existing shareholders in order to grant the rights to purchase shares in the Company. The subscription warrants were offered for subscription through private placement by members of Company authorities or an entity designated by such person and related to a member of Company authorities, and employees and associates of the Company as well as members of authorities, employees and associates of the companies in its group.
- 7 September 2009* The Management Board resolved to increase the Company's share capital by an amount not higher than PLN 10,520,000 via the issuance of no more than 1,052,000 ordinary series N bearer shares, each of a nominal value of PLN 10, to the exclusion of pre-emptive rights of the existing shareholders. The issue price of the shares was set as PLN 10. The goal of the share capital increase is to execute the rights of holders of registered subscription warrants. The issue of the Series N Shares is an element of the incentive programme for top management. The Series N Shares will participate in dividends starting from 1 January 2009.
- 9 September 2009* Ending of the offer for the Series N Shares. 1,052,000 Series N Shares were subscribed for in the Offering. The Company received gross proceeds of PLN 10,520,000 as a result of the Offering.
- 2 October 2009* Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration of the Series N Shares, the Company's share capital was increased to PLN 172,694,000 and the total number of votes resulting from all of the Company's shares issued reached 17,269,400.
- 5 November 2009* Decision by the KDPW to admit the Series N Shares to the National Depository for Securities on the condition that the operator of the regulated market decides to introduce the Series N Shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 10 November 2009* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series N Shares to public trading on the main list.
- 16 November 2009* Registration of the Series N Shares with the KDPW and introduction of the shares to public trading on the main list in the ordinary course of action.

- ✓ Timetable of events relating to the issue of series O shares
- 31 July 2009* The Extraordinary General Meeting adopted a resolution regarding a conditional share capital increase by no more than PLN 13,000,000 through the issue of no more than 1,300,000 ordinary series O bearer shares each of a nominal value of PLN 10 subject to the exclusion of pre-emptive rights and regarding the issue of 1,300,000 registered subscription warrants over the series O shares subject to the exclusion of pre-emptive rights. The Subscription Warrants will be offered for subscription through private placement to GEM Global Yield Fund Limited with its registered offices in George Town, Grand Cayman, Cayman Islands.
- The issue price of the Series O Shares will be established by the Management Board of the Company in accordance with the terms of the agreement with GEM and will amount to PLN 60 per share, provided that such price may change in the events defined in the agreement. The contractual solution adopted in the agreement is a standard clause of this type used to protect holders of subscription warrants from unfavourable consequences of dilution of shares in the event of additional issue of shares, division of shares and similar events.
- The objective of the conditional increase of the share capital through the issue of the Series O Shares and the issue of the Subscription Warrants over the Series O Shares is to obtain funds to finance the Company's activities in the area of prospecting and production of hydrocarbons in Kazakhstan, and it is connected with the performance of the agreement concluded by the Company on 29 April 2009 with GEM Global Yield Fund Limited and GEM Investments Advisers, Inc.
- As at the date of approval of the Report, the Company has not carried out any share issue in exercise of the above-mentioned agreement.
- ✓ Timetable of events relating to the issue of series P shares
- 31 July 2009* The Extraordinary General Meeting adopted a resolution on a conditional share capital increase by no more than PLN 12,000,000 through the issue of no more than 1,200,000 ordinary series P bearer shares, each of a nominal value of PLN 10, subject to the exclusion of pre-emptive rights, and regarding the issue of 1,200,000 registered subscription warrants over the series P shares, subject to the exclusion of pre-emptive rights. The Subscription Warrants will be offered for subscription through private placement to entities selected by the Management Board of the Company, provided there will be less than a hundred of those entities.
- The issue price of the Series P Shares will be established by the Management Board by reference to the stock exchange price of the Company shares at the time of the issue and the expected demand for the Series P Shares among investors.
- The objective of the conditional increase of the share capital through the issue of the Series P Shares and the issue of the Subscription Warrants over the Series P Shares is to obtain funds to finance the Company's activities in the area of prospecting and production of hydrocarbons in Kazakhstan and to sustain the Company's liquidity needs connected with decreasing its indebtedness.
- 19 October 2009* In execution of the provisions of the above-mentioned resolution of the EGM, the Management Board adopted a resolution setting forth detailed terms and conditions of the issue of the subscription warrants over the series P shares. The Management Board resolved to issue 300,000 registered series A subscription warrants and offered them for subscription in a private placement to GEM Global Yield Limited in exercise of the equity line of credit agreement concluded on 29 April 2009. The Series A Warrants were subscribed for by GEM on 19 October 2009. On the same day, GEM exercised its right to take up the Company shares attached to the Series A Warrants and filed a statement of acquisition of 300,000 Company ordinary series P bearer shares.
- The issue price of the ordinary series P bearer shares, issued to holders of the Series A Warrants based on the resolution of the EGM within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 35.07 per share.
- As a result of the issue of the series P shares carried out in execution of the rights attached to the series A subscription warrants, the Company received gross proceeds of PLN 10,521,000.
- 5 November 2009* Decision by the KDPW to admit the 1,200,000 series P shares to the depository for securities on the condition that the operator of the regulated market decides to introduce the series P shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to, each time no later than on the day of registration of the series P shares with the KDPW.
- 10 November 2009* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of 300,000 Series P Shares to public trading on the main list.
- 16 November 2009* Registration of the 300,000 Series P Shares with the KDPW and introduction of the shares to trading at the WSE. On the day of introduction of the 300,000 series P shares to public trading, the share capital of PETROLINVEST S.A. was increased to PLN 175,694,000 and the total number of votes resulting from all of the Company's shares issued reached 17,569,400.

*The following events pertaining to the issue of the Series P Shares occurred after the end of the reporting period*

- 11 January 2010 In execution of the provisions of the resolution of the EGM of 31 July 2009, the Management Board adopted a resolution setting forth detailed terms and conditions of the issue of the subscription warrants over the series P shares. The Management Board resolved to issue 70,800 registered series B subscription warrants and offered them for subscription in a private placement to GEM Global Yield Limited in exercise of the equity line of credit agreement concluded on 29 April 2009. The Series B Warrants were subscribed for by GEM on 11 January 2010. On the same day, GEM exercised its right to take up the Company shares attached to the Series B Warrants and filed a statement of acquisition of 70,800 Company ordinary series P bearer shares.  
The issue price of the ordinary series P bearer shares, issued to holders of the Series B Warrants under the resolution of the EGM within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 24.2856 per share.  
As a result of the issue of the series P shares carried out in execution of the rights attached to the series B subscription warrants, the Company received gross proceeds of PLN 1,719,420.48.
- 18 January 2010 Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of 70,800 Series P Shares to public trading on the main list.
- 20 January 2010 Registration of the 70,800 Series P Shares with the KDPW and introduction of the shares to trading at the WSE. On the day of introduction of the 70,800 Series P Shares to public trading, the share capital of PETROLINVEST S.A. was increased to PLN 215,973,990 and the total number of votes resulting from all of the Company's shares issued reached 21,897,399.
- ✓ Timetable of events relating to the issue of series Q shares
- 31 July 2009 The Management Board of the Company passed a resolution regarding the issue of warrants convertible into Company shares and—as a result of the exercise of rights from those shares—a resolution regarding an increase of the share capital of the Company by PLN 27,789,910 through the issue of 2,778,991 ordinary series Q bearer shares, each of a nominal value of PLN 10 and an issue price of PLN 46.0114, to the exclusion of pre-emptive rights of the existing shareholders. The resolution was taken in connection with the call for share offering made by Prokom Investments S.A. The Series Q Shares will participate in dividends starting from 1 January 2009.
- 3 August 2009 Ending of the offer for the series Q shares. Prokom Investments S.A. subscribed for 2,778,991 Series Q Shares in the Offering at an issue price of PLN 46.0114 per share. The contribution due to the Company for the shares subscribed for by Prokom Investments S.A. was made by netting the PLN 127,865,266.50 outstanding account receivable by the Company under the share subscription agreement with certain, specified outstanding accounts payable by the Company to Prokom Investments S.A. under loans and trade payables.
- 19 August 2009 Registration by the District Court of the increase of the Company's share capital via the issuance of series Q and R shares. Following the registration, the Company's share capital reached PLN 162,174,000, and the total number of votes resulting from all of the Company's shares issued reached 16,217,400.
- 2 September 2009 Decision by the KDPW to admit the series Q shares to the National Depository for Securities, on the condition that the operator of the regulated market decides to introduce the series Q and R shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 8 September 2009 Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series Q and R Shares to public trading on the main list.
- 11 September 2009 Registration of the Series Q and R Shares with the KDPW and introduction of the shares to trading at the WSE.
- ✓ Timetable of events relating to the issue of series R shares
- 31 July 2009 The Management Board of the Company passed a resolution regarding the issue of warrants convertible into shares and—as a result of the exercise of rights from those shares—a resolution regarding an increase of the share capital of the Company by PLN 6,000,000 through the issue of 600,000 ordinary series R bearer shares, each of a nominal value of PLN 10 and an issue price of PLN 39.69, to the exclusion of pre-emptive rights of the existing shareholders. The resolution was taken in connection with the performance of the agreement concluded with GEM Global Fund on 29 April 2009 as part of the first drawdown from the agreement. The Series R Shares will participate in dividends starting from 1 January 2009.
- 31 July 2009 Ending of the offer for the series R shares. 600,000 series R shares were subscribed for in the Offering at an issue price of PLN 39.69 per share. The Company received gross proceeds of PLN 23,814,000 as a result of the Offering.
- The other events up to the moment of introducing the series R shares to trading on the WSE were parallel to the events associated with the issue of series Q shares (details above).

- ✓ **Timetable of events relating to the issue of series S shares**
- 11 December 2009* In exercise of the equity line of credit agreement concluded with GEM Investments Advisers, Inc and GEM Global Yield Fund, the Management Board passed a resolution regarding an increase of the share capital of the Company by PLN 3,000,000 through the issue of 300,000 ordinary series S bearer shares of a nominal value of PLN 10 each and an issue price of PLN 28.41, to the exclusion of the pre-emptive rights of the existing shareholders.  
In execution of the rights attached to registered subscription warrants, the Series S Shares were offered in a private placement to GEM Global Yield Fund Limited. The Series S Shares will participate in dividends starting from 1 January 2009. It was specifically stated that the Series S Shares may be paid for only by cash contributions.
- 23 December 2009* Ending of the offer for the Series S Shares. 300,000 Series S Shares were subscribed for in the Offering by GEM Global Yield Fund Limited at an issue price of PLN 28.41. The Company received gross proceeds of PLN 8,523,000 as a result of the Offering.

*The following events pertaining to the issue of the Series S Shares occurred after the end of the reporting period*

- 19 February 2010* Registration by the District Court of the increase of the Company's share capital via the issuance of series S shares. Following the registration, the Company's share capital reached PLN 218,973,990, and the total number of votes resulting from all of the Company's shares issued reached 21,897,399.
- 8 March 2010* Decision by the KDPW to admit the series S shares to the National Depository for Securities, on the condition that the operator of the regulated market decides to introduce the series S shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 12 March 2010* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series S Shares to public trading on the main list.
- 17 March 2010* Registration of the Series S Shares with the KDPW and introduction of the shares to trading at the WSE.

- ✓ **Timetable of events relating to the issue of series T shares**
- 12 October 2009* The Management Board adopted a resolution regarding free-of-charge issue of no more than 2,285,714 registered subscription warrants to the exclusion of pre-emptive rights of the existing shareholders in order to grant the rights to purchase shares in the Company and another resolution to increase the Company's share capital by no more than PLN 22,857,140 via the issuance of no more than 2,285,714 ordinary series T bearer shares, each of a nominal value of PLN 10, in order to execute the rights of holders of the subscription warrants referred to above. The issue price of the Series T Shares was set at PLN 35. The issue of the Series T Shares was an element of the Company's strategy to obtain funds to enable the Company to continue its strategy of further growth and development of the oil prospecting and extraction activities of PETROLINVEST Group.  
The Subscription Warrants were offered for subscription through private placement to selected investors interested in financing prospecting and extraction activities of PETROLINVEST Group.
- 28 October 2009* Ending of the offer for the Series T Shares. 1,453,571 shares were taken up in the Offering. The Company will receive gross proceeds of PLN 50,874,985 as a result of the Offering, while the Management Board had expected to receive no less than PLN 40 million from the issue.  
The successful completion of the issue of Series T Shares meant that the first of several steps mentioned in the Management Board's earlier communications—that are now well advanced and will provide the Company with finance for prospecting work on the territory of the Kazakhstan concessions—had been accomplished.  
The Management Board was pleased to see Polish open investment funds and foreign investors take part in the subscription, which confirmed the positive perception of the Company's strategy for the years 2010-2011 as well as the Company's oil prospecting and extraction project, and which should also contribute to stabilising the shareholding structure.
- 19 November 2009* Registration by the District Court of the increase of the Company's share capital via the issuance of series T shares. Following the registration, the Company's share capital reached PLN 190,229,710, and the total number of votes resulting from all of the Company's shares issued reached 19,022,971.
- 3 December 2009* Decision by the KDPW to admit the series T shares to the depository for securities, on the condition that the operator of the regulated market decides to introduce the series T shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.

*The following events pertaining to the issue of the Series T Shares occurred after the end of the reporting period*

- 18 January 2010* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series T Shares to public trading on the main list.

- 20 January 2010 Registration of the Series T Shares with the KDPW and introduction of the shares to trading at the WSE.
- ✓ Timetable of events relating to the issue of series U shares
- 30 November 2009 In connection with the calls for a share offer placed by Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o., the Management Board passed a resolution regarding the issue of subscription warrants convertible into shares and—as a result of the exercise of the warrants—a resolution regarding an increase of the share capital of the Company by PLN 25,036,280 through the issue of 2,503,628 ordinary series U bearer shares, each of a nominal value of PLN 10 and an issue price of PLN 35.3415, to the exclusion of the pre-emptive rights of the existing shareholders.  
The Series U Shares were offered in a private placement to the warrant holders who had subscribed for the Company shares on exercise of the Warrants, i.e. to Prokom Investments S.A. – 2,166,212 Series U Shares, and to Osiedle Wilanowskie Sp. z o.o. – 337,416 Series U Shares. It was specifically stated that Payments for the Series U Shares would be made entirely by netting mutual accounts receivable/accounts payable by the Company and the subscribers before the date on which the share capital increase is filed with a register court, in the timeframe and manner specified in the subscription agreements for the Series U Shares. The Series U Shares will participate in dividends starting from 1 January 2009.
- 4 December 2009 Ending of the offer for the Series U Shares. On 4 December 2009, the Company concluded:
- a netting agreement with Prokom Investments S.A. under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for the Series U Shares totalling PLN 76,557,181.40 with outstanding accounts payable to Prokom by the Company under the Credit Facility Collateral Agreement of 14 May 2009, and
  - a netting agreement with Osiedle Wilanowskie under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for the Series U Shares totalling PLN 11,924,787.56 with outstanding accounts payable to Osiedle Wilanowskie by the Company under the Credit Facility Collateral Agreement of 14 May 2009.
- The netting agreements meet the criteria of a significant agreement because their aggregate value exceeds 10% of the Company's equity. Osiedle Wilanowskie Sp. z o.o. is a subsidiary of Prokom Investments S.A. The agreement concluded with Prokom also meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.  
As a result of the netting, the cash contribution due by Prokom and Osiedle Wilanowskie to the Company in connection with the take-up by the subscribers of 2,503,628 Series U Shares was fully covered.
- 9 December 2009 Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration of the 2,503,628 Series U shares, the Company's share capital was increased to PLN 215,265,990 and the total number of votes resulting from all of the Company's shares issued reached 21,526,599.
- 22 December 2009 Decision by the KDPW to admit the Series U Shares to the National Depository for Securities, on the condition that the operator of the regulated market decides to introduce the Series U Shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.

*The following events pertaining to the issue of the Series U Shares occurred after the end of the reporting period*

- 18 January 2010 Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the Series U Shares to public trading on the main list.
- 20 January 2010 Registration of the Series U Shares with the KDPW and introduction of the shares to trading at the WSE.
- ✓ Timetable of events relating to the issue of series V shares
- 30 December 2009 The Extraordinary General Meeting adopted a resolution regarding conditional increase of the Company's share capital by no more than PLN 190,000,000 through the issuance of no more than 19,000,000 ordinary series V bearer shares, each of a nominal value of PLN 10, and the issuance of up to 19,000,000 registered subscription warrants over the series V shares, and the issuance of no more than 120,000 registered or bearer bonds convertible into Series V Shares.  
The goal of the issue of the Series V Shares is to provide the Company with effective tools that will enable it to obtain financial resources to continue hydrocarbon prospecting and extraction in Kazakhstan and acquire new capital assets, to secure the Company's liquidity needs connected with reducing its indebtedness and also to exercise incentive programmes.  
The Subscription Warrants will be offered for subscription through private placement to entities selected by the Management Board of the Company.

The bond holders will be authorised to choose at their own discretion to buy out or convert the bonds into the Series V Shares. The Management Board has been authorised to determine the conversion price or to define a detailed manner of determining the conversion price of the Series V Shares issued in exchange for the bonds in a resolution setting forth the terms and conditions of the bond issue, provided however that the minimum conversion price of the Series V Shares issued in exchange for the bonds is set so that every one zloty of the nominal value of the bond will be matched by one zloty or less of the nominal value of the Series V Share.

The issue price of the Series V Shares will be set by the Company's Management Board depending on the goals of the issue, primarily by reference to the market value of the shares or the value arrived at using comparative methods of valuation and/or the discounted cash flow method, as well as the Company's projected financial results. Other methods of determining the value of the Shares will also be taken into consideration if those methods can help to match the issue price to the level of demand for the shares or the requirements of the inventive programmes or the investment programme that the Company has in place.

The Subscription Warrants will be issued free of charge.

The Series V Shares, subscribed for as a result of the exercise by holders of subscription warrants of their right to subscribe for them, will be issued only in exchange for cash contributions.

The right to subscribe for the Series V Shares may be exercised until 31 January 2015.

*The following events pertaining to the issue of the Series V Shares occurred after the end of the reporting period*

- 25 February 2010* In connection with the request and call for a share offer placed by Prokom Investments S.A., and in execution of the provisions of the resolution of the EGM of 30 December 2009, the Management Board of PETROLINVEST S.A. passed a resolution regarding the offering of registered subscription warrants over series V shares and setting forth detailed terms and conditions of the issue of the Subscription Warrants. The Management Board decided to issue 1,313,780 Subscription Warrants and offered them for subscription to Prokom. The Subscription Warrants were taken up by Prokom on 25 February 2010. On the same day, Prokom exercised its right to take up the series V shares attached to the Subscription Warrants and filed a statement of acquisition of 1,313,780 ordinary series V bearer Petrolinvest shares.  
The issue price of the ordinary series V bearer shares, issued to holders of Subscription Warrants on the basis of the resolution of the EGM within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 21.8654 per share.  
Payments for the Series V Shares were made by netting the outstanding account receivable by the Company under the subscription agreement for the Series V Shares totalling PLN 28,726,325.21 and outstanding accounts payable to Prokom by the Company under the Credit Facility Collateral Agreement of 14 May 2009.
- 8 March 2010* Decision by the KDPW to admit the 1,313,780 series V shares to the National Depository for Securities, on the condition that the operator of the regulated market decides to introduce the series V shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to.
- 12 March 2010* Admission by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of the 1,313,780 Series V Shares to public trading on the main list.
- 17 March 2010* Registration of the 1,313,780 Series V Shares with the KDPW and introduction of the shares to trading at the WSE. On the day of introduction of the 1,313,780 Series V Shares to public trading, the share capital of PETROLINVEST S.A. was increased to PLN 232,111,790 and the total number of votes resulting from all of the Company's shares issued reached 23,211,179.
- 17 March 2010* Registration with the KDPW, on the condition that the WSE decides to introduce the 17,686,220 Series V Shares to trading on the same regulated market that the other Company shares bearing code PLPTRLI00018 have been introduced to, each time no later than on the day of registration of the series V shares with the KDPW.  
Registration of the Series V Shares with the KDPW will be effected based on settlement instructions referred to in Par. 14.3 of the KDPW Detailed Rules of Operation.  
At the same time, on 17 March 2010, the Management Board of the WSE resolved to admit and introduce the 17,686,220 Series V Shares to public trading on the WSE Main List. Pursuant to Par. 38.1 and 38.3 of the Rules of the Warsaw Stock Exchange, the Management Board of the WSE resolved to introduce the shares in the ordinary course of action to public trading on the main list as from the date of registration of those shares by the KDPW under code PLPTRLI00018; however, no earlier than on 19 March 2010.
- 18 March 2010* In connection with the requests and calls for a share offer placed by Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o., and in execution of the provisions of the resolution of the EGM of 30 December 2009, the Management Board adopted a resolution regarding the offering of registered series B subscription warrants over series V shares and setting forth detailed terms and conditions of the issue of the subscription warrants.

The Management Board decided to issue 3,824,241 series B subscription warrants and offered 3,747,273 to Prokom and 76,968 to Osiedle Wilanowskie. The Series B Warrants were taken up by Prokom and Osiedle Wilanowskie on 18 March 2010. On the same day, both eligible entities exercised their rights to take up the series V shares attached to the Series B Warrants and filed a statement of acquisition of 3,824,241 ordinary series V bearer Petrolinvest shares.

The issue price of the ordinary series V bearer shares, issued to holders of the Series B Warrants, was set by the Management Board at PLN 20.5544 per share.

Payments for the Series V Shares were made by netting mutual accounts receivable/accounts payable by the Company and the subscribers. On 18 March 2010, the Company entered into the following netting agreements:

- a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for the Series V Shares totalling PLN 77,022,948.15 with outstanding accounts payable to Prokom by the Company for the early repayment by Prokom of a portion of the credit facility extended to the Company under the credit facility agreement with PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego dated 21 March 2007 and under the Credit Facility Collateral Agreement dated 14 May 2009;
- a netting agreement with Osiedle Wilanowskie under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for the Series V Shares totalling PLN 1,582,031.05 with outstanding accounts payable to Osiedle Wilanowskie by the Company under the Credit Facility Collateral Agreement dated 14 May 2009.

As a result of the netting, the cash contribution due by Prokom and Osiedle Wilanowskie to the Company in connection with the take-up by the subscribers of an aggregate 3,824,241 Series V Shares was fully covered.

*18 March 2010*

In connection with the requests and calls for a share offer placed by Prokom Investments S.A. and Osiedle Wilanowskie Sp. z o.o., and in execution of the provisions of the resolution of the EGM of 30 December 2009, the Management Board adopted a resolution regarding the offering of registered series C subscription warrants over series V shares and setting forth detailed terms and conditions of the issue of the subscription warrants.

The Management Board decided to issue 1,440,354 series C subscription warrants and offered them to Prokom. The Series C Warrants were taken up by Prokom on 18 March 2010. On the same day, Prokom exercised its right to take up the series V shares attached to the Series B Warrants and filed a statement of acquisition of 1,440,354 ordinary series V bearer Petrolinvest shares.

The issue price of the ordinary series V bearer shares, issued to holders of the Series C Warrants, was set by the Management Board at PLN 20.8282 per share.

Payments for the Series V Shares were made by netting mutual accounts receivable/accounts payable by the Company and the subscribers. On 18 March 2010, the Company entered into a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for the Series V Shares totalling PLN 29,999,981.18 with outstanding accounts payable to Prokom by the Company for the payment of PLN 30,000,000.00 to the Company's account on 18 March 2010.

As a result of the netting, the cash contribution due by Prokom to the Company in connection with the take-up by the subscribers of an aggregate 1,440,354 Series V Shares was fully covered.

The netting agreements concluded on 18 March 2009 meet the criteria of a significant agreement because their aggregate value (together with the netting agreement concluded with Prokom on 25 February 2010 in connection with the take-up of 1,313,780 series V shares totalling PLN 28,726,325.21) exceeds 10% of the Company's equity. Osiedle Wilanowskie Sp. z o.o. is a subsidiary of Prokom Investments S.A. The agreement concluded with Prokom in connection with the exercise of the Series B Warrants also meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

*18 March 2010*

In connection with the requests placed by Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and GEM Global Yield Fund Limited to issue, in lieu of convertible bonds of the first tranche, the relevant number of pre-paid subscription warrants, and in execution of the provisions of the resolution of the EGM of 30 December 2009, the Management Board adopted a resolution to issue to the subscribers 1,973,681 pre-paid subscription warrants (including 1,184,209 subscription warrants in lieu of convertible bonds of the first tranche and additional pre-paid subscription warrants with a pre-paid amount of PLN 15 million), which entitle their holders to subscribe for 1,973,681 series V shares in the Company.

The issue price was PLN 19 per share. As a result of the issue of the pre-paid subscription warrants, the Company received a total prepayment of PLN 37,499,939.

If the holders exercise the abovementioned warrants, the amount pre-paid by the warrant holder on the warrant issue date will be credited towards the issue price of the shares subscribed for in the exercise of the warrants.

Furthermore, on 18 March 2010 the Company issued to the Investors 1,200,000 subscription warrants, issued gratuitously, which entitle their holders to subscribe for 1,200,000 series V shares in the Company at a per-share issue price of PLN 35.

The Company's shares will be subscribed for in return for cash contributions.

The Company concluded the following subscription option agreements in 2009:

- ✓ On 19 October 2009, the Company received a confirmation that the subscription option agreement giving four open investment funds incorporated in Poland (the "Funds") the option to subscribe for shares in the Company had been concluded (the "Agreement").  
The conclusion of the Agreement was connected with the fact that the Funds had subscribed for the greatest number of subscription warrants entitling their holders to subscribe for the Company shares issued within the scope of the increase of the Company's share capital through the issue of ordinary series T bearer shares.  
The Company agreed under the Agreement that at the request of any one of the Funds it will issue on aggregate 182,000 subscription warrants free of charge where each warrant will entitle its holder to acquire one Company share at an issue price of PLN 50 per share. Only the Funds that agreed under the Agreement to exercise the rights attached to the Warrants immediately will be authorised to take up the warrants, whereas the Company agreed to issue immediately 182,000 Company shares that may be subscribed for only by the Funds exercising the rights attached to the Warrants.  
Under the Agreement, the Company agreed that within 5 business days from the receipt of a written request from any of the Funds regarding the issue of Warrants and Shares, the Company's Management Board will adopt appropriate resolutions regarding the issue of Warrants and Shares and will obtain all necessary consents associated with their issue while the Funds agreed to subscribe for and take up all Warrants and, subsequently, to complete the subscription, sign share subscription agreements and pay for the Shares within 5 business days from the moment the Company adopts and delivers to the Funds appropriate resolutions and all applicable consents.  
Each of the Funds has the right to file the request referred to above at any point falling no later than within 2 years from the date of signing the Agreement.
- ✓ On 2 November 2009, since the issue of the series T shares was successfully completed, the Company entered into a subscription option agreement giving the brokerage house Dom Maklerski IDM S.A., which organised and carried out the issue of the series T shares (the "Investor"), the option to subscribe for shares in the Company (the "Agreement").  
The Company agreed under the Agreement that at the request of the Investor it will make a single issue of 65,000 transferable subscription warrants free of charge where each warrant will entitle its holder to acquire one Company bearer share at an issue price of PLN 50 per share (the "Warrants"). The issue of the Warrants will be addressed only to the Investor, who agreed under the Agreement to exercise the rights attached to the Warrants immediately, whereas the Company agreed to issue immediately 65,000 Company shares (the "Shares") dedicated to the Investor in execution of the rights attached to its Warrants.  
Under the Agreement, the Company agreed that within 5 business days from the receipt of a written request regarding the issue of Warrants and Shares, the Company's Management Board will adopt an appropriate resolution regarding the issue of Warrants and Shares and will offer the Warrants for subscription by the Investor while the Investor agreed to subscribe for and take up all Warrants and, subsequently, to complete the subscription, sign a share subscription agreement and pay for the Shares within 5 business days from the moment the Company adopts and delivers to the Investor appropriate resolutions.  
The Investor has the right to file the request referred to above at any point falling no later than within 2 years from the date of signing the Agreement.

### 3.3. MAJOR FACTORS FOR THE DEVELOPMENT OF PETROLINVEST GROUP

The development of PETROLINVEST Group is dependent on a range of internal and external factors, among which those that deserve special attention are:

#### External factors

- The discovery of oil deposits in areas covered by concessions, as well as their parameters, in particular the size of deposits, the productivity of individual wells and the quality of the oil found in the deposits,
- Access to financing for investment activities on the Concessions owned by the Group,
- The price of oil in global markets and level of demand,
- The economic policy of countries in which the Group operates, in particular regarding taxes and duties,
- Exchange rates,
- The level of competition in the prospecting sector in Kazakhstan.

#### Internal factors

- The level of competency of the teams carrying out prospecting and extraction works as well as that of management,

- The correct employment structure, ensuring that the requirements of complicated technical processes are met as part of the oil prospecting process,
- The financial condition of the Group and the ability to obtain financing for investments.

Furthermore, taking into account the Group's strategy to supplement the investment portfolio with companies from the prospecting and extraction sector as well as companies that provide services to the sector, it cannot be ruled out that a factor in the Group's development in the coming months will also be the quality and effectiveness of assets that are acquired as part of this strategy. The Management Board of the Company will apply the highest standards in preparing to make decisions about potential acquisitions, and shall be guided by expertise in the areas of geology, law and finance prepared by renowned specialist companies.

It should be underlined that PETROLINVEST Group receives know-how and financial support from Prokom Group, and is also able to take advantage of the considerable experience of a team of key managers and employees, who in the opinion of the Management Board constitute a guarantee of professionalism in the correct and effective management of the prospecting process and capital acquisitions.

### 3.4. DEVELOPMENT PROSPECTS

The development prospects of PETROLINVEST Group are directly related to its access to financing, the pace and results of prospecting works on the concessions owned by PETROLINVEST Group companies, and the success of the planned undertaking that involves separation of LPG activities from the current structure of the Company.

Achieving the first effects of the discovery of oil, as well as the formal registration of resources possessed, will allow financing to be obtained for further development work thanks to stable cash flows. The chances of achieving the aims set by the Company were confirmed by the results of the report prepared by the independent competent person McDaniel & Associates Consultants regarding contracts and licenses belonging to the Group.

Management's future strategic plans involve:

- delivering the OTG Concession farm-out agreement with TOTAL Group whereby TOTAL will finance the making of K-4 well on the Koblandy structure and then—all expenditures and obligations connected with further work on the concession will be financed in proportion to the interests in the OTG Concession owned by the parties to the agreement,
- performing exclusive operations on the Shyrak structure where the Group has the exclusive right to carry out prospecting work and then—enjoy all benefits from the development of the field, while TOTAL has the right to join those operations on the terms and conditions stipulated in the agreement,
- delivering the investment plan for Emba Jug Niefert which assumes that at least 10 production wells will be operational by the end of 2010,
- being prepared for acquisitions of companies or concessions with documented hydrocarbon reserves and actual production in place.

3.5. ASSESSMENT OF THE CHANCES OF ACHIEVING THE INVESTMENT OBJECTIVES, INCLUDING CAPITAL INVESTMENTS IN COMPARISON TO THE SIZE OF FUNDS POSSESSED

The Company's Management Board acknowledges that there are certain factors that may, under certain circumstances, pose a threat to the Company continuing as a going concern in the future. The risks presented below are considered by management to be the most important; they are presented together with the activities undertaken by the Company in order to eliminate the possible negative impact of those risks on the Company's business in the future:

1. The Company and the related entities continue the investment program, the aim of which is to expand the activities of the Company in the area of exploration for and production of crude oil and natural gas. Due to the start-up phase of the investment, as at the date of approval of the financial statements for 12 months ended 31 December 2009, there is no certainty that the Company will achieve its goals in the time space given. The investment program is financed with the Company's own cash, loans extended by Prokom Investments S.A., and external financing. The realisation of the investment program is dependent upon the Company's ability to obtain proper financing, as well as the terms and conditions of such financing. Failure to obtain the necessary financing in the amount required and time space given may result in delays or postponement of a part of or an entire investment program and may have a material adverse effect on the Company's business, financial condition and results of operations. The Company and the entities of PETROLINVEST Group may take a number of steps and decisions in order to minimise any negative effects of limited access to external financing. Those steps and decisions may involve focusing on less capital-intensive projects, reducing the scale of operations, slowing down the pace of exploration works, selling selected assets etc.
2. As at 31 December 2009, the Company's overall indebtedness ratio was 0.36 and the debt to equity ratio was 0.57. Management believes that the levels of those ratios are appropriate at the current stage of development of the Project, and they do not pose a threat to the Company's going concern in the period of at least 12 months from 31 December 2009. As at the date of approval of these financial statements, the Company is using a credit facility secured on assets made available by Prokom Investments S.A. Hence, management is of the opinion that the Company's ability to manage its liabilities has been and continues to be unthreatened. Moreover, the Company has a contractual declaration of support and participation in the financing of the Company's business in the future from Prokom Investments S.A. granted in connection with the credit facility, as well as a declaration regarding subordination of loans extended by Prokom Investments S.A. to the above-mentioned credit facility.

The Management Board of PETROLINVEST S.A. declares continuity of investments for 12 consecutive months from 31 December 2009 based on the following facts and circumstances:

1. On 9 March 2010, the Company was notified that the management board of the European Bank for Reconstruction and Development had decided to provide financing for the Company in the form of a USD 50 million loan convertible into shares designated to financing exploration and extraction-related investments of OTG and Emba Jug Niefert (more detail in point 3.2.3 of the Report). The Management Board believes that the agreement extending the financing to the Company will be signed within a few weeks from the date of approval of this Report.
2. On 16 March 2010, the Company and OTG concluded a farm-out agreement with an entity of TOTAL Group (more detail in point 3.2.3 of the Report). The Company expects that all conditions precedent contained in the agreement will be fulfilled within 6 months from the conclusion of the agreement. The involvement of TOTAL Group into the most capital intensive project of PETROLINVEST Group will provide finance for the necessary work on the OTG Concession for at least 12 months from the date of the report.
3. On 18 March 2010, the Company concluded an agreement with a group of international investment funds, providing the company with financing in the form of convertible bonds and subscription warrants totalling PLN 127.5m. The first tranche of the funds had been made available to the Company before the date of approval of this Report.
4. The Company has obtained support from Prokom Investments S.A. in the form of early repayment of a portion of the credit facility to the company's financing banks and also direct financial support of PLN 30 million.

The Management Board is also taking into account the fact that the Company signed an agreement with Prokom Investments S.A. on 20 March 2009, whereby Prokom committed to take appropriate actions to obtain a PLN 150m financing for the Company's operations. The financing will be provided on the basis of loan agreements or other agreements of similar nature, on an arm's length basis, or as a direct equity investment into Petrolinvest shares, with the reservation that the loans or similar agreements will be uncollateralized and subordinated to the Company's bank debt, unless otherwise agreed by the parties.

In order to provide financing for its investment programme, the Company also concluded an agreement with GEM Global Yield Fund on 29 April 2009, under which the Company was provided with a financing of up to PLN 200m, available in tranches drawn at the Company's discretion within three years from the date of the agreement, and pursuant to which subscription warrants convertible into 1.3 million Petrolinvest shares are to be issued at PLN 60 per share. By the date of approval of this report, the Company has issued 1,270,800 shares to GEM Global Yield Fund under the agreement while PLN 150m is still available.

#### 4. PETROLINVEST S.A. FINANCIAL SITUATION

##### 4.1. REVIEW OF BASIC FINANCIAL AND ECONOMIC DATA DISCLOSED IN THE ANNUAL FINANCIAL STATEMENTS

##### 4.1.1. Income statement with an assessment of factors and non-recurring events that have had an impact on the performance

Selected data from the income statement	PLN'000		
	31 December 2009	31 December 2008	Change %
Revenue	75 740	255 261	30%
- Sale of goods	75 066	255 000	29%
- Rendering of services	674	261	258%
Operating expenses	178 516	287 678	62%
- Value of goods and materials sold	59 816	235 603	25%
- Materials and energy	2 110	3 289	64%
- Employee benefits	89 128	25 708	347%
- Depreciation and amortisation	2 903	2 370	122%
- External services	22 637	16 426	138%
- Taxes and charges	884	861	103%
- Other expenses	1 038	3 421	30%
Profit (loss) from sales	(102 776)	(32 417)	
<i>Profitability from sales</i>	-135.7%	-12.7%	
Other operating income	3 477	1 382	252%
Other operating expenses	86 551	32 076	270%
Profit (loss) from operations	(185 850)	(63 111)	
<i>Profitability from operations</i>	-234.6%	-24.6%	
Finance income	27 662	49 620	56%
Finance costs	73 399	25 810	284%
Impairment of investments	101 045	200 250	50%
Profit (loss) before tax	(332 632)	(239 551)	
<i>Profitability from operations before tax</i>	-311.2%	-78.2%	
Profit (loss) for the period	(330 951)	(236 015)	
<i>Profitability from operations for the period</i>	-309.7%	-77.1%	

In 2009, PETROLINVEST S.A. generated total revenues of PLN 106.9m, including PLN 75.7m from LPG sales. In 2009, the Company took steps to limit transactions in LPG that did not display satisfactory profitability levels, which worked to improve the margin delivered on LPG sales (from 7.6% in 2008 to 20.3% in 2009) and also contributed to reducing the level of gas turnover. A decrease was also recorded in finance income (down 44%), which last year comprised primarily foreign exchange gains on valuation of foreign currency receivables and interest receivable on loans. Contrary to 2008, in 2009 the Company did not record foreign exchange gains. Interest revenues in 2009 amounted to PLN 25m.

As a result of unfavourable non-cash events, and for the most part non-recurring, the Company closed 2009 operations with a financial loss of PLN 331m. This result was primarily impacted by the following facts and circumstances:

1. the decision to recognise an impairment loss on the Company's assets totalling PLN 101m, including:
  - the decision to write down the assets associated with PROFIT to an amount not higher than USD 5,213 thousand (fair value determined by McDaniel&Associates Consultants Ltd.) and classify them as asset held for sale. The decision, associated with downsizing the Prospecting and Extraction Project to cover only projects with the highest efficiency, entailed recognition of one-off PLN 46.7m impairment of the assets and liabilities connected with the project against the Company's financial result,
  - the decision to write down the assets associated with the Capital Energy S.A. acquisition project. The stage of advancement of the projects delivered by the Companies of Capital Energy S.A. Group and the absence of new reports evaluating the resources of the concessions owned by those companies did not allow for a detailed and thorough estimation of any potential benefits that investments in those concessions could bring for the Group. The decision resulted in the recognition of one-off impairment of the assets associated with Capital Energy S.A. totalling PLN 43.9m and with Mars International Worldwide totalling PLN 7.5m against the Company's financial result,
  - the decision to write down the assets associated with UAB Petrolinvest Mockavos Perpyla, the provider of liquid fuel trans-shipment services. The decision, made on the back of an analysis of the profitability of operations of this entity and the results of the fair value measurement, resulted in the recognition of PLN 3m impairment against the Company's financial result.

2. measurement to fair value, in compliance with the requirements of IFRS 2, of the issues of series K, M and N shares carried out in 2009 in connection with the share incentive plan for employees and associates of the Group, which translated into a one-off, non-cash increase of wages and salaries of PLN 78.8m and external services of PLN 1.9m,
3. measurement to fair value, in compliance with the requirements of IFRS 2, of the warrants issued under the agreement concluded with GEM Investments Advisers, Inc and GEM Global Yield Fund Limited (providing the Company with financing of up to PLN 200 million). The cost of warrant issue calculated using the Black-Scholes model was PLN 29.6m and the full amount was taken to the Company's finance costs.

The Management Board would like to reiterate that all of those factors are one-off non-cash items and are connected with the application of appropriate regulations of the International Financial Reporting Standards and the Company's conservative approach to presenting financial results.

The Company's financial result was further impacted by the fee which arose on the agreements setting forth the terms and conditions of using assets made available by entities of Prokom Group as collateral for the credit facility provided by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego. The discounted fee calculated as at 31 December 2009 was PLN 108.6m, including PLN 86.0m charged to other operating expenses and PLN 22.6m to the Company's finance costs. The fee-related liabilities are convertible to equity. As at 31 December 2009, most of the fee (PLN 88.5m) had been converted to equity. Management believes that the remainder of the fee-related liability will also be converted, which means that the costs of execution of that agreement will not entail any cash outflow.

The Company incurred a PLN 102.8m loss on sales compared to a PLN 32.4m loss incurred in 2008. The amount of the 2009 loss was primarily impacted by remuneration costs connected with the share issues described above that did not constitute any cash cost for the Company.

The Company incurred a loss on other operations totalling PLN 83m as a result of the fee arising on the credit facility collateral agreement concluded in 2009, as discussed above. The total loss on operations reached PLN 185.8m as a result. The loss before tax was PLN 332.6m primarily on the back of a PLN 45.7m loss on financing activities, comprising the acquisition cost of the right to use the equity line of credit, as discussed above, (PLN 31.6m) and the discount of collateral-related fee liabilities (PLN 22.6m), as well as impairment of investments totalling PLN 101m.

The loss of the LPG segment was PLN 6.5m in 2009 against PLN 33.7m in 2008 and the loss on the holding segment was PLN 241.4m against PLN 193.9m, respectively.

The table below presents the events that impacted the 2009 financial result of the Company that did not entail any cash outflows and stem from the Company's conservative approach to presenting financial results.

	Standalone financial statements in PLNm
<b>POSTED NET LOSS</b>	<b>(331.0)</b>
Cost of wages and salaries connected with share issues to the Supervisory Board, Management Board, employees and associates of the Company and the Group – series K, M, N	(80.7)
Fee payable to Prokom Investments, Osiedle Wilanowskie and Agro Jazowa for assets made available as collateral for the credit facility (those liabilities were converted to equity after the balance-sheet date)	(108.6)
Non-cash cost of acquisition of the right to use financing (agreement with GEM)	(29.6)
Impairment of O&G investment – TOO COMPANY PROFIT	(46.7)
Impairment of O&G investment – Capital Energy and Mars International	(51.4)
Impairment of assets – Petrolinvest Mockavos Perpyla	(3.0)
Total selected events	(320.0)
<b>NET LOSS ADJUSTED FOR SELECTED NON-RECURRING / NON-CASH EVENTS</b>	<b>(11.0)</b>
Unrealised foreign exchange differences	(2.6)
<b>NET LOSS ADJUSTED FOR SELECTED NON-RECURRING / NON-CASH EVENTS AND FOREIGN EXCHANGE DIFFERENCES</b>	<b>(8.4)</b>

#### 4.1.2. Balance sheet

##### Assets

Below is presented the structure and dynamics of the Company's assets in the period covered by this Report.

ASSETS	PLN'000		PLN'000		Change %
	31 December 2009	Structure %	31 December 2008	Structure %	
Non-current assets (long-term)	878 076	86.10%	919 712	87.57%	95.47%
Property, plant and equipment	44 229	4.34%	46 979	4.47%	94.15%
Investment properties	2 567	0.25%	2 616	0.25%	98.13%
Intangible assets	0	0.00%	99	0.01%	0.00%
Other financial assets	197 840	19.40%	218 002	20.76%	90.75%
Shares in subsidiaries and jointly-controlled entities	633 440	62.11%	652 016	62.08%	97.15%
Current assets (short-term)	141 753	13.90%	130 553	12.43%	108.58%
Inventories	1 221	0.12%	2 826	0.27%	43.21%
Trade and other receivables	4 788	0.47%	7 831	0.75%	61.14%
Prepayments and deferred costs	7 562	0.74%	10 561	1.01%	71.60%
Current investments	127 410	12.49%	106 616	10.15%	119.50%
Cash and cash equivalents	772	0.08%	2 684	0.26%	28.76%
<b>TOTAL ASSETS</b>	<b>1 019 829</b>	<b>100.00%</b>	<b>1 050 265</b>	<b>100.00%</b>	<b>97.10%</b>

As at 31 December 2009, the Company's total assets amounted to PLN 1,019.8m. The Company's assets comprised 86% non-current assets, which reflects the current nature of the Company's operations.

The largest item of the Company's non-current assets as at 31 December 2009, similarly to 2008 year-end, were shares in subsidiaries and jointly-controlled entities totalling PLN 633.4m (62%) which decreased slightly by 3% during 2009. The PLN 18.6m decrease in the value of the shares and stocks was connected with the impairment of assets associated with TOO COMPANY PROFIT and Petrolinvest Mockavos Perpyla.

Another large item of the Company's non-current assets are non-current borrowings (19%), which involve primarily the funds allocated to financing the Prospecting and Extraction Project. As at the end of 2009, non-current borrowings amounted to PLN 197.8m, a 9% decline over the year before. The carrying amount of non-current borrowings was impacted by one-off impairment of loans extended to TOO COMPANY PROFIT of PLN 30.5m.

Current assets of PETROLINVEST S.A. as at 31 December 2009 were at PLN 141.8m (14% of total assets). This item consisted primarily of current investments of PLN 127.4m comprising all short-term loans granted, which increased 20% over the period under analysis. The increase of current investments was primarily attributable to the drawdown of loans associated with the financing of prospecting and extraction activities extended to companies of the Group. Please note, however, that as at 31 December 2009, current investments no longer comprised loans extended in connection with the projects that the Management Board had decided to discontinue due to low efficiency, and which had been impaired.

## Equity and Liabilities

Below is presented the structure and dynamics of the Company's equity and liabilities in the period covered by this Report.

EQUITY AND LIABILITIES	PLN '000		PLN '000		Change %
	31 December 2009	Structure %	31 December 2008	Structure %	
Total equity	647 976	63.54%	450 343	42.88%	143.89%
Issued capital	215 266	21.11%	63 481	6.04%	339.10%
Other reserves	1 023 399	100.35%	501 533	47.75%	204.05%
Unregistered share capital	8 523	0.84%	153 590	14.62%	5.55%
Retained earnings	(599 212)	-58.76%	(268 261)	-25.54%	223.37%
Total liabilities	371 853	36.46%	599 922	57.12%	61.98%
Non-current liabilities	242 839	23.81%	508 082	48.38%	47.80%
Interest-bearing loans and borrowings	213 630	20.95%	505 834	48.16%	42.23%
Non-current provisions	10 196	1.00%	422	0.04%	2416.11%
Deferred income tax liability	0	0.00%	1 681	0.16%	0.00%
Finance lease liabilities	27	0.00%	145	0.01%	18.62%
Other non-current liabilities	18 986	1.86%	0	0.00%	
Current liabilities	129 014	12.65%	91 840	8.74%	140.48%
Trade and other payables	13 131	1.29%	13 496	1.29%	97.30%
Finance lease liabilities	118	0.01%	228	0.02%	51.75%
Current portion of interest-bearing loans and borrowings	104 566	10.25%	44 878	4.27%	233.00%
Current provisions	9 277	0.91%	31 395	2.99%	29.55%
Accruals	1 922	0.19%	1 843	0.18%	104.29%
TOTAL EQUITY AND LIABILITIES	1 019 829	100.00%	1 050 265	100.00%	97.10%
Debt indicators	31 December 2009		31 December 2008		
asset to equity	63.54%		42.88%		
debt to equity	57.39%		133.21%		
interest-bearing debt do equity	49.11%		122.29%		

The Company's equity increased by 44% in the reporting period and reached PLN 648m at the end of 2009. Equity was impacted by the share issues carried out by the Company in 2009, which led to a PLN 528.6m increase in equity, and the recorded loss of PLN 331m. As at 31 December 2009, the equity's share of total equity and liabilities was 64% (against 43% at the end of 2008) and it was the main source of finance for the Company's assets.

The total liabilities of the Company as at 31 December 2009 amounted to PLN 371.9m against PLN 599.9m at the end of 2008, a drop of 38%. The considerable drop in liabilities was attributable to the conversion of loans provided by Prokom Investments S.A. to the Company's equity. As a result of the conversion and reclassification of a portion of the credit facility payable in 2010 from non-current to current, the amount of non-current liabilities dropped by over 50% from PLN 508.1m to PLN 242.8m. The end balance of non-current liabilities was also impacted by the recognition of some provisions for liabilities to Morgan Stanley totalling PLN 8.6m under non-current provisions, which had previously been recorded under current provisions, and the recognition of a provision for collateral-related liabilities totalling PLN 1.3m.

The current liabilities of the Company as at 31 December 2009 amounted to PLN 129m and were up 40% from 2008 year-end. The largest item of current liabilities was the current portion of loans and borrowings totalling PLN 104.6m, which increased compared to the end of 2009 on the back of the reclassification of some indebtedness from non-current to current, as discussed above. The decline of current provisions from PLN 31.4m to PLN 9.2m was primarily attributable to the re-measurement of the provision created in 2008 to secure potential liabilities for damages claimed by Morgan Stanley, including a reclassification of PLN 8.6m of the provision to non-current.

All of the Company's debt indicators had improved as at 31 December 2009. The asset to equity ratio increased from 43% at the end of 2008 to 64%. The high share of equity and non-current liabilities in the Company's total equity and liabilities confirms that the Company's sources of financing are stable—fixed capital (i.e. shareholder equity and non-current liabilities) financed 87% of the Company's assets as at 31 December 2009.

The interest-bearing debt do equity ratio reached 49% as at 31 December 2009 against 122% at the end of 2008. On the whole, total liabilities were equal to more than half engaged shareholder equity (exceeding it by 22% in 2008).

#### 4.1.3. Cash flows

The cash balance as shown in the Company's cash flow statement as at 31 December 2009 was PLN – 20m, an increase on the opening balance of PLN 2.8m.

Net cash flows from operating activities ended with a negative balance of PLN 24.4m in 2009. The level of cash generated at this stage of development was impacted by costs connected with managing prospecting and extraction projects that at this stage of the project are financed with funds generated by the Company in other areas of activity.

Cash flows from investing activities in 2009 were negative, which is directly related to the nature of the Company's operations and its stage of development, and amounted to PLN 72.8m. The negative balance of cash flows from investing activities was primarily attributable to the granting of loans to finance prospecting and extraction.

Negative net cash flows from operating and investing activities were covered by inflows generated from financing activities. The positive balance from financing activities was attributable to the PLN 111.2m increase in shareholder equity.

Cash flows	<i>PLN '000</i>	
	12 months 2009	12 months 2008
Net cash flows from operating activities	-24 395	-6 038
Net cash flows from investing activities	-72 819	-172 759
Net cash flows from financing activities	99 973	149 304
Net cash flows	2 759	-29 493

#### 4.2. FINANCIAL RESOURCE MANAGEMENT

In 2009, the Company's operations were funded mainly from own cash generated through share issues. The Company did not take out any external debt to finance the prospecting and extraction activities. As at 31 December 2009, liabilities accounted for 36% of total equity and liabilities and represented 57% of equity.

Current financial liquidity ratio as at 31 December 2009 was 1.1. Please note that the level of the current financial liquidity ratio was impacted by, among other things, the inclusion of an instalment of the long-term credit facility payable at the end of 2010 in current borrowings.

The Group's own cash raised from share issues allowed the Group to ensure continuity of investments insofar as was necessary to ensure proper performance of concession obligations imposed on the Group companies in 2009.

At this stage of development of the Group's prospecting and production activities, its ability to perform its obligations in the future depends on the results of prospecting work carried out on the Kazakhstan concessions, the dates of achieving appropriate results, and also – on access to financing for ongoing operations in the prospecting period, and later – achieving full production capacities on the concessions held by the companies of the Group.

As part of the efforts to obtain financing for investing activities, in March 2010 the Company finalised two projects securing finance for the Group's prospecting and production activities in the period of at least the next 12 months, i.e. concluded a farm-out agreement with an entity of Total Group and an agreement with a group of international investment funds, providing the company with financing in the form of convertible bonds and subscription warrants totalling PLN 127.5 million.

Also in March 2010, the Company successfully qualified to receive finance from the EBRD. The management of the EBRD decided to provide the Company with a USD 50m loan convertible into shares designated to financing exploration and extraction-related investments of OTG and Emba Jug Nieft. The Company expects the agreement to be signed within a few weeks from the date of approval of this report.

PETROLINVEST S.A. receives support from Prokom Investments S.A. In March 2010, Prokom Investments S.A. repaid early PLN 74m of the Company's credit facility to its financing banks and also provided direct financial support of PLN 30 million. In the agreement dated 20 March 2009, Prokom committed to take steps to obtain finance for the Company's operations totalling PLN 150m.

With respect to finance for investing activities, the Company is using the funds guaranteed by the agreement with GEM Global Yield Fund concluded on 29 April 2009. The agreement provides the Company with financing of up to PLN 200m. As at the date of approval of this Report, the Company has issued 1,270,800 shares to GEM Global Yield Fund and thus obtained proceeds of over PLN 44.6m.

#### 4.3. INFORMATION ABOUT CREDITS AND LOANS TAKEN AND TERMINATED AGREEMENTS

In 2009, apart from concluding two loan agreements for PLN 3m and USD 2,175 thousand, respectively, PETROLINVEST Group did not increase its loans and borrowings.

In 2009, in connection with short-term overdraft facility agreements dedicated to the financing of LPG operations nearing expiry, the Company entered into annexes/agreements renewing the financing for PLN 33m and also laying down new repayment schedules.

Agreements and annexes granting PETROLINVEST Group finance in 2009:

Date	Creditor	Type of finance	Amount	Final repayment date	Interest rate % p.a.
<i>PETROLINVEST S.A.:</i>					
2009-06-10	BRE Bank S.A.	Short-term overdraft facility*	PLN 20 000 thsnd	2010-01-29	WIBOR O/N + 3.00%
2009-06-16	Fortis Bank Polska S.A.	Short-term overdraft facility*	PLN 7 000 thsnd	2010-01-15	WIBOR 1M + 3.50%
2009-09-28	Bank Polska Kasa Opieki S.A.	Short-term overdraft facility*	PLN 6 000 thsnd	2010-01-31	WIBOR 1M + 2.00%
2009-10-07	North Shipping & Trading Sp. z o.o.	Loan	PLN 3 000 thsnd	Indefinite	7.10%
2009-10-09	North Shipping & Trading Sp. z o.o.	Loan	USD 2 175 thsnd	Indefinite**	3.00%

(\*) prolongation of the term of the agreement

(\*\*) repaid on 21 October 2009

No loan or credit facility agreements were terminated in PETROLINVEST Group in 2009.

#### 4.4. INFORMATION ABOUT LOANS PROVIDED

In 2009, the Company concluded agreements that forwarded loans for a total of USD 20,000 thousand and PLN 255 thousand. The Company also concluded annexes increasing the financing committed earlier by USD 580 thousand. The whole financing was granted to entities of PETROLINVEST Group and the majority of the funds were allocated to carrying out prospecting and extraction projects, which is in line with the nature of the Company's business and its strategy. In addition, with respect to two loan agreements concluded by the Company with related parties in the previous periods, which matured in 2009, the Company concluded annexes extending the terms of the loans (for detailed information see note 35.1 to the Financial Statements).

Furthermore, in order to make the best use of the funds at their disposal, in 2009 entities of PETROLINVEST Group concluded mutual loan agreements totalling KZT 11,002 thousand. The loans are non-interest bearing.

Agreements regarding loans provided by PETROLINVEST S.A. concluded in 2009:

Date	Debtor	Amount thsnd	Final repayment date	Interest rate % p.a.
2009-01-14	PETROLINVEST GAZ S.A.	40 PLN	2010-06-30	5%
2009-03-16	PETROLINVEST GAZ S.A.	65 PLN	2010-06-30	5%
2009-06-19	PETROLINVEST GAZ S.A.	20 PLN	2010-06-30	5%
2009-07-31	PETROLINVEST GAZ S.A.	30 PLN	2010-06-30	5%
2009-08-24	PETROLINVEST GAZ S.A.	100 PLN	2010-06-30	5%
2009-04-23	Occidental Resources, Inc.	10 000 USD	2010-11-30	18%
2009-09-30	Occidental Resources, Inc.	10 000 USD	2010-09-30	18%
2009-02-12	Occidental Resources, Inc.*	150 USD	2010-11-30	18%
2009-02-26	Occidental Resources, Inc.*	430 USD	2010-11-30	18%

(\*) annexes increasing the amounts of loan agreements concluded earlier

Agreements regarding loans provided by the other entities of PETROLINVEST Group concluded in 2009:

Date	Creditor	Debtor	Amount thsnd	Final repayment date
2009-01-27	TOO COMPANY PROFIT	TOO EMBA JUG NIEFT	8 200 KZT	2010-01-26
2009-03-24	TOO COMPANY PROFIT	TOO EMBA JUG NIEFT	52 KZT	2010-03-24
2009-04-07	TOO COMPANY PROFIT	TOO EMBA JUG NIEFT	2 000 KZT	2010-04-07
2009-04-22	TOO COMPANY PROFIT	TOO EMBA JUG NIEFT	750 KZT	2010-04-22

As PETROLINVEST S.A. disposed of the Russian assets, loan receivables from the Russian oil exploration and production companies: OOO Siewiergeofizyka totalling USD 18,572,000, OOO Neftegeoserwis totalling USD 8,239,500, and ZAO Pechora-Petroleum totalling USD 10,462,000, together with accrued interests were ceded to ZAO "Neva-Expo" headquartered in the Russian Federation on 2 October 2009. The carrying amount of those loan receivables as at the date of signing of the

assignment agreement was PLN nil. In line with the Management Board's decision made in Q4 2008 to discontinue investments in the Russian oil exploration and production companies, those loans were impaired as part of net assets' impairment as at 31 December 2008.

#### 4.5. INFORMATION ABOUT GUARANTEES PROVIDED AND RECEIVED

Guarantees provided and received by entities of PETROLINVEST Group in 2009:

- ✓ On 23 January 2009, Occidental Resources, Inc. provided a guarantee to Bank CenterCredit JSC securing a credit line totalling USD 37,800 thousand granted to TOO OilTechnoGroup. The guarantee will be in force until the final repayment of the liabilities resulting from the credit line which matures on 5 April 2012. The value of the guarantee comprises the principal amount of the credit line and covers other fees payable to Bank CenterCredit JSD under the credit facility agreement. Occidental Resources, Inc. and TOO OilTechnoGroup are controlled by PETROLINVEST S.A.
- ✓ On 23 April 2009, TOO OilTechnoGroup provided a guarantee of USD 15,000 thousand to PETROLINVEST S.A. securing the loan of USD 10,000 thousand granted by PETROLINVEST S.A. to Occidental Resources, Inc. on the same day. The guarantee will be in force until the final repayment of the liabilities resulting from the loan agreement which matures on 30 November 2010.
- ✓ On 30 September 2009, TOO OilTechnoGroup provided a guarantee of USD 15,000 thousand to PETROLINVEST S.A. securing the loan of USD 10,000 thousand granted by PETROLINVEST S.A. to Occidental Resources, Inc. on the same day. The Guarantee remains in force until final repayment of the liabilities resulting from the loan agreement which matures on 30 November 2010.
- ✓ On 21 December 2009, the terms of two bank guarantees provided by AO HSBC Bank Kazakhstan totalling USD 3.89m were extended to 31 December 2010. The guarantees are pledged as security for the performance by OilTechnoGroup of the agreement with Saipem S.p.A.

## 5. MANAGEMENT AND SUPERVISION AUTHORITIES OF PETROLINVEST GROUP

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### 5.1. CHANGES IN THE RULES FOR MANAGING PETROLINVEST GROUP

There were no significant changes in the rules for managing PETROLINVEST Group in the period covered by this Report; however, the Company was given consent from the General Meeting to take actions that will, in management's opinion, considerably improve efficient management of the Group.

- ✓ On 16 March 2009, the Company was given consent by the Extraordinary General Meeting of PETROLINVEST S.A. to widen the scope of the Company's activities by adding accounting, book-keeping and auditing activities, tax consultancy, activities of head offices and holding companies, except financial holding companies, and other business and management consulting activities. The widening of the scope of activities is a part of the Company's plan to implement a more efficient model with regard to business transactions with companies within PETROLINVEST Group and supervision of those entities, as part of which the Company will fulfil the role of a central facility for management and financial and book-keeping centre with respect to its subsidiaries. The changes are closely connected with the distribution of powers within the Capital Group.
- ✓ On 7 May 2009, the EGM of PETROLINVEST S.A. adopted a resolution giving consent to sell, lease or otherwise dispose of the organised part of the Company's enterprise involved in gas trading. The EGM gave consent to the Management Board to take actions aimed at disposing—in favour of TPG GAZ Spółka Akcyjna with its registered office in Łubiana ("TPG")<sup>3</sup>—of the organised part of the Company's enterprise involved in gas trading, which is a self-balancing LPG Branch headquartered in Gdynia ("LPG Enterprise"), or any tangible or intangible assets of the Company associated with the operation of the LPG Enterprise ("LPG Assets") in a timeframe, scope and on terms, including financial terms, that are negotiated by the Management Board, whereas:
  - LPG Assets shall mean in particular the gas bottling plants in Łubiana and Suwałki and the associated assets;
  - dispositions as to the LPG Enterprise or LPG Assets may also be made with the exclusion of rights connected with the lease of the LPG sea terminal in Port Gdynia;
  - disposal of the LPG Enterprise or LPG Assets in favour of TPG may involve in particular:
    - a. using them as an in-kind contribution to cover the stake in the increased share capital of TPG,
    - b. selling them to TPG,
    - c. leasing them out to TPG.

The necessity of obtaining the consent described above was connected with the intention to increase the value of the Company and its capital assets by enabling the Company to focus to a greater extent on prospecting and production, as well as to create market value for TPG (wholly-owned by the Company) as a specialised entity and a leader in LPG trading in Poland and Central East Europe. Hiving off gas trading activities into a separate organisational structure – TPG – should lead to a considerable increase in the scale of LPG trading operations and an increase in margins delivered on those operations through constant expansion of the distribution network and diversification of LPG supply channels. Furthermore, separating LPG activities from prospecting and production will enhance the transparency of both business segments for the Group's trading partners and cooperating banks. Managing LPG operations as a separate entity will allow for a more flexible approach to any emerging opportunities to take over other operators in the industry, and also – make it possible to attract investors interested in this particular type of business activity.

The authority given to the Management Board to define the structure and scope of transactions at later stages of the process of relocating the LPG Enterprise or its components is connected with the need to optimise transactions in respect of their tax consequences for both sides on an ongoing basis, and in particular to ensure that the operation of tax warehouses maintained in the gas bottling plants is undisturbed and to adjust the structure and scope of transactions in a flexible manner to the financing used by the Company and TPG to finance their operations.

There were the following changes to the management and supervisory authorities in 2009:

- ✓ The composition of the Company Management Board changed on 16 January 2009. Mr. Zenon Grablewski resigned from his office as Vice President of the Management Board for health reasons. On the same day, in exercise of its personal powers PROKOM Investments S.A. set the number of the Company's management board members at two, while Mr. Ryszard Krauze—exercising his personal powers—appointed Mr. Marcin Balicki, who had previously resigned from his office as Member of the Management Board, as Vice President of the Management Board.
- ✓ On 25 June 2009, the Company was notified that Mr. Dariusz Górka had resigned from his office as Member of the Supervisory Board of the Company as from 26 June 2009; on 29 June 2009, the Company was notified that Mr. Grzegorz Maciąg and Mr. Zbigniew Szachniewicz had resigned from their offices as Members of the Supervisory Board of the Company effective from 29 June 2009.
- ✓ On 30 June, the Annual General Meeting of the Company appointed Mr. Marek Modecki to the Supervisory Board of the current term and set the number of Supervisory Board members at five. Furthermore, on the same day exercising its

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<sup>3</sup> The business name of the subsidiary TPG GAZ S.A. was changed to PETROLINVEST GAZ S.A. on 28 September 2009.

personal powers PROKOM Investments S.A. appointed Mr. Tomasz Buzuk as member of the Company's Supervisory Board.

## 5.2. TOTAL NUMBER AND NOMINAL VALUE OF ALL SHARES IN PETROLINVEST S.A. AS WELL AS SHAREHOLDINGS IN PETROLINVEST GROUP COMPANIES HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS

As of 31 December 2009, in accordance with information in the possession of the Company, the amounts of PETROLINVEST S.A. shares held by members of the Management and Supervisory Board are as follows:

Shareholder	At 31 December 2009	
	Number of shares	Nominal value
Supervisory Board		
Ryszard Krauze	3 586	35 860
Maciej Grelowski	31 321	313 210
Krzysztof Wilski	31 321	313 210
Marek Modecki	1 000	10 000
Tomasz Buzuk	0	0
Management Board		
Paweł Gricuk	3 688	36 880
Marcin Balicki	20 770	207 700
Entities controlled by members of management or supervisory boards		
Prokom Investments S.A. and Osiedle		
Wilanowskie Sp. z o.o. (Ryszard Krauze)	9 617 307	96 173 070
Brightshield Ventures Ltd (Paweł Gricuk)	500 000	5 000 000

In accordance with information in the possession of the Company, Management and Supervisory Board members did not own shares in PETROLINVEST Group companies as of 31 December 2009.

On the basis of resolutions of the Extraordinary General Shareholders' Meeting of 29 April 2008 regarding the implementation of an Incentive Programme and the resolution of the Supervisory Board implementing the Rules and Regulations of the Incentive Programme, the Management Board Members Mr. Paweł Gricuk and Mr. Marcin Balicki own subscription warrants carrying the right to subscribe for the Company series E shares at an issue price of PLN 227:

- Paweł Gricuk – President 176,190 warrants,
- Marcin Balicki – Board Member 29,365 warrants.

The rights conferred by the Warrants to take up shares may be realised until 30 April 2011.

## 5.3. CONTROL SYSTEM FOR EMPLOYEE SHARE PROGRAMMES

The Company has an Incentive Programme for members of the management board of PETROLINVEST S.A. as provided in the Rules and Regulations of the Programme, the approval of which by the Company Supervisory Board was announced in current report no. 40/2008 dated 19 June 2008.

The terms and conditions of the Incentive Programme specified in the Rules and Regulations are compliant with the assumptions adopted by the Extraordinary General Meeting of PETROLINVEST S.A. on 29 April 2008.

As provided for in the regulations, the Company has a specification for each multiple Warrant certificate so as to control the number of rights to shares that have been executed by a warrant holder to date and the date of execution as well as the number of Rights to Shares that such warrant holder is still eligible for.

In compliance with the requirements of IFRS, the Group was required to make an assessment of the fair value of the warrants as at the date of granting the rights thereto. The amount arrived at in this way will be charged to the Group's payroll costs in the third quarter of 2008 when the rights were granted. The cost of warrant issue of PLN 12m, calculated using the Black-Scholes model, was taken to the Group's payroll costs in the third quarter of 2008. The cost did not have impact on the Group's cash flows.

## 5.4. AGREEMENTS CONCLUDED BETWEEN PETROLINVEST S.A. AND MANAGERS REGARDING COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL WITHOUT GOOD CAUSE

There are no agreements concluded between the Company and managers regarding compensation in the event of their resignation or dismissal without good cause.

5.5. VALUE OF REMUNERATION, AWARDS OR BENEFITS DUE OR POTENTIALLY DUE TO MANAGING AND SUPERVISORY PERSONS

The value of remuneration for managing and supervisory persons of PETROLINVEST S.A. are described in note 35.3 to the Financial Statements.

## 6. PLANNED ISSUES AND USE OF PROCEEDS FROM ISSUES ALREADY COMPLETED

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### 6.1. AGREEMENTS AS A RESULT OF WHICH CHANGES MAY OCCUR IN THE FUTURE IN THE PROPORTION OF SHARES OWNED BY CURRENT SHAREHOLDERS AND BOND HOLDERS

The Company concluded the following agreements that may result in changes to the proportion of shares held by current shareholders:

- ✓ On 29 July 2008, the eligible Members of the Management Board of the Company, in accordance with the Resolution of the Supervisory Board of 18 June 2008 implementing the Rules and Regulations of the Incentive Programme, subscribed for 264,285 subscription warrants convertible into the Company series E shares at an issue price of PLN 227. Each warrant carries the right to take up one share. The rights conferred by the warrants to take up shares may be realised until 30 April 2011.
- ✓ On 16 September 2008, the Company signed a letter of intent with The European Bank of Reconstruction and Development (EBRD) and Blue Oak Capital Limited pertaining to their investment in Company shares. The terms and conditions set out in the letter of intent envisage the following terms of the investment:
  - the EBRD declared willingness to invest between USD 50 and 100 million in the newly-issued shares of the Company at an issue price of PLN 130 per share,
  - Blue Oak declared willingness to invest USD 150 million in the newly-issued shares of the Company at an issue price of PLN 130 per share.
- ✓ On 27 October 2008, the Company signed a letter of intent with MI Energy Corporation (henceforth “MI Energy”) which envisages financing of the Company’s activities by MI Energy and working towards merging the businesses of both companies. The parties agreed that MI Energy should participate in financing the Company’s operations via:
  - extending a loan of USD 5-10m, convertible into Petrolinvest shares issued at a price not higher than the issue price for the European Bank for Reconstruction and Development or any other financial investors,
  - contribution of USD 25-50m to the share capital increase in the Company, paid up in cash.The Company’s share capital is to be increased within the framework of the financing provided on the basis of the letter of intent signed on 16 September 2008 with the European Bank for Reconstruction and Development and the fund Blue Oak Capital Limited.
- ✓ On 13 January 2009, the Company concluded an agreement with Prokom Investments S.A. which provides that Prokom Investments S.A. has the right to demand that the Company transfer to Prokom (on one or many occasions) such a number of Company shares that is the product of the value of Prokom Investment S.A.’s accounts receivable (or a portion thereof) with accrued interest and the average closing price of one Company share at the WSE in the three months preceding the date on which Prokom makes the demand (Call Option). As at the date of conclusion of the agreement, the aggregate balance of accounts receivable by Prokom from the Company, including the accounts receivable transferred on condition, was PLN 285.9m; with the reservation that the interest accrued on the Capital Energy S.A. account receivable (due to conditional transfer of loan agreement) was calculated as of 30 September 2008. By the end of the period covered by this Report, Prokom Investments S.A. had subscribed for 4,878,991 ordinary bearer Petrolinvest shares in total in execution of the agreement for a total consideration of PLN 224.4m (details in point 3.2.4. of the Report). As at 31 December 2009, the balance of receivables under the aforementioned agreement was PLN 67.3m, including PLN 2.4m interest on loans and the remaining PLN 64.9m in receivables transferred on condition.
- ✓ On 20 March 2009, the Company concluded an agreement with Prokom Investments S.A. setting out terms and conditions for cooperation in seeking financing for the Company. In the agreement, Prokom committed to take appropriate actions to obtain a PLN 150 million financing for the Company’s operations. The Financing will be provided on the basis of loan agreements or other agreements of similar nature, on an arm’s length basis, or as a direct equity investment into Petrolinvest shares. The Financing will be provided to the Company by Prokom, or another entity appointed by Prokom, based on agreements which should stipulate the authority of the Financing Entity to file a conversion request for an outstanding amount of the Financing, with accrued interest and other costs resulting from the Financing documents, to be converted, either fully or partially, into Petrolinvest equity (details in point 3.2.3 of the Report).
- ✓ On 29 April 2009, the Company concluded an agreement with GEM Global Yield Fund Limited and GEM Investments Advisers, Inc. providing the Company with a financing of up to PLN 200m through an equity line of credit available in tranches drawn at the Company’s discretion over the period of 3 years from the date of the agreement and regarding an issue of subscription warrants convertible into on aggregate 1.3 million Petrolinvest shares at PLN 60 per share, i.e. totalling PLN 78 million (details in point 3.2.4 of the Report). By the end of the period covered by this Report, GEM Global Yield Fund Limited had subscribed for 1,200,000 shares in execution of the equity line of credit agreement. As at 31 December 2009, PLN 42.9m of the committed equity line of credit had been used. After the period covered by this Report, GEM Global Yield Fund took up another share issue of 70,800 shares and, consequently, PLN 44.6m of the committed equity line of credit has been used.

- ✓ On 14 May 2009, the Company and Prokom Investments S.A., Osiedle Wilanowskie Sp. z o.o. and Agro Jazowa S.A. signed agreements regulating the terms and conditions on which those entities have made their assets available to collateralise the repayment of the Company's credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego. The average value of the assets encumbered as collateral for the credit facility in the period from the encumbrance date to the date of signing of the agreements amounted to PLN 642.67m (PLN 860m maximum in the period). The agreements provide that in exchange for their services, the entities listed above are entitled to a fee that may be prepaid through share issues (details in point 3.2.3 of the Report).  
By the end of the period covered by this Report, the eligible entities had subscribed for 2,503,628 ordinary bearer Petrolinvest shares in total in execution of the agreement for a total consideration of PLN 88.5m.  
As at 31 December 2009, the balance of outstanding receivables under the aforementioned agreement was PLN 25.8m.
- ✓ On 19 October 2009, the Company received a confirmation that the subscription option agreement giving four open investment funds incorporated in Poland (the "Funds") the option to subscribe for shares in the Company had been concluded. The Company agreed under the Agreement that at the request of any one of the Funds it will issue on aggregate 182,000 subscription warrants free of charge where each warrant will entitle its holder to acquire one Company share at an issue price of PLN 50 per share. Each of the Funds has the right to file the request for a warrant and/or share issue at any point falling no later than within 2 years from the date of signing the Agreement (details in point 3.2.4 of the Report).
- ✓ On 2 November 2009, the Company entered into a subscription option agreement giving the brokerage house Dom Maklerski IDM S.A. the option to subscribe for shares in the Company. The Company agreed under the Agreement that at the request of DM IDM S.A. it will make a single issue of 65,000 transferable subscription warrants free of charge where each warrant will entitle its holder to acquire one Company bearer share at an issue price of PLN 50 per share. DM IDM S.A. has the right to file the request for a warrant and/or share issue at any point falling no later than within 2 years from the date of signing the Agreement (details in point 3.2.4 of the Report).
- ✓ After the period covered by this Report, on 18 March 2010 the Company concluded an agreement with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and GEM Global Yield Fund Limited (the "Investors") under which financing of up to PLN 127.5 million is to be made available to the Company, through the issue by the Company of unsecured convertible bonds with a total nominal value of up to PLN 112.5 million and pre-paid subscription warrants for a total amount of PLN 15 million with an exercise price of PLN 19 per share. Furthermore, the agreement provides that up to 2,400,000 subscription warrants will be delivered to the Investors, entitling their holders to subscribe for up to 2,400,000 shares in the Company issued for PLN 35 per share (for the first tranche consisting of 1,200,000 warrants) and PLN 47.5 per share (for the second tranche consisting of 1,200,000 warrants), with a total value of PLN 99 million (details in point 3.2.3 of the Report).

## 6.2. DESCRIPTION OF THE USE OF PROCEEDS FROM SHARE ISSUES DURING THE REPORTING PERIOD

The seven private share issues, carried out in 2009, provided the Company with proceeds of PLN 117.5m. The proceeds generated on the share issues were allocated to financing scheduled investments connected with the delivery of the prospecting and extraction project and to a lesser extent to financing expenditures connected with ongoing operations, in particular the repayment of short-term loans. Also in the reporting period, the Company carried out three issues paid for by netting mutual accounts receivable/payable (debt convertible to equity) totalling PLN 312.8m.

Proceeds from the issues of ordinary shares carried out in 2009 as of the day of this Report have been used as follows:

	<i>PLN'000</i>
Purpose of use	Value
Financing of prospecting and extraction projects (provided loans)	
TOO EMBA JUG NIEFT	13 434.8
TOO COMPANY PROFIT	390.2
Occidental Resources, Inc.	58 638.0
Costs of external financing connected with prospecting and extraction projects	10 764.0
Expenditures incurred in connection with engagement in prospecting and extraction projects (legal, advisory services etc.)	14 933.9
Expenditures incurred in connection with ongoing operations, including repayment of short-term loans	13 020.1
Share issue costs	6 364.1
Funds used total	117 545.1

## 7. OTHER INFORMATION

### 7.1. MATERIAL TRANSACTIONS OF THE PARENT OR SUBSIDIARY WITH RELATED ENTITIES OTHER THAN AT ARM'S LENGTH

In 2009, no material transactions were concluded by the parent or subsidiary with related entities on terms other than at arm's length. A detailed description of the transactions concluded in the reporting period by the Company or the other entities of PETROLINVEST Group with related parties is provided in note 35 to the Financial Statements.

### 7.2. DESCRIPTION OF MATERIAL OFF-BALANCE SHEET ITEMS IN SUBJECTIVE, OBJECTIVE AND VALUE TERMS

As of 31 December 2009, PETROLINVEST Group possessed the following significant conditional liabilities:

Entity	Subject	Value
PETROLINVEST S.A.	Blank bill of exchange submitted in the Customs Office in Gdynia as excise security for transferring goods in excise duty suspension procedure.	2 850 000 PLN
TOO OilTechnoGroup	Two bank guarantees given by AO HSBC Bank Kazakhstan, constituting a guarantee for the performance of an agreement between OilTechnoGroup and Saipem S.p.A. The guarantees are valid until 31 December 2010. The company established a conditional deposit as security for any potential liabilities to the bank.	3 885 000 USD
Occidental Resources Inc.	The guarantee provided by Occidental Resources Inc. to secure the repayment by TOO OilTechnoGroup of liabilities due to Tenaris Global Services S.A. under agreements for the purchase of well construction materials. The guarantee covers liabilities resulting from one agreement already concluded for USD 2.9m and any future agreements that may be concluded between TOO OilTechnoGroup and Tenaris Global Services S.A. The guarantee was issued for an indefinite period, provided however that it may be terminated upon written notice delivered by Occidental Resources Inc. to Tenaris Group Services S.A. Upon receipt of the notice by Tenaris Group Services S.A., the guarantee will remain in force until all payments—resulting from any agreements concluded before the notice was delivered—are settled.	2 804 631 USD <sup>1</sup>
TOO EMBA JUG NIEFT	Guarantee securing the repayment of obligations of TOO OilTechnoGroup to Bank CenterCredit JSC resulting from a USD 37,800 thousand line of credit provided by the bank. The guarantee is valid until full repayment of the liabilities resulting from the line of credit, which matures on 5 April 2012. The guarantee does not envisage any arrangement fee. The guarantee provides for a contractual penalty in case of failure to pay any outstanding amount, equal to 0.1% of such amount for each day of delay in payment, and a contractual penalty equal to 0.1% of the amount of the guarantee for any other breach of the guarantee arrangement.	37 800 000 USD <sup>2</sup>
Occidental Resources, Inc.	Guarantee securing the repayment of obligations of TOO OilTechnoGroup to Bank CenterCredit JSC resulting from a USD 37,800 thousand line of credit provided by the bank. The guarantee is valid until full repayment of the liabilities resulting from the line of credit, which matures on 5 April 2012. The guarantee does not envisage any arrangement fee. The guarantee provides for a contractual penalty in case of failure to pay any outstanding amount, equal to 0.1% of such amount for each day of delay in payment, and a contractual penalty equal to 0.1% of the amount of the guarantee for any other breach of the guarantee arrangement.	37 800 000 USD <sup>2</sup>

<sup>1</sup>The value of the guarantee had not been specified; the value presented above is as at 31 December 2009.

<sup>2</sup>The value of the guarantee comprises the principal amount of the line of credit and other benefits payable to Bank CenterCredit JSC under the credit facility agreement. Total indebtedness under the line of credit as at 31 December 2009 was USD 35,001 thousand in principal and USD 6,447 thousand in accrued interest.

On 25 June 2009, the Company signed agreements committing it to dispose of shares and stocks in companies headquartered in the Russian Federation. The agreement provides that if a discovery is made on the concessions while the acquirers hold shares in the acquired companies, each of the acquirers is obliged to pay additional consideration to the Company. The total amount of such additional consideration may come at a maximum of USD 42m. Details of the agreement are described in point 3.2.3. of this Report.

### 7.3. EXPLANATIONS REGARDING THE DIFFERENCE BETWEEN FINANCIAL RESULTS AND FORECASTS OF 2009 RESULTS PUBLISHED EARLIER

PETROLINVEST Group did not publish forecasts regarding 2009 results.

7.4. PROCEEDINGS PENDING BEFORE COURT, COMPETENT ARBITRATION BODY OR ANY PUBLIC ADMINISTRATION AUTHORITY, INCLUDING INFORMATION ON ANY PROCEEDINGS CONCERNING THE ISSUER'S OR ITS SUBSIDIARY UNDERTAKING'S LIABILITIES OR CLAIMS WHOSE VALUE REPRESENTS 10% OR MORE OF THE ISSUER'S EQUITY

As at 31 December 2009, there were no proceedings pending before court, competent arbitration body or any public administration authority, concerning the liabilities or claims of PETROLINVEST S.A. Group whose value, either separately or jointly, represented 10% or more of the Company's equity. Information about other proceedings is provided in note 33.1 to the Financial Statements.

7.5. INFORMATION ABOUT THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

Audit of the financial statements of PETROLINVEST S.A. and the consolidated financial statements of PETROLINVEST Group for 2009 was carried out by Ernst & Young Audit Spółka z o.o. on the basis of the agreement concluded on 1 July 2009. The total amount of remuneration resulting from agreements with the entity authorised to audit financial statements either due or paid for the audit and/or review of financial statements and for other services is presented below.

Title	<i>(in PLN '000)</i>	
	2009	2008
Audit of full year standalone and consolidated financial statements	700	875
Other certification services, including review of financial statements	275	420
Tax advisory	0	0
Other services	32	249
Total	1 007	1 544

## 8. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE

### 8.1. CORPORATE GOVERNANCE RULES APPLIED BY PETROLINVEST S.A.

The Management Board of PETROLINVEST S.A. (the "Company") attaches great importance to applying corporate governance rules—understood as a set of rules of conduct necessary to maintain proper relations among the interests of all entities and natural persons engaged in the Company's business. The Management Board of PETROLINVEST S.A. shares the ideas and assumptions behind the individual corporate governance rules. The rules are to a large extent an exemplary code of conduct and ethical standards and an embodiment of good practice.

In 2008, the Company declared voluntary compliance with corporate governance rules adopted by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*) compiled in "Best Practices of WSE Listed Companies" (appendix to Resolution No. 12/1170/2007 of the Supervisory Board of the Warsaw Stock Exchange dated 4 July 2007). The key goal of adopting corporate governance as the Company's business standard is to build transparent relations among all bodies and entities involved in the operation of the Company and to guarantee that the Company is managed properly, thoroughly and loyally towards all shareholders.

The "Best Practices of WSE Listed Companies" are available on the website of the Warsaw Stock Exchange [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)

The Management Board announces that it does not comply, either permanently, temporarily or to some extent, with the following corporate governance rules defined in the "Best Practices of WSE Listed Companies":

- rule II.5 and rule II.1.4 which state that the Management Board is required to present grounds for draft resolutions of a general meeting or request that the person motioning for the inclusion of an issue on the agenda of a general meeting should provide grounds, and set out an obligation to publish draft resolutions with grounds attached on a corporate website at least 14 days before the set date of the general meeting - the Company shares the need for detailed grounds for the inclusion of certain issues on the agenda; however, it cannot guarantee that all entities authorised to make a motion to include a given issue on the agenda will always provide grounds for draft resolutions. Furthermore, the Company would like to stipulate that it may not always be technically feasible to provide grounds in a timeframe allowing the shareholders to become acquainted with them ahead of the general meeting. In some cases, practical matters may require a general meeting to be held on short notice. The Company will publish the grounds for draft resolutions of general meetings that are available to the Management Board.
- rule III.2 which states that a member of the supervisory board should provide information on his/her relationship (financial, family, and other relationships which may affect the position of the member of the supervisory board on issues decided by the supervisory board) with a shareholder who holds shares representing not less than 5% of all votes at the general meeting - the Company's position is that it could not guarantee procedures that would enable it to be informed on "other relationships" as the term is ambiguous. The Company believes that the absence of such disclosure does not negatively impact the Company's transparency as the Company has declared its willingness to comply with the corporate governance rule stating that a member of the supervisory board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. The Company's standpoint on this rule determines limited application of rule II.11 which states that statements regarding relationships should be published on the corporate website.
- rule III.6 which states that at least two members of the supervisory board should meet the criteria of being independent from the company and entities with significant connections with the company - Adoption of this rule would be premature given the Company's current shareholding structure. The Company will consider compliance with this rule in the future. The Company's perspective on rule III.6 automatically triggers non-compliance with rules III.7 and III.8 which require that the supervisory board should establish at least an audit committee that should include at least one independent member and that appropriate European Commission regulations should apply to the tasks and the operation of the committee.
- rule IV.1 which states that presence of representatives of the media should be allowed at general meetings - the Company acknowledges the assumptions underlying this rule in principle and considers it good corporate practice. The Company continually strives to have good relations with the media and to have an effective information policy. There is no assurance, however, that a situation does not occur in which the Company will not allow representatives of the media to be present at a general meeting to ensure that the meeting progresses effectively.
- rule IV.2 regarding the rules of general meetings - the Company's practice to date, as well as the practice of many public companies, do not support the need to lay down the rules of general meetings. The Company believes, therefore, that relevant regulations of the Commercial Companies Code provide a sufficient basis to ensure effective progress of the Company's general meeting, including voting in separate groups. The Company's perspective on rule IV.2 automatically triggers non-compliance with rule II.1.1 regarding publication of the rules of general meetings on corporate website.

The Company Management Board would like to reiterate that the reservations stipulated above with respect to some of the rules of corporate governance do not have an adverse effect on the clarity of supervision and management principles of PETROLINVEST S.A. nor do they adversely affect the implementation of best practices, and so they do not lead to any infringement of the assumptions underlying corporate governance. The Management Board of PETROLINVEST S.A. will continue to assess the management and supervision principles implemented in the Company on an ongoing basis and will also analyse investors' expectations regarding the Company's perspective on the best practices not complied with, and if any alteration is required and possible, a decision will be made to adopt such best practices as proposed by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*). If compliance with any such rules requires a decision of another Company body, the Management Board will apply to it to make an appropriate decision.

## 8.2. DESCRIPTION OF BASIC FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS (STANDALONE AND CONSOLIDATED)

The Company's internal control system guarantees that the Company's operations are secure and that financial information provided in financial statements (both standalone and consolidated) is adequate and accurate. Internal control is exercised by a Team of Financial Controllers who monitor the correctness, efficiency, and security of the process of preparing financial statements and are responsible for identifying and managing risks.

The Management Board is responsible for proper and effective operation of the internal control system and risk management in the process of preparing financial statements.

The Supervisory Board oversees the operation of the internal control system and evaluates how adequate and efficient the system is. As part of its supervisory activities, the Supervisory Board together with the Management Board and the certified auditor verifies the truthfulness of the financial statements.

The Company has appropriate procedures in place for preparing financial statements which ensure that disclosure of economic events in a given period is complete and correct.

The Company keeps its books of account using a software system. Access to the database is restricted and requires appropriate authorisation from selected personnel; there is also access control throughout the process of preparing financial statements.

The process of preparing financial statements is based on well-organized co-operation in all aspects of the process, including a well-defined scope of financial reporting and a clear division of duties among the participants of the process. Preparation of data in source systems is subject to formalised rules of procedure and approval.

The Company's operations, and the effectiveness of the risk control mechanisms that have been implemented, are under permanent supervision in terms of compliance with the law and internal regulations, in particular through functional internal control at every stage of preparing financial statements by each employee, his/her direct superior and persons cooperating with the superior, as well as by managers of organizational units.

The Company has a daily reporting system, which is the source of information for management.

In case of subsidiaries and jointly-controlled companies of the Group, their results are monitored by the parent entity on a monthly basis based on the existing reporting system.

After closing the books each calendar month, the Management Board performs an in-depth analysis of the financial results of the Company and the individual Oil Exploration and Production Companies in connection with the Company's holding operations.

In the process of preparing the Company's financial statements, one of the key elements of control is the verification of the financial statements by an independent certified auditor. The Company commissions in particular: a review of half-year financial statements and a preliminary and detailed audit of full-year financial statements.

Certified auditors are selected by the Supervisory Board through a bid process, with particular attention being given to the guarantee of high standards of the service and the required independence of the auditor.

Each time, the Management Board acquaints itself with the problems identified in the mechanisms of the control process. All post-audit recommendations from the auditor and comments from the Company's internal units which arose during the audit of financial statements are gradually implemented.

### 8.3. SHAREHOLDERS HOLDING MATERIAL BLOCKS OF SHARES, WHETHER DIRECTLY OR INDIRECTLY

The Company's shareholders who had at least 5% of votes at the General Meeting as at 31 December 2009 were:

Shareholder	No. of shares	Proportion of share capital	No. of votes	Proportion of votes at AGM
Ryszard Krauze*	3 586	0.02%	3 586	0.02%
Prokom Investments S.A.	9 279 891	43.11%	9 279 891	43.11%
Osiedle Wilanowskie Sp. z o.o.**	337 416	1.57%	337 416	1.57%
Remaining shareholders	11 905 706	55.30%	11 905 706	55.30%
TOTAL	21 526 599	100.00%	21 526 599	100.00%

(\*) *Mr. Ryszard Krauze is the dominant entity of Prokom Investments S.A.*

(\*\*) *Osiedle Wilanowskie Sp. z o.o. is a subsidiary of Prokom Investments S.A.*

### 8.4. HOLDERS OF SECURITIES THAT GIVE SPECIAL CONTROLLING RIGHTS

As provided in the Company's statutes, if the Management Board consists of two or three members, Prokom Investments S.A. and Mr. Ryszard Krauze have personal rights to determine the number of Management Board members, to appoint and dismiss the President of the Management Board, the Vice President of the Management Board and members of the Supervisory Board (for details see point 8.8 of the Report).

### 8.5. RESTRICTIONS CONCERNING THE EXERCISE OF VOTING RIGHTS AND RESTRICTIONS OF THE TRANSFERABILITY OF THE ISSUER'S SECURITIES

The Statutes of PETROLINVEST S.A. lay down restrictions on the shareholders' voting rights described in detail in point 8.7 of the Report.

### 8.6. PRINCIPLES OF AMENDING STATUTES OR ARTICLES OF ASSOCIATION

Any amendment of the Statutes requires a resolution of the General Meeting (in the form of a notary deed) and entry into the National Court Register. The resolution should be taken by a majority of 3/4 of the votes present. The resolution on any material change of the Company's scope of activities requires a 2/3 majority.

The dismissal or suspension of any individual member or all members of the Management Board in compliance with Article 368.4 of the Commercial Companies Code by the General Meeting requires a majority of 4/5 of the votes cast.

### 8.7. DESCRIPTION OF THE MANNER IN WHICH THE GENERAL MEETING OPERATES AND ITS PRINCIPAL POWERS AND RIGHTS OF SHAREHOLDERS, AND THE MANNER OF PERFORMING THEREOF

The General Meeting is the Company's highest authority. The General Meeting operates in accordance with generally binding laws and regulations, including in particular the Commercial Companies Code and the Statutes of the Company. The Statutes are available on the Company's website. The General Meeting is convened by way of an announcement in the official court journal *Monitor Sądowy i Gospodarczy*.

In accordance with the Statutes, resolutions of the General Meeting shall be adopted by an absolute majority of validly cast votes, unless the Statute or the applicable laws provide for stricter majority rules. Resolutions of the General Meeting regarding the matters referred to below shall require a qualified majority of three-quarters of votes cast in favour of the resolution:

- 1) redemption of shares in the case referred to in Article 415.4 of the Commercial Companies Code;
- 2) acquisition of own shares in the case referred to in Article 362.1.2 of the Commercial Companies Code;
- 3) merger of the Company with another company in the case referred to in Article 506.2 of the Commercial Companies Code.

Resolutions of the General Meeting concerning the dismissal or suspension of any individual member or all members of the Management Board in compliance with Article 368.4 of the Commercial Companies Code by the General Meeting shall require a majority of four-fifths of the votes cast.

The shareholders' voting rights have been restricted in such a way that none of the shareholders may exercise more than 20% of the overall number of votes at the General Meeting, although it is assumed that the restriction shall not apply for the purposes of determining the obligations of purchasers of large blocks of shares as provided for in the act dated July 29th 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies ("Act on Public Offering"). The restriction of the voting rights shall not apply to:

- 1) Prokom Investments S.A.;
- 2) any shareholders which, on the date of the registration of the Company's transformation in the Register of Business Entities, held shares constituting at least 10% of the share capital;
- 3) any shareholder which, following the admission of shares to regulated trading (acting in its own name and on its own

account), acquires and registers at the General Meeting shares constituting at least 85% of the overall number of votes in the Company's share capital, out of which all shares causing such shareholder to exceed the threshold of 10% of the overall number of votes in the Company were acquired by such shareholder:

- in result of a public tender for the sale of all shares of the Company announced in compliance with the Act on Public Offering, from shareholders not related to such shareholder in any manner described in Article 87, sections 1.2-1.6 of the Act on Public Offering or which do not act in concert with such a shareholder in order to circumvent the restrictions provided for in the Statutes; or
- on the primary market (as defined in the Act on Public Offering).

The exercise of voting rights by a dependent company or a subsidiary shall be deemed as the exercise of voting rights by the dominant company or a parent entity, respectively.

The parties related in the manner provided for in Article 87, sections 1.2 – 1.6 of the Act on Public Offerings or otherwise acting in concert for the purposes of circumventing the restrictions provided for in the Statutes, shall be considered as one shareholder.

The consent of the General Shareholders' Meeting is not required for any acquisition or sale of ownership rights to real estate, long-term public lease rights (i.e. the right of perpetual usufruct) or any share of those rights, regardless of the value of the rights acquired or sold, and the Company's purchase of its own shares for the purposes of redemption, subject to Article 393.6 of the Commercial Companies Code.

Redemption of the Company's shares requires the consent of the General Meeting, subject to Article 363.5 of the Commercial Companies Code.

## 8.8. THE MANAGING BODY AND THE SUPERVISORY BODY

### MANAGEMENT BOARD

The Management Board is the Company's executive body and manages all aspects of the Company's operations. The Management Board operates in accordance with the Commercial Companies Code, the Statutes of the Company and the By-Laws of the Management Board.

According to the Company's Statutes, the Management Board shall consist of two, or three, or five members; the number of members is determined by Prokom Investments S.A. If the Management Board consists of two or three members, Prokom Investments S.A. shall have a personal right to appoint and dismiss the President of the Management Board, while Ryszard Krauze shall have a personal right to appoint and dismiss the Vice-President of the Management Board. If the Management Board consists of five members, Prokom Investments S.A. shall have a personal right to appoint and dismiss two members of the Management Board, including the President of the Management Board, while Ryszard Krauze shall have a personal right to appoint and dismiss the Vice-President of the Management Board. The other Members of the Management Board, if any, shall be appointed and dismissed by the Supervisory Board. The power to dismiss or suspend members of the Management Board in compliance with Article 368.4 of the Commercial Companies Code is given to the General Meeting.

As at the date of preparation of this Report, the Management Board is composed of Paweł Gricuk – President and Marcin Balicki – Vice President. Members of the Management Board are appointed for three year terms of office.

Those persons were also on the Management Board during 2009; however, Mr. Zenon Grablewski held the position of Vice President of the Management Board until 16 January 2009 while Marcin Balicki was then Member of the Management Board.

The Management Board manages the Company's affairs and represents the Company vis-à-vis third parties. The Management Board sets forth the Company's development strategy, goals and objectives, and the manner of achieving them, which are subject to approval by the Supervisory Board.

All matters that are not expressly reserved for the General Shareholders' Meeting or the Supervisory Board fall within the powers of the Management Board. The Company's Statutes provide specifically that the Management Board is authorised to increase the Company's share capital through the issuance of new shares through a single or several share capital increases within the limits of authorised capital. The authorisation of the Management Board to increase the share capital and to issue new shares within the scope of the authorised capital shall expire on the third anniversary of the date on which the transformation of the Company into a joint-stock company was entered in the Register of Business Entities.

With the consent of the Supervisory Board, the Management Board may deprive some or all of the shareholders of their pre-emptive rights to shares issued within the scope of the authorised capital.

Provided that the Commercial Companies Code does not provide otherwise, the Management Board decides on all matters related to the share capital increase within the scope of the authorised capital and the Management Board is authorised to take the following actions, without limitation:

- enter into stand-by underwriting or firm commitment underwriting agreements or any other underwriting agreements, and to enter into agreements pursuant to which any depository receipts based on shares would be issued outside the territory of the Republic of Poland;
- adopt resolutions and take any other actions relating to the conversion of shares into book-entry form and the execution of share registration agreements with the National Depository of Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*);

- adopt resolutions and take other actions relating to the issuance of shares in a public offering or applying for the admission of the shares to trading on the regulated market, as the case may be;

The Management Board's resolutions regarding the establishment of the issue price within the scope of the authorised capital or the delivery of shares in exchange for non-cash (in-kind) contributions require the consent of the Chairman of the Supervisory Board.

Subject to the consent of the Chairman of the Supervisory Board, the Management Board may, under the authorisation to increase the share capital, issue subscription warrants carrying the right to subscribe for the shares exercisable until the end of the period in which the Management Board is authorized to conduct the share capital increase.

In accordance with the Company's Statutes, the Management Board shall adopt resolutions by a simple majority of votes, and if the vote is tied, the President of the Management Board shall have the casting vote. The President of the Management Board jointly with another Management Board member or a registered proxy, or the Vice-President of the Management Board jointly with another Management Board member or a registered proxy, shall be authorised to make representations on behalf of the Company.

#### SUPERVISORY BOARD

The Supervisory Board provides general supervision over the activities of the Company. The Supervisory Board operates in accordance with the Commercial Companies Code, the Statutes of the Company, and the By-Laws of the Supervisory Board available on the Company's website. The term of office of individual members of the Supervisory Board is three years.

The Supervisory Board consists of five to thirteen members. Members of the Supervisory Board are appointed and dismissed by the General Meeting; however, according to the Statutes, two members of the Supervisory Board (including the chairman and the deputy chairman) are appointed and dismissed by Prokom Investments S.A. and one member of the Supervisory Board is appointed and dismissed by Mr Ryszard Krauze.

As at the date of preparation of this Report, the Supervisory Board is composed of Ryszard Krauze – Chairman, Maciej Grelowski, Krzysztof Wilski, Marek Modecki, and Tomasz Buzuk.

Mr. Ryszard Krauze, Mr. Maciej Grelowski and Mr. Krzysztof Wilski held their positions throughout 2009, Mr. Marek Modecki and Mr. Tomasz Buzuk were appointed members of the Supervisory Board as from 30 June 2009 thus replacing Mr. Dariusz Górka, who resigned as from 26 June 2009 and Mr. Grzegorz Maciąg and Mr. Zbigniew Szachniewicz, who resigned as from 19 June 2009.

The Company's Statutes do not regulate the obligation of independence of Supervisory Board members; however, as provided for in the communication regarding the Company's compliance with "Best Practices of WSE Listed Companies" published in current report no. 1/2008 on 2 January 2008, the Company will consider compliance with the rule of independence of at least two members of the Board in the future.

The duties of the Supervisory Board involve ongoing supervision over the activities of the Company in all areas of its operation. Besides the matters defined in the Commercial Companies Code, the competencies of the Supervisory Board include in particular:

- to designate an entity for the purposes of auditing or reviewing the consolidated and stand-alone financial statements of the Company and grant consent to the execution of appropriate agreements with such entity,
- to grant consent—in matters reserved by the Statutes—to the Company's related parties to enter into agreements with the Company or to take any other actions in favour of the Company's related parties,
- to appoint and dismiss Members of the Management Board, subject to the personal rights of Prokom Investments S.A. and Ryszard Krauze, and to establish the remuneration of Management Board Members,
- to grant consent to establish the issue price of shares issued within the scope of the authorised capital or delivered in exchange for non-cash (in-kind) contributions,
- to grant consent to the issue of subscription warrants—within the Management Board's authorisation to increase the share capital (subject to the consent of the Chairman of the Supervisory Board),
- to grant consent to the Company's purchase of its own shares for the purposes of redemption, subject to Article 393.6 of the Commercial Companies Code,
- to grant consent to the Management Board to deprive some or all of the shareholders of their pre-emptive rights to shares issued within the scope of the authorised capital.

Unless the Statutes provide specified exception, resolutions of the Supervisory Board are adopted by an absolute majority of votes cast. Resolutions of the Supervisory Board may be adopted if at least half of the Members are present at the meeting, including the Chairman or Deputy Chairman. If the vote is tied, the Chairman has the casting vote. According to the By-Laws of the Supervisory Board, Board meetings are held at least quarterly. The Chairman also convenes Supervisory Board meetings when requested by the Company's Management Board member or a Supervisory Board member.

As provided for in the communication regarding the Company's compliance with "Best Practices of WSE Listed Companies" published in current report no. 1/2008 on 2 January 2008, the rule pertaining to the appointment of an audit committee within the Supervisory Board, which committee would consist of at least one independent member, is not complied with due to the current composition of the Supervisory Board. The Company will consider possible adoption of this rule in the future.

9. ADDITIONAL REPRESENTATIONS OF THE MANAGEMENT BOARD

The Management Board of PETROLINVEST S.A. represents that to the best of its knowledge the financial statements for the year ended 31 December 2009 and comparable data were prepared in accordance with current accounting regulations, give a true, reliable and clear view of the material and financial standing of PETROLINVEST S.A. and its financial results and represents that the management board report for the year ended 31 December 2009 contains a true picture of the development and achievements as well as the situation of PETROLINVEST S.A. and PETROLINVEST Group, including a description of risks and threats.

The Management Board of PETROLINVEST S.A. represents that the entity authorised to audit the financial statements that audited the financial statements for the year ended 31 December 2009 was selected in accordance with the provisions of law and that that entity and the auditors performing the audit fulfilled the conditions to issue an impartial and independent report from the audit in accordance with appropriate provisions of domestic law.

Paweł Gricuk  
President

Marcin Balicki  
Vice-President

Gdynia, 22 March 2010