



Petrolinvest

**CONSOLIDATED
QUARTERLY REPORT
OF PETROLINVEST GROUP
FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010**

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CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010

1. SELECTED FINANCIAL DATA

1.1. Selected financial data of PETROLINVEST Group

	<i>for 12 months</i>		<i>for 12 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
Net revenue from the sale of products, goods and materials	149 957	75 740	37 448	17 449
Profit (loss) from operations	(90 501)	(205 241)	(22 601)	(47 284)
Gross profit (loss)	(159 095)	(441 150)	(39 730)	(101 632)
Net profit (loss) attributable to equity holders of the parent	(148 610)	(420 157)	(37 112)	(96 796)
Cash flows from operating activities	(59 698)	(51 528)	(14 908)	(11 871)
Cash flows from investing activities	(101 858)	(52 737)	(25 437)	(12 150)
Cash flows from financing activities	181 550	95 617	45 338	22 028
Net cash flows, total	19 994	(8 648)	4 993	(1 992)
Weighted average number of shares issued in units	33 127 514	13 518 960	33 127 514	13 518 960
Number of diluting potential ordinary shares	0	0	0	0
Earnings (loss) per share (in PLN/EUR)	(4,49)	(31,08)	(1,12)	(7,16)
Diluted earnings (loss) per share (in PLN/EUR)	(4,49)	(31,08)	(1,12)	(7,16)
	<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>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
Total assets	1 259 521	1 059 957	318 037	258 010
Liabilities and provisions for liabilities	641 114	748 440	161 885	182 182
Non-current liabilities	280 890	469 733	70 926	114 340
Current liabilities	360 224	278 707	90 959	67 842
Equity attributable to equity holders of the parent	625 948	311 517	158 056	75 828
Share capital	505 177	215 266	127 560	52 399
Weighted average number of shares issued in units	33 127 514	13 518 960	33 127 514	13 518 960
Number of diluting potential ordinary shares	0	0	0	0
Book value per share (in PLN/EUR)	18,90	23,04	4,77	5,61
Diluted book value per share (in PLN/EUR)	18,90	23,04	4,77	5,61
Declared or paid dividend per share (in PLN/EUR)	0,00	0,00	0,00	0,00

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010

1.2. Selected financial data of PETROLINVEST S.A.

	<i>for 12 months ended 31 December</i>		<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
1. Net revenue from the sale of products, goods and materials	149 130	75 740	37 242	17 449
2. Profit (loss) from operations	(43 236)	(185 850)	(10 797)	(42 816)
3. Gross profit (loss)	(36 765)	(332 632)	(9 181)	(76 632)
4. Net profit (loss) attributable to equity holders of the parent	(36 765)	(330 951)	(9 181)	(76 245)
5. Cash flows from operating activities	(30 613)	(24 395)	(7 645)	(5 620)
6. Cash flows from investing activities	(106 018)	(72 819)	(26 476)	(16 776)
7. Cash flows from financing activities	157 259	99 973	39 272	23 032
8. Net cash flows, total	20 628	2 759	5 151	636
9. Weighted average number of shares issued in units	33 127 514	13 518 960	33 127 514	13 518 960
10. Profit (loss) per share (in PLN/EUR)	0	0	0	0
11. Profit (loss) per share (in PLN/EUR)	(1,11)	(24,48)	(0,28)	(5,64)
12. Diluted profit (loss) per share (in PLN/EUR)	(1,11)	(24,48)	(0,28)	(5,64)
	<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>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
13. Total assets	1 239 137	1 019 829	312 890	248 242
14. Liabilities and provisions for liabilities	205 131	371 853	51 797	90 515
15. Non-current liabilities	59 769	242 839	15 092	59 111
16. Current liabilities	145 362	129 014	36 705	31 404
17. Equity attributable to equity holders of the parent	1 034 006	647 976	261 093	157 727
18. Share capital	505 177	215 266	127 560	52 399
19. Weighted average number of shares issued in units	33 127 514	13 518 960	33 127 514	13 518 960
20. Weighted average number of shares issued in units	0	0	0	0
21. Book value per share (in PLN/EUR)	31,21	47,93	7,88	11,67
22. Diluted book value per share (in PLN/EUR)	31,21	47,93	7,88	11,67
23. Declared or paid dividend per share (in PLN/EUR)	0,00	0,00	0,00	0,00

2. AVERAGE PLN/EUR EXCHANGE RATE FIXED BY NBP

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>as at</i>	
	<i>31 December</i>	<i>31 December</i>
	<i>2010</i>	<i>2009</i>
average rate in the period	4,0044	4,3406
rate at the end of the period	3,9603	4,1082

3. GENERAL INFORMATION REGARDING THE ISSUER AND THE ISSUER'S GROUP

PETROLINVEST S.A. Capital Group is composed of a parent entity — PETROLINVEST S.A. ("the Company") and subsidiary companies. For the purposes of this Report, the parent company, its subsidiaries and the jointly-controlled entity shall be referred to as PETROLINVEST Group ("Capital Group").

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 Division of the National Court Register, with KRS number 0000270970 on 29 December 2006. The Company was granted statistical number (REGON) 190829082.

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

The registered seat of PETROLINVEST S.A. is located in Poland, at Podolska 21, Gdynia.

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

The main areas of business activity of PETROLINVEST Group include:

- activities incidental to oil and gas exploration and extraction,
- wholesale of solid, liquid and gaseous fuels and derivative products,
- retail of fuels,
- production of gas fuels,
- services consisting in installation of metal constructions,
- development of gas installations.

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

As of the date of publication 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.

The Management Board of the Company is composed of two, three or five members. As set out in the Company's statutes, if the Management Board is composed of two or three persons, Prokom Investments S.A. has personal powers to appoint and dismiss the President of the Management Board, while Mr Ryszard Krauze, one of the shareholders of PETROLINVEST S.A., has personal powers to appoint and dismiss the Vice-President of the Management Board. If the Management Board consists of five members, Prokom Investments S.A. shall appoint and dismiss two members of the Management Board, including the president of the Management Board, whereas Ryszard Krauze: the Vice-President of the Management Board. The number of board members is determined by Prokom Investments. The supervisory board is composed of five to thirteen members, and, as set out in the statutes, two of them (including the Chairman and Deputy Chairman of the Supervisory Board) are appointed and dismissed by Prokom Investments S.A., while one member of the Supervisory Board is appointed and dismissed by Mr Ryszard Krauze.

PETROLINVEST Group is composed of the parent entity, its subsidiaries and a jointly-controlled entity (TOO COMPANY PROFIT) with the following profiles: exploration and production, trade and service.

As of 31 December 2010 PETROLINVEST S.A. possessed stock/shares in the following companies:

Company name	Share capital		Shareholding	Consolidation Method
Occidental Resources, Inc. (U.S.A.) ⁽¹⁾	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
Silurian Sp. z o.o. (Poland)	5,000.00	PLN	60.00%	Full
UAB Petrolinvest Mockavos Perpyla (Lithuania)	2,000,000.00	LTL	87.00%	Full
PETROLINVEST GAZ S.A. (Poland) ⁽²⁾	15,720,325.00	PLN	100.00%	Full

⁽¹⁾ Occidental Resources, Inc. owns 100% of the shares in TOO OilTechnoGroup registered in the Republic of Kazakhstan.

⁽²⁾ PETROLINVEST GAZ S.A. owns 100% of the shares in SIGNA ENTERPRISES LIMITED registered in Cyprus.

4. MATERIAL EVENTS OCCURRING AFTER THE END OF THE PERIOD WHICH WERE NOT REFLECTED IN THE CONSOLIDATED FINANCIAL STATEMENTS FOR 4th QUARTER 2010

- ✓ O 18 January 2011 the Company received from an entity indicated by Prokom as the financing entity — within the meaning of the agreement on financing concluded by the Company and Prokom Investments S.A. on 20 March 2009,

amended by the annexe dated 31 December 2010 — which makes a direct equity investment into Company's shares ("Financing Entity"):

- a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 25,000,000 performed by the Financing Entity in the form of cash payment and the issue price of PLN 10.00, as well as
- a call to offer to the Financing Entity 2,500,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 25,000,000.

In connection with the said request and call, and also in connection with the resolution of the Extraordinary General Shareholders' Meeting dated 30 October 2010 regarding the issue of subscription warrants, conditional Company share capital increase, the exclusion of the pre-emptive rights of the existing shareholders of the Company and amendment of the statutes of the Company (the "Issue Resolution"), on 18 January 2011, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants entitling to the take-up of series B Company shares ("Subscription Warrants") and setting forth detailed terms and conditions of the issue of the Subscription Warrants. The Management Board decided to issue 2,500,000 Subscription Warrants and offered them for take-up to the Financing Entity. Subscription Warrants were subsequently taken up by the Financing Entity. At the same time the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 2,500,000 ordinary series B bearer shares of the Company.

The issue price of the ordinary series B bearer shares issued to holders of Subscription Warrants was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 18 January 2011.

The value of the cash payment for the take-up of series B shares was PLN 25 million. The whole amount received by the Company in December 2010 was designated for reducing the credit debt of PETROLINVEST S.A.

As at 18 January 2011, the total value of financing invested in PETROLINVEST S.A. by the entities indicated by Prokom Investments S.A. as part of performance of the aforementioned agreement on financing was more than PLN 69 million.

On 20 January 2011, 2,500,000 series B Petrolinvest shares subscribed for in exercise of 2,500,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE.

In consequence of the above, pursuant to Article 452 § 1 of the Code of Commercial Companies, the increase of the Company's share capital to PLN 530,176,560 was effected and the total number of votes attached to all Company shares issued and introduced to trading at the WSE was 53,017,656.

- ✓ O 26 January 2011 the Company received from an entity indicated by Prokom as the financing entity — within the meaning of the agreement on financing concluded by the Company and Prokom Investments S.A. on 20 March 2009, amended by the annexe dated 31 December 2010 — which makes a direct equity investment into Company's shares ("Financing Entity"):

- a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 18,000,000 performed by the Financing Entity in the form of cash payment and the issue price of PLN 10.00, as well as
- a call to offer to the Financing Entity 1,800,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 18,000,000.

In connection with the said request and call, and also in connection with the resolution of the Extraordinary General Shareholders' Meeting dated 30 October 2010 regarding the issue of subscription warrants, conditional Company share capital increase, the exclusion of the pre-emptive rights of the existing shareholders of the Company and amendment of the statutes of the Company (the "Issue Resolution"), on 26 January 2011, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants entitling to the take-up of series B Company shares ("Subscription Warrants") and setting forth detailed terms and conditions of the issue of Subscription Warrants. The Management Board decided to issue 1,800,000 Subscription Warrants and offered them for take-up to the Financing Entity. Subscription Warrants were subsequently taken up by the Financing Entity. At the same time the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 1,800,000 series B ordinary bearer shares of the Company.

The issue price of the ordinary series B bearer shares issued to holders of Subscription Warrants was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 26 January 2011.

The value of the cash payment for the take-up of series B shares was PLN 18 million. Funds in the amount of PLN 12 million which the Company received in December 2010 were designated for reducing the credit debt of PETROLINVEST S.A., whereas the outstanding amount covered mainly expenses related to the fulfilment of the exploration and production project.

As at 28 January 2011, the total value of financing invested in PETROLINVEST S.A. by the entities indicated by Prokom Investments S.A. as part of performance of the aforementioned agreement on financing was more than PLN 74 million.

On 28 January 2011, 1,800,000 series B Company shares subscribed for in exercise of 1,800,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE.

In consequence of the above, pursuant to Article 452 § 1 of the Code of Commercial Companies, the increase of the Company's share capital to PLN 548,176,560 was effected and the total number of votes attached to all Company shares issued and introduced to trading at the WSE was 54,817,656.

- ✓ On 10 February 2011, in relation to the recent cash payments in the total amount of PLN 19,000,000, including the payment of PLN 15,000,000 made by PROKOM Investments S.A. on 8 February 2011, the Company received:
- a) from Prokom acting as the financing entity — within the meaning of the agreement on financing concluded by the Company and Prokom on 20 March 2009, amended by the annexe dated 31 December 2010 — which makes a direct equity investment into Company's shares:
 - a request to transfer to Prokom a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 15,000,000 performed by Prokom and the issue price equal to PLN 10.00, as well as
 - a call to offer to Prokom 1,500,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 15,000,000.
 - b) from an entity indicated by Prokom as the financing entity — within the meaning of the Agreement — which makes a direct equity investment into Company's shares ("the Financing Entity"):
 - a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 4,000,000 performed by the Financing Entity and the issue price equal to PLN 10.00 and
 - a call to offer to the Financing Entity 400,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 4,000,000.

In connection with the said requests and calls, and also in connection with the resolution of the Extraordinary General Shareholders' Meeting dated 30 October 2010 regarding the issue of subscription warrants, conditional Company share capital increase, the exclusion of the pre-emptive rights of the existing shareholders of the Company and amendment of the statutes of the Company (the "Issue Resolution") published in current report no 85/2010 on 10 February 2011, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants entitling to take-up of series B Company shares ("Subscription Warrants") and setting forth detailed terms and conditions of the issue of Subscription Warrants. The Management Board decided to issue 1,900,000 Subscription Warrants and offered them for subscription to: Prokom, in the amount of 1,500,000; and the Financing Entity in the amount of 400,000. Subscription Warrants were subsequently taken up by Prokom and the Financing Entity. At the same time Prokom and the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 1,900,000 ordinary series B bearer shares of the Company.

The issue price of the ordinary series B bearer shares issued to holders of Subscription Warrants was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 10 February 2011.

The value of the cash payment for the take-up of series B shares was PLN 19,000,000.

As at 10 February 2011, the total value of financing invested in PETROLINVEST S.A. by Prokom and the entities indicated by Prokom as part of performance of the aforementioned agreement on financing was more than PLN 92 million, of which payments made in the current year amounted to PLN 24 million.

On 14 February 2011, 1,900,000 series B Petrolinvest shares subscribed for in exercise of 1,900,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE.

In consequence of the above, pursuant to Article 452 § 1 of the Code of Commercial Companies, the increase of the Company's share capital to PLN 567,176,560 was effected and the total number of votes attached to all Company shares issued and introduced to trading at the WSE was 56,717,656.

5. EFFECTS OF CHANGES IN THE STRUCTURE OF THE COMPANY, INCLUDING MERGERS, ACQUISITIONS OR DISPOSALS OF THE ISSUER'S GROUP UNDERTAKINGS, LONG-TERM INVESTMENTS, DE-MERGERS, RESTRUCTURING AND DISCONTINUED OPERATIONS

On 16 December 2010, the Company acquired 60% of shares in Silurian Sp. z o.o., an entity registered in Poland. The acquisition of the said shares will enable the Company to enter a new business segment related to the provision of services to entities involved in exploration and production of shale gas in Poland. Silurian intends to offer comprehensive services to entities holding concessions for exploration of shale gas. The services will include general contracting, project management

and performance of drilling works during both exploration and production of shale gas and will be provided using Silurian's own drilling installations (for details see point 7 hereof).

6. EXPLANATIONS REGARDING SEASONALITY OR CYCLICALITY OF THE ISSUER'S OPERATIONS IN THE REPORTING PERIOD

As far as the Company's trading activities are concerned, which involve trading in LPG, selected product groups show a high seasonality.

The demand for automotive gas is higher in the months from May to September due to higher seasonal activity of motor vehicle users. In the winter months, there is less vehicular traffic, which is reflected by a decrease in sales of automotive gas.

The demand for gas for heating purposes concentrates in the period before the start of the winter season and throughout that season. The sales of gas for heating purposes are greatly limited in the spring and summer months.

The phenomena discussed above have a material impact on the Company's results generated on those operations.

The fourth quarter is usually a period of strong sales as compared with the sales figures achieved during the quarters of the first half of the year, which is evidenced by the results of the reporting quarter. The dynamics of sales revenues growth in the fourth quarter of 2010 compared with the first and second quarters were 163% and 128% respectively (in tonnes: 146% and 107% respectively).

7. BRIEF DESCRIPTION OF SIGNIFICANT ACHIEVEMENTS OR FAILURES OF THE ISSUER DURING THE PERIOD COVERED BY THE REPORT, INCLUDING A LIST OF THE MOST SIGNIFICANT EVENTS RELATED TO SUCH ACHIEVEMENTS OR FAILURES

EXPLORATION AND PRODUCTION

In the fourth quarter of 2010, PETROLINVEST Group continued its exploration and research work, the scope of which is presented below, taking into account, however, the limitations of access to the expected sources of finance for its investments.

TOO OIL TECHNO GROUP (Subsidiary of Occidental Resources, Inc.)

The OTG Contract is the key contract area 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. 1.9 billion barrels of oil equivalent (boe), specifying their risked mean estimate at USD 2,628.5 million. This contract area 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 confirmed category.

A farm-out agreement was concluded on 16 March 2010 by and between the Company, TOO OilTechnoGroup and TOTAL E&P KOBLANDY, setting forth the terms and conditions of joint continuation of works on the area of the OTG Contract. As provided for in the agreement, TOTAL E&P KOBLANDY has committed, among other things, to provide USD 70,000 thousand to finance works on the OTG Contract area. In exchange for the financing, TOO OilTechnoGroup has committed to transfer a 50% interest in the OTG Contract to TOTAL (for details see current report No 16/2010).

The Management Board is of the opinion that the strategic partnership of PETROLINVEST Group with TOTAL, one of the largest oil companies in the world, will make it possible for the geological and economic potential of the OTG Contract to be put to full use in the shortest possible time-frame. Engaging TOTAL Group was preceded by an in-depth analysis of all available geological documentation accumulated during the Company's involvement in the OTG Contract over a period of more than three years, and in particular — the results of the K-3 well which confirmed the presence of hydrocarbons in the largest structure on the OTG Contract area — the Koblандy structure. The investments and operating support of one of the largest oil companies in the world, with its experience, know-how, organisational and financial resources — and also its established presence in the oil industry in Kazakhstan (Kashagan field) — will significantly accelerate the development of the field and reduce operating and financial risks, which, in effect, will contribute to the OTG Contract quickly gaining in value and production being launched on a commercial scale.

The Company is performing actions aiming at fulfilling the terms and conditions of the aforementioned farm-out agreement.

On 21 October 2010, TOO OilTechnoGroup and the Ministry of Oil and Gas of the Republic of Kazakhstan (formerly: The Ministry of Energy and Natural Resources of the Republic of Kazakhstan) concluded an Annexe to the OTG Contract No 993 for hydrocarbon exploration and production.

In compliance with the decision of the Ministry of Oil and Gas of the Republic of Kazakhstan, the receipt of which was announced by the Company in March this year, the Annexe has prolonged the exploration period of the Contract by five years, *i.e.* to 18 March 2016, in order to permit evaluation of the discoveries made on the contract area, and has obliged TOO OilTechnoGroup to spend USD 55,000 thousand in capital expenditure in the prolonged exploration period, in accordance with the amended Working Programme for the years 2011–2016. Moreover, the Parties have specified in the

Annexe the new geographical coordinates of the contract area, including the procedure of relinquishment of a part thereof, carried out in accordance with the provisions of the Contract. The relinquished area, which constituted a 43% part of the previous Contract area, encompassed parts of the area which do not have a good outlook for exploration, where during the works conducted no hydrocarbons were documented. The current OTG Contract area is 5,376.7 km².

In the view of the Management Board of PETROLINVEST S.A., prolonging the exploration period of the OTG Contract by additional five years gives the Company long-term, stable development prospects in the field of exploration and production operations carried out within the framework of its largest contract, and is a sign of trust expressed by the supervisory and governmental bodies of the Republic of Kazakhstan, as well as of recognition of the positive results of the present exploration works on the Contract area.

The following works were carried out in the fourth quarter of 2010:

- ✓ Preparations to drill the K-4 well in the Koblandy field were continued in cooperation with Total. The works included preparation of assumptions for the geological and technical projects as well as arrangements to issue calls for tenders concerning the equipment necessary for drilling, as well as materials and devices, including the purchase of casing pipes of appropriate technical characteristics, slurry materials and blowout preventers.
- ✓ In accordance with the contract signed on 3 August 2010 by OilTechnoGroup with Petroleum Geo-Services, works consisting in the reprocessing of a 3D seismic survey of the area of Koblandy carbonate platform were continued. The contract provides for the processing of the aforementioned seismic data along with geological and geophysical data acquired in the Koblandy K-3 well using the latest, most advanced procedures, which will make it possible to obtain a better seismic image of the Koblandy gas-condensate field. The results of these works will be used to determine a location for the drilling of the K-4 well that will be optimal from the reservoir quality perspective. The works covered by the contract are to terminate in March 2011.
- ✓ On 6 December 2010 the drilling of the Shyrak 1 exploration well was resumed. The drilling of the Shyrak 1 well commenced in December 2008. In January 2009 the drilling was temporarily suspended at the depth of 1,231.5 metres. In December 2010 drilling works were carried out which consisted in drilling through salt deposits in order to reach the reservoir rocks located below. The depth of the well as at the end of the reporting period covered herein was 3,588 metres. According to the results of the analysis of geological data and seismic surveys, the resources of the Shyrak structure are estimated at 311 million barrels of oil equivalent (according to the report issued by McDaniel & Associates Consultant).
After the end of the reporting period covered herein, on 31 January 2011, the Company issued a press release concerning the present state of the Shyrak 1 well. As at the publication date of the said release, the well reached the depth of 5,020 metres. The Management Board of the Company gave a positive evaluation of the state of works and of the results achieved so far, which confirm the prospectiveness of the Shyrak structure.

TOO EMBA JUG NIEFT

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

In the fourth quarter of 2010, preparatory works to continue the processing and interpretation of the 3D seismic image (*Pre-stack Time Migration and Pre-stack Depth Migration*) were ongoing in the contract area.

In accordance with the decision of 16 November 2009, the Company is in possession of the decision of the Ministry of Oil and Gas of the Republic of Kazakhstan prolonging the exploration period of the Emba Contract to 29 June 2011. The decision on prolonging the exploration period will be implemented in the form of an annexe to the Emba Contract.

TOO COMPANY PROFIT

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

In 2009, following the strategy of focusing on highly effective investments, the Management Board decided to undertake steps to sell the stake in TOO COMPANY PROFIT. The Management Board may continue to partly finance TOO COMPANY PROFIT, to the extent that will ensure that the contract is maintained 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.

In the fourth quarter of 2010 works were continued on the return of part of the contract area regulated by the Profit Contract. Pursuant to the terms of the contract, PROFIT is required to return at least 25% of the unprospective part of the contract area. For this purpose, an agreement was signed with a company possessing a licence for drawing up the documentation required by the contract. The agreement also covers obtaining a new so-called *geological allotment*, in which the new geographical coordinates of the contract area will be defined.

On 7 December 2010 the Company received the decision issued by the Ministry of Oil and Gas of the Republic of Kazakhstan (formerly The Ministry of Energy and Mineral Resources of the Republic of Kazakhstan) regarding the extension of the exploration period under the Profit Contract by two years. The provision in question will be implemented

in the form of an annexe to the Profit Contract No 1810 dated 18 August 2005, registered for the benefit of TOO Company Profit. The current exploration period for the Profit Contract, as provided in the annexe dated 5 March 2008, expired on 18 August 2010.

FINANCIAL AREA

- ✓ On 31 December 2010, the Company concluded with Prokom **an annexe to the agreement setting out terms and conditions for cooperation in seeking financing for the Company** dated 20 March 2009 ("Annexe").

Pursuant to the Annexe, the parties agreed on extending the period for conducting activities by Prokom aimed at seeking financing for the Company's operations by 18 months, i.e. until 30 June 2012. Simultaneously, Prokom undertook to seek financing in the period of the aforementioned 18 subsequent months up to the amount of PLN 200 million ("Financing").

Pursuant to the Annexe, all other terms and conditions of the agreement dated 20 March 2009, which were announced by the Company in detail in the aforementioned current report, were maintained. The Financing for the Company will be provided by Prokom or third parties indicated by Prokom ("Financing Entities") on the basis of loan agreements or other agreements of similar nature, on an arm's length basis with the possibility of conversion into the Company's equity, or as a direct equity investment in shares of the Company.

The request to convert the whole or a part of the Financing into the Company's equity shall be effected through the issue of new Petrolinvest shares at an issue price 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 equal to the close price of the Company's shares at the WSE from the day preceding the date of the request, whereas the issue price shall not be lower than the face value of a share, i.e. PLN 10.

If Prokom obtains 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 Annexe was concluded at arm's length.

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

As at the date of conclusion of the Annexe, the total value of financing invested in PETROLINVEST S.A. by Prokom or entities indicated by Prokom since the beginning of 2010 exceeded the amount of PLN 262 million, including financing by entities indicated by Prokom within the framework of executing the above-mentioned agreement on seeking financing, which exceeded the amount of PLN 68 million, out of which the amount of PLN 35.8 million was directly designated for reducing the Company's credit debt in December 2010. More than PLN 60 million of the above financing was obtained with the possibility of conversion into PETROLINVEST shares at the issue price of PLN 10 per share, i.e. higher than their price at the WSE, which is indicative of the investor's faith in the success of projects carried out by the Company.

The financing made available by Prokom and entities indicated by Prokom was used mainly to reduce the debt of the PETROLINVEST Group, as well as to conduct the exploration and production project in Kazakhstan, and it simultaneously constituted a significant source of financing for the Company's entire activity in 2010.

Taking into consideration the above, the Management Board of the Company positively evaluates the contribution of Prokom in the process of pursuing strategic objectives of the Company, including the success of the exploration and production project.

After the end of the reporting period covered herein, the Company received further funds in the total amount of PLN 24 million under the agreement of 20 March 2009.

CAPITAL AREA

- ✓ On 30 October 2010, the Extraordinary General Meeting adopted a resolution regarding the issuing of up to 19,000,000 subscription warrants, a conditional share capital increase by no more than PLN 190,000,000 through the issue of **no more than 19,000,000 ordinary series B bearer shares**, each of a nominal value of PLN 10, as well as the exclusion of the pre-emptive rights of the existing shareholders of the Company and amending the Company's Statute.

The adoption of the new conditional capital had the primary aim of ensuring that the Company was able to obtain funds for financing new investment projects/production projects, financing wells within the contract areas held by Company's subsidiaries in Kazakhstan, including wells on the Shyrak structure, as well as to obtain funds for reducing the Company's indebtedness to financial institutions, in accordance with the obligations incurred previously, including the agreement with Total, to secure the Company's liquidity needs connected with reducing its indebtedness, to perform the Company's obligations regarding issue of subscription warrants resulting from previously concluded agreements, including agreements with Kingsbrook Opportunities Master Fund LP and Iroquois Master Fund Ltd. and to implement incentive programmes for the Company's authorities and top management.

At the same time, the Extraordinary General Meeting introduced changes in the labelling of Company shares issued before 30 October 2010 under the following series: A, B, C, D, F, G, H, K, L, M, N, Q, R, S, T, U and V by marking the shares of these series as series "A".

On 8 November 2010, The District Court for Gdańsk-Północ of Gdańsk, 8th Economic Division of the National Court Register, **registered the amendment to the Company's statute concerning the conditional increase of the share capital of the Company by no more than PLN 190 million** through the issuance of no more than 19 million series B ordinary bearer shares of a nominal value of PLN 10 each.

In consequence, the nominal value of the conditional increase of the share capital of the Company, following the registration, did not exceed PLN 209,942,850. The Court also registered the change in the labelling of shares, in accordance with the resolution of the Extraordinary General Meeting.

On 1 December 2010, the Management Board of the National Depository for Securities ("KDPW") resolved to **admit to the depository for securities up to 19 million ordinary series B bearer shares** of the Company each of a nominal value of PLN 10, issued within the conditional share capital increase under Resolution no 2 of the Extraordinary General Meeting of the Company dated 30 October 2010, and mark them with code PLPTRLI00018 ("Series B Shares"), on the condition that the operator of the regulated market decides to introduce the Series B 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 B shares with the KDPW.

Registration of the Series B Shares with the KDPW is effected based on settlement instructions submitted to the KDPW, referred to in § 14 section 3 of the KDPW Detailed Rules of Operation.

On 6 December 2010, the Management Board of the WSE adopted a resolution **admitting 19 million ordinary series B bearer shares** of the Company each of a nominal value of PLN 10, issued as part of the conditional share capital increase under Resolution No 2 of the Extraordinary General Meeting of the Company dated 30 October 2010, **to trading on the main list**. Pursuant to the resolution, the WSE Management Board decided also to introduce the above-mentioned shares of the Company, using the ordinary procedure, to trading on the main list as of the date of registration of those shares by the KDPW under code PLPTRLI00018; however, no earlier than on 9 December 2010.

- ✓ On 16 November 2010, **the Company received from an entity indicated by Prokom Investments S.A. as the financing entity ("Financing Entity"), within the meaning of the agreement on financing** concluded by the Company and Prokom on 20 March 2009 (announced by the Company in the current report No 33/2009), which performs a direct equity investment into PETROLINVEST S.A. shares:

- a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in PETROLINVEST S.A. shares in the amount of PLN 18,500,000 performed by the Financing Entity in the form of cash payment and the issue price equal to PLN 10.00 (the conditions of the above-mentioned agreement entitle the Financing Entity to take up shares at the issue price equal to the closing price of one Company share on the WSE as of the day preceding the date of placing the request, and considering the statutory provisions regarding the minimum issue price of shares, the investor decided to make the investment at a higher share price),
- a call to offer to the Financing Entity 1,850,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 18,500,000.

As at 16 November 2010, the total amount of financing invested in PETROLINVEST S.A. by Prokom or entities indicated by Prokom exceeded PLN 217 million.

On 9 December 2010 **the Company received from an entity indicated by Prokom as the financing entity — within the meaning of the agreement on financing** concluded by the Company and Prokom on 20 March 2009,— which makes a direct equity investment into Company's shares ("Financing Entity"):

- a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 8,000,000 performed by the Financing Entity in the form of cash payment and the issue price of PLN 10.00, as well as
- a call to offer to the Financing Entity 800,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 8,000,000.

In connection with the effected cash payments totalling PLN 26.5 million, as indicated in the requests of 26 November 2010 and 9 December 2010, the Management Board of the Company adopted on 9 December 2010 a resolution further discussed below, to offer 2,650,000 registered subscription warrants entitling their holders to take up 2,650,000 series B Company Shares at an issue price of PLN 10.00 per share and offered the said warrants to the entities which made the above investments in the Company.

- ✓ On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. ("**Assignment Agreement**") on the transfer by Prokom to the Company:
- of accounts receivable under the loan agreement concluded on 14 January 2008 between PROKOM and Capital Energy S.A. (Loan Agreement"). The value of these accounts receivable exceeds PLN 51,367,000, whereas the Company acquired them from Prokom for PLN 45,460,579.37. The transaction will be settled in a non-cash manner, through the issue of shares by the Company; and

- Accounts receivable 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 value of these accounts receivable exceeds PLN 22,880,000, whereas the Company acquired them from Prokom for PLN 20,250,000.00. The transaction will be settled in a non-cash manner, through the issue of shares by the Company.

The Assignment Agreement was concluded in exercise of one of the obligations under the agreement of 13 January 2009 concluded by the Company and Prokom ("Agreement"), announced by the company in the current report No 4/2009, and in connection with being granted as at 9 December 2010 the consent of PKO Bank Polski S.A., acting as the Consortium Agent, to perform the Agreement as regards the part thereof relating to the acquisition of the above accounts receivable. The Bank's consent was granted subject to conditions which guarantee the legal security of the Company as a party to the Assignment Agreement.

In connection with the conclusion of the Assignment Agreement, the Company and Prokom concluded an agreement concerning the transfer to Prokom of rights and obligations under the pledge agreement concluded on 13 January 2008 between InvestTechnoGroup LLP, a company established under Kazakh law ("ITG") and Prokom, on the basis of which ITG established a pledge over 75% of shares in BMB Munai LLP, a company established under Kazakh law, to serve as collateral for the accounts receivable by Prokom under the Loan Agreement ("Pledge Agreement"). The agreement on the transfer of rights and obligations under the Pledge Agreement shall enter into force upon the fulfilment of the following conditions precedent:

- granting by the Ministry of Oil and Gas of the Republic of Kazakhstan ("MRG") of consent to the transfer of rights and obligations under the Pledge Agreement to the Company or issuing a confirmation in writing by the MRG that such a consent is not required; and
- registration of the agreement on the transfer of rights and obligations under the Pledge Agreement with the Almaty Regional Department of Justice or the MRG.

The agreements under which receivables were transferred to PETROLINVEST S.A. were concluded by Prokom at the request of and to the benefit of the Company in order to enable it to carry out investments relating to its exploration and production activities. The conclusion of the aforementioned agreements was one of the numerous forms of Prokom's involvement in financing the Company's operations.

The conclusion of the Assignment Agreement was one of the stages of the works aimed at the concentration of exploration assets within the framework of PETROLINVEST S.A. The Management Board of the Company is of the opinion that such a concentration will enable an efficient restructuring of exploration assets in Kazakhstan. The Management Board also underscores the fact that the acquired receivables were discounted to their accounting value, which is equivalent to the risk premium relating to the restructuring of exploration assets being under way.

At the same time, on 9 December 2010, in exercise of the agreement of 13 January 2009 providing for the possibility of settling the accounts payable by the Company to Prokom through the issue of shares, the Company received from PROKOM:

- a request to transfer to Prokom a number of shares that corresponds to the quotient of the aggregate amount of accounts receivable by Prokom from the Company under the Assignment Agreement, i.e. PLN 65,710,579.37 and the issue price of PLN 10.00, as well as
- a call to offer to Prokom 6,571,057 ordinary bearer shares of the Company at an issue price of PLN 10.00 per share, that is for a total amount of PLN 65,710,570.

- ✓ In connection with the said requests and calls received by the Company on 16 November 2010 and 9 December 2010, and also in connection with the resolution of the Extraordinary General Shareholders' Meeting dated 30 October 2010 regarding the issue of subscription warrants, conditional Company share capital increase, the exclusion of the preemptive rights of the existing shareholders of the Company and amendment of the statutes of the Company (the "Issue Resolution"), on 9 December 2010, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants entitling their holder to take up series B Company shares ("Subscription Warrants") and setting forth the detailed terms and conditions of the issue of the Subscription Warrants. **The Management Board decided to issue 9,221,057 Subscription Warrants and offered them for take-up to entities which had submitted the aforementioned calls and requests ("Financing Entities").** Subscription Warrants were subsequently taken up by the Financing Entities. At the same time the Financing Entities exercised their rights under the Subscription Warrants to take up series B shares and filed statements of acquisition of a total of 9,221,057 series B ordinary bearer shares of the Company.

The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares.

The payment for the series B shares was made by Prokom by netting the accounts receivable by the Company with Prokom's receivables under the Assignment Agreement. As a result, on 9 December 2010, the Company and Prokom concluded a netting agreement under which the Company and Prokom netted an outstanding account receivable by the Company under the subscription for series B shares totalling PLN 65,710,570.00 with outstanding accounts payable by the Company to Prokom totalling PLN 65,710,579.37.

The netting agreement as well as the other agreements concluded by the Company and its subsidiaries with Prokom and its subsidiaries during the period starting on 28 May 2010, i.e. on the publication date of the last report on the conclusion of a significant agreement with Prokom and its subsidiaries (the current report No 39/2010) jointly fulfil the criterion of a significant agreement. The aggregate value of the aforementioned agreements amounts to PLN 121,811,310, thus exceeding 10% of the Company's equity. The agreement with the highest value is the aforementioned netting agreement.

The Management Board of the Company is of the opinion that settling the accounts payable to Prokom through the issue of shares is beneficial to the Company, considering its financial needs. The conversion of liabilities towards Prokom to equity constitutes a desirable step towards reducing the share of debt in the Company's asset financing structure and translates into an increase in equity. The accounts receivable acquired by the Company in the above-mentioned, non-cash manner have equipped the Company with the right to receive contributions in cash from its debtors.

The aggregate value of the cash payment for the take-up of series B shares was PLN 26,5 million. The Management Board of the Company points out that the investors indicated by Prokom decided to invest funds despite of the fact that the quotations of the Company's shares at the WSE are significantly below their nominal price (PLN 10) at which the investors take up the shares.

As a consequence of the aforesaid equity investment in the Company's shares, the total value of financing invested in PETROLINVEST S.A. by Prokom or entities indicated by Prokom since the beginning of 2010 has exceeded the amount of PLN 225 million, including financing by entities indicated by Prokom within the framework of executing the above-mentioned agreement on seeking financing in excess of PLN 30 million (as at 9 December 2010).

ACQUISITIONS

- ✓ On 20 September 2010, the Company and Yukola — a company with a registered seat in Moscow — concluded a preliminary agreement concerning the purchase of 50% of shares in Open Stock Company "Bogorodsknieft" with its registered office in Saratov ("Bogorodsknieft") which owns a licence authorising it to exploit deposits, explore and produce crude oil from Bogorodskie and Nikolskie deposits and Raduzhny structure situated in Saratov Oblast in the territory of the Russian Federation.

The subject of the agreement is the granting to the Company of an exclusive right to conduct negotiations aiming at finalising the purchase of 50% of shares in Bogorodsknieft and to complete the comprehensive due diligence covering, among other things, corporate, legal and financial aspects by the end of 2010. The Company has completed the due diligence regarding the crude oil deposits that Bogorodsknieft already owns and exploits.

The Parties agreed that the closing of the transaction is conditional upon the completion of the due diligence, obtaining relevant approvals and the establishment of final terms of the transaction, including the price.

Moreover, the Parties expressed their interest, in the event of closing the transaction, in starting cooperation in the scope of collection by Petrolinvest of crude oil produced by Bogorodsknieft.

Bogorodsknieft currently extracts crude oil from Bogorodskie and Nikolskie deposits. According to documents that were available as at the date of the conclusion of the agreement, the total documented and confirmed oil reserves in both deposits amount to approximately 45 million barrels. Within the licensed area of the company, there are also structures whose prospective reserves are additionally estimated at around 20 million barrels. The development of the main horizon of the first deposit with the aim of producing crude oil currently has already been completed, while in the case of the second deposit it started in 2010.

Bogorodsknieft has been steadily producing crude oil for a number of years. The production forecast for crude oil in 2010 amounts to approximately 1 million barrels. After the second deposit is developed and subsequent wells are included in the output, it is expected that the production will increase to approximately 3 million barrels annually. The manufactured crude oil is characterised by very good properties and is classified as light crude oil. The efficiency of wells is stable and amounts to approximately 400 barrels from any single well daily.

The deposits of Bogorodsknieft are relatively shallow, from 800 to 1200 m, and are characterised by a simple geological structure, thus development of those deposits is not technically complex and does not require high financial outlays.

Bogorodsknieft has very good infrastructure in place for the purposes of industrial exploitation of crude oil, including its own distribution plant encompassing tanks for the storage of crude oil and cisterns for the transportation thereof. The individual deposits are linked with the distribution base via the company's own pipeline. The already existing infrastructure will allow the company to both accelerate the incorporation of subsequent wells to industrial production, and to decrease the investment outlays required for further utilisation of deposits in order to increase production to the level of 3 million barrels annually.

Crude oil is mostly exported and transported via the "Friendship" pipeline to Poland and Germany.

The Management Board believes that the potential acquisition of Open Stock Company "Bogorodsknieft," an entity representing a stable level of production and promising growth prospects, constitutes a step towards the implementation of the strategy of PETROLINVEST S.A. in the area of crude oil production and sales.

As at the date of this report, the Company is in the process of analysing the results of the due diligence examination.

- ✓ On 16 December 2010, **the Company concluded an investment agreement** ("Agreement") with Mr Wiesław Skrobowski **on investing funds in Silurian Sp. z o.o.** ("Silurian"). The subject matter of the Agreement is the establishment, as part of business conducted by Silurian, of cooperation regarding development, ensuring organisational and legal security as well as provision of services to companies which are active in Poland in the field of shale gas exploration. Silurian intends to offer comprehensive services to entities holding concessions for exploration of shale gas. The services will include general contracting, project management and performance of drilling works during both exploration and production of shale gas and will be provided using Silurian's own drilling installations. Silurian will operate based on reliable, American drilling technologies and methodologies related to drilling during exploration and production of shale gas.
- The Agreement provides for the development of the Company's business activities based on its know-how as regards the provision of services to the petroleum sector, long-standing experience and knowledge of the drilling services market, as well as cooperation with highly qualified specialists from the industry involved in the enterprise.
- The Company intends to provide Silurian with capital to such an extent as will be dictated by the growth of its business activities and the completion stage of its defined measurable investment goals.
- Both parties intend to transform Silurian into a joint-stock company and, subsequently, to cooperate in order to introduce Silurian's shares to trading on the NASDAQ stock market in the US or on another foreign regulated market, in particular AIM (London), TSX (Toronto) as well as the regulated market of Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). The Agreement also sets forth the corporate governance rules for Silurian and defines mutual relationships between the shareholders.
- In connection with the conclusion of the Agreement, **the Company also signed an agreement, whereby it purchased from Mr Wiesław Skrobowski shares that jointly represent 60% of Silurian's share capital**, at the selling price totalling PLN 3,000.00 and the equivalent in PLN of USD 25,000.00.
- The Company purchased the shares from Mr Wiesław Skrobowski, who is the initiator and the organiser of the enterprise. With the execution of the enterprise in view, Mr Skrobowski organised a team of top specialists with long-standing experience in the petroleum and drilling industry gained while working for companies such as Texaco, Amoco, AGIP, Saipem (part of the ENI multinational company) and Parker Drilling.
- According to companies specialised in estimation of unconventional gas reserves, including Advance research Int. and Wood Mackenzie, the reserves of shale gas in Poland may range between 1.4 billion m³ and 3 billion m³. To date, approximately 70 concessions for the exploration of shale gas have been awarded in Poland — ultimately, this number is supposed to rise to around 100. Apart from Polish energy companies such as PKN Orlen and PGNiG, the largest petroleum companies in the world, namely ConocoPhillips, ExxonMobil, Chevron, Marathon Oil and ENI are also involved in the exploration of shale gas. Under the granted concessions it is necessary to make 2 exploratory boreholes. However, industry experts claim that in order to determine the full potential of the reserve, it is necessary to make more drillings. Rystad Energy AS — a Norwegian firm offering consulting services related to drilling works — estimates that the number of boreholes to be made in Poland during the exploratory stage will amount to around 330. It is also estimated that the investment outlays incurred by exploration companies during the exploration of shale gas will amount to around USD 3 billion.
- The investment in Silurian will enable PETROLINVEST to enter a new business segment related to the provision of services to entities involved in exploration and production of shale gas in Poland. It is one of the business areas of the Company defined by the new strategy of PETROLINVEST, whereby, apart from carrying out its main activities, namely exploration and production of oil (in particular in the OTG contract area), the Company will expand its presence in business segments that may provide it with stable and predictable income and ensure the essential positive cash flows.

LPG SALES

- ✓ On 23 August 2010, the Company entered into two **agreements with ORLEN GAZ Sp. z o.o. for the purchase of liquefied propane-butane mix** of an estimated aggregate value of PLN 51,064 thousand as a result of which the aggregate value of the agreements concluded with this client over the past 12 months amounted to PLN 103,936 thousand.
- The agreement with the highest value among all the agreements concluded by the Company with ORLEN GAZ Sp. z o.o. within the past 12 months is the significant agreement concluded on 23 August 2010, the estimated value of which is PLN 40,416 thousand. The terms and conditions of the Agreement are similar to market terms and conditions, the delivery of LPG will be effected using the "DDU Suwałki/Łubiana/Gdynia" formula in accordance with the Incoterms 2000. The Agreement was concluded for a period ending on 31 December 2010. A bill of exchange guarantee submitted by a company that belongs to the Prokom Investments S.A. capital group serves as the financial collateral for the performance of the Agreement. The aforementioned Agreement may be considered a significant agreement, as the aggregate value of all agreements concluded with this client over the preceding 12 months exceeds 10% of the Company's equity.
- ✓ On 18 November 2010 **the Company and the Morgan Stanley Capital Group, Inc. ("Morgan Stanley") concluded an agreement concerning the final settlement between the parties in connection with the termination by Morgan Stanley of the LPG supply agreement of 4 November 2009 concluded between the Company and Morgan Stanley**

(the Company announced the conclusion of this agreement in current report No 99/2009 of 5 November 2009) ("Agreement"). The subject matter of the Agreement was the purchase of 140,000 tons of LPG in total by the Company in the years 2010–2011. The estimated value of the contracted deliveries was to be in excess of USD 90,000,000. The Agreement was terminated on 13 October 2010. The reason provided by Morgan Stanley for terminating the Agreement was the failure of the Company to establish, pursuant to the terms of the Agreement, collateral on behalf of Morgan Stanley for the Company's payment for LPG deliveries under the Agreement in the form of documentary credit.

Pursuant to the terms of the agreement concluded on 18 November 2010, during the final settlement between the parties in connection with the termination of the Agreement, the Company was obliged to pay to Morgan Stanley the amount of USD 2,450,000, corresponding to the excess of the margin which Morgan Stanley would have generated delivering LPG to the Company, in comparison with deliveries to other recipients, which the Company indicated in current report No 99/2009 of 5 November 2009. The settlement amount is fully covered by the provision created in 2008, and therefore the payment of the settlement amount will not be charged to the Company's financial result.

In the opinion of the Company's Management Board, in view of the ongoing situation regarding price relations on the LPG market between the Western and Eastern European purchase areas, performance of the Agreement would not have brought the Company the expected economic effects. The conclusion of the agreement made it possible to limit the detrimental economic effects of the Agreement.

Termination of the Agreement with Morgan Stanley was another element of the restructuring of the Company's LPG sector operations, which is nearing completion. As previously signalled, operations in this segment became more dynamic at the beginning of the year, results of which included the signing of a contract with Orlen Gaz Sp. z o.o. for LPG deliveries and a significant growth in sales volume.

OTHER

On 30 October 2010, the Extraordinary General Meeting, pursuant to § 17 item 4 of the Statutes of the Company, set the number of members of the Supervisory Board at nine and simultaneously appointed Mr Andrzej Osiadacz to the Supervisory Board for the current term.

8. DESCRIPTION OF FACTORS AND EVENTS, IN PARTICULAR NON-RECURRING ONES, WHICH HAD A MATERIAL EFFECT ON FINANCIAL RESULTS

Results recorded in the four quarters of 2010 were significantly affected by the following:

- ✓ commissions charged for the agreements of 14 May 2009 setting forth the terms of use of the assets made available to the Company by Prokom Group companies serving as a security for the repayment of the credit facility from PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego. The discounted commission charged for 12 months of 2010 amounted to PLN 35.6 million, of which PLN 26 million were posted as other operating expenses and PLN 9.6 million — as financial expenses incurred by the Company. The commission-related liabilities are convertible to equity. By 31 December 2010, the commission charged for the 12 months of 2010 amounting to PLN 28 million was converted into the Company's equity. The Management Board expects that the other liabilities on that account will also be converted (as in the case of the commission charged for previous reporting periods), as a result of which the costs of service of the agreement concerned will not entail a cash outflow.
- ✓ Under the agreement concluded on 18 March 2010 with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and GEM Global Yield Fund Limited (concerning the provision of a credit line up to the amount of PLN 127.5 million) — performing the assessment of the fair value, in accordance with IFRS, of the derivative resulting from the entitlement of the Investors to demand that the Company issue bonds or prepaid subscription warrants from the other tranches. The cost of the derivative calculated using the Black-Scholes model was PLN 9 million as of 31 December 2010 and was recognised in the Company's financial expenses as a lump sum.

The Management Board emphasizes that the above factors are of a non-cash nature and result from the relevant regulations of the International Financing Reporting Standards and a conservative approach to the presentation of the Company's financial results.

The table below illustrates the key events that had an impact on the financial results of the Company and the Group in the 12-month period ended 31 December 2010.

	Individual statements PLN '000,000	Consolidated statements PLN '000,000
REPORTED NET LOSS	(36.8)	(155.1)
The commission charged by Prokom Investments and Osiedle Wilanowskie for making their assets available for the purposes of bank loan security	(35.6)	(35.6)
Valuation of the derivative (performance of the agreement concluded with the funds)	(9.0)	(9.0)
Valuation (discounting) of concession liabilities	-	(28.6)
Total of selected non-cash events	(44.6)	(73.2)
NET RESULT ADJUSTED BY SELECTED NON-CASH EVENTS	7.8	(81.9)
Foreign exchange differences	(0.3)	(3.8)
NET RESULT ADJUSTED BY SELECTED NON-CASH EVENTS AND FOREIGN EXCHANGE DIFFERENCES	8.1	(78.1)

including the 3-month period ended 31 December 2010:

	Individual statements PLN '000,000	Consolidated statements PLN '000,000
REPORTED NET LOSS	(1.4)	(64.4)
The commission charged by Prokom Investments and Osiedle Wilanowskie for making their assets available for the purposes of bank loan security	(6.3)	(6.3)
Valuation of the derivative (performance of the agreement concluded with the funds)	-	-
Valuation (discounting) of concession liabilities	-	(7.2)
Total of selected non-cash events	(6.3)	(13.5)
NET RESULT ADJUSTED BY SELECTED NON-CASH EVENTS	4.9	(50.9)
Foreign exchange differences	2.5	(1.5)
NET RESULT ADJUSTED BY SELECTED NON-CASH EVENTS AND FOREIGN EXCHANGE DIFFERENCES	2.4	(49.4)

The actions taken as a part of the restructuring of LPG operations resulted in an increase of revenues from that segment. The LPG sales in the reporting period were based on spot deliveries and short-term contracts. During the 12-month period, the Company noted a growth of almost 57% in sales volume in relation to the same period in the previous year.

9. INFORMATION REGARDING ISSUE, REPURCHASE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

In the fourth quarter of 2010, the Company performed one issue of 9,221,057 shares in total. With the issue, the Company acquired a gross amount of PLN 26.500 thousand and converted the debt into equity in the gross amount of PLN 65,710.6 thousand in total, netting the Company's receivables under the take-up of shares and Prokom's receivables under the Assignment Agreement, mentioned in point 7 hereof.

The shares were issued on the basis of resolutions of the Extraordinary General Meetings of the Company of 30 October 2010, as a part of the conditional increase of the Company's capital. The receipts from share issue were used mostly to implement the exploration and production project and to reduce the level of debt.

✓ **Timetable of events relating to the issue of series B shares (series A subscription warrants)**

9 December 2010

In connection with the requests and calls for a share offer regarding 9,221,057 shares in the company in total (under the agreements of 13 January 2009 and 20 March 2009) that were placed by Prokom Investments S.A. and the investors indicated by Prokom ("Financing Entity"), and in execution of the provisions of the resolution of the EGM of 30 October 2010, the Management Board adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of the issue of subscription warrants.

The Management Board of the Company decided to offer:

- **To Prokom Investments S.A.** — 6,571,057 series A subscription warrants **for 6,571,057 series B shares;**
- **To Financing Entities** — 2,650,000 series A subscription warrants **for 2,650,000 series B shares.**

The above-mentioned warrants were taken up on 9 December 2010. On the same day, both eligible entities exercised their rights to take up the series B shares attached to the acquired warrants and filed a statement of acquisition of total of 9,221,057 ordinary series B bearer shares of the Company.

The issue price of the shares was set by the Management Board at PLN 10 per share.

The payment for the series B shares was made by Prokom by netting the accounts receivable by the Company and Prokom's receivables under the Assignment Agreement whose detailed terms and conditions are set forth in point 7 hereof. On 9 December 2010, the Company and Prokom concluded a netting agreement under which the parties to the agreement netted the outstanding account receivable by the Company under the subscription for series B shares totalling PLN 65,710,570.00 with outstanding accounts payable by the Company to Prokom totalling 65,710,579.37.

As a result of the netting, the cash contribution due by Prokom to the Company for the subscription of the total of 6,571,057 series B shares was fully covered.

Payments for the take-up of 2,650,000 series B shares by Financing Entities were made in cash, PLN 18,500,000 on 16 November 2010 and PLN 8,000,000 on 9 December 2010 respectively, as a result of which the Company received gross proceeds of PLN 26,500,000 in total.

13 December 2010

Registration with the National Depository for Securities and introduction to trading on the WSE of 9,221,057 series B shares in the Company subscribed for by Prokom Investments S.A. and Financing Entities.

Thus, in accordance with Article 452 § 1 of the Commercial Companies Code, the Company's share capital increased to PLN 505,176,560 on the day when the 9,221,057 series B ordinary bearer shares, each with a nominal value of PLN 10, acquired by the shareholders as part of the registered conditional share capital, were introduced to trading on the WSE. The total number of votes attached to all Company shares issued and introduced to trading on the WSE was 50,517,656.

10. INFORMATION ON ANY DIVIDEND PAID OUT (OR DECLARED) IN AGGREGATE AND PER ONE SHARE, SEPARATELY FOR ORDINARY AND PREFERENCE SHARES

In the fourth quarter of 2010, the Company did not pay or declare dividends.

11. SELECTED FINANCIAL DATA, INCLUDING THE KEY ITEMS OF INTERIM CONDENSED FINANCIAL STATEMENTS (ALSO TRANSLATED INTO EURO)

Selected financial data of the Company and the Group were presented in point 1 of this Report.

12. THE MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF ACHIEVING THE RESULTS STATED IN THE FINANCIAL FORECASTS PUBLISHED EARLIER FOR THE YEAR IN VIEW OF THE FINANCIAL RESULTS PRESENTED IN THE HALF-YEAR REPORT IN RELATION TO THE PROJECTED RESULTS

The Management Board of PETROLINVEST S.A. did not publish any forecasts for 2010.

13. SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY (THROUGH SUBSIDIARY UNDERTAKINGS) 5% OR MORE OF THE TOTAL VOTE AT THE ISSUER'S GENERAL MEETING

Shareholders holding directly or indirectly 5% or more of the total vote at the Company's general meeting as at the date of publication of this Report are presented in the table below, which also shows changes in the ownership structure which had taken place since the publication of the previous report (according to information available to the Company).

Shareholder	Number of shares/votes	Percentage held in share capital/total vote at AGM	Change in the number of shares	Number of shares/votes	Percentage held in share capital/total vote at AGM
	<i>as of the publication date of the previous Report</i>			<i>as of the publication date of the Report</i>	
Ryszard Krauze ⁽¹⁾	3,586	0.01%		3,586	0.01%
Prokom Investments S.A.	6,744,944	16.33%	- 878,943	5,866,001	10.34%
Osiedle Wilanowskie Sp. z o.o. ⁽²⁾	2,344,715	5.68%		2,344,715	4.13%
Other shareholders	32,203,354	77.98%	+ 16,300,000	48,503,354	85.52%
TOTAL	41,296,599	100.00%	+ 15,421,057	56,717,656	100.00%

⁽¹⁾Mr Ryszard Krauze is the dominant entity of Prokom Investments S.A.

⁽²⁾Osiedle Wilanowskie Sp. z o.o. is a Prokom Investments S.A. subsidiary.

14. STATEMENT OF CHANGES IN THE NUMBER OF THE ISSUER SHARES OR RIGHTS TO SUCH SHARES (OPTIONS) HELD BY THE ISSUER'S MANAGING OR SUPERVISORY PERSONS, ACCORDING TO INFORMATION AVAILABLE TO THE ISSUER, IN THE PERIOD FROM THE DATE OF THE PREVIOUS REPORT

The table below sets forth the number of shares held by supervisory and managing persons as at the date of publication of this Report together with information on any changes since the publication of the previous report (according to information available to the Company).

Shareholder	Number of shares held at the publication date of the previous Report	Change in the number of shares	Number of shares at the publication date of this Report
Supervisory Board			
Ryszard Krauze	3,586		3,586
Andre Spark	0		0
Tomasz Buzuk	0		0
Marcin Dukaczewski	0		0
Maciej Grelowski	31,321		31,321
Bartosz Jałowiecki	10		10
Rafał Juszcak	0		0
Andrzej Osiadacz	0		0
Krzysztof Wilski	30,000		30,000
Management Board			
Bertrand Le Guern	0		0
Marek Pietruszewski	0		0
Franciszek Krok	4,000		4,000
Roman Niewiadomski	0		0
Maciej Wantke	1,100		1,100
Entities controlled by managing or supervisory persons			
Prokom Investments S.A., Osiedle Wilanowskie Sp. z o.o., (Ryszard Krauze)	9,089,659	- 878,943	8,210,716

15. 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

There are no proceedings pending before courts, competent arbitration bodies or any public administration authorities, the aggregate value of which as at 31 December 2010 represents 10% or more of the Company's equity.

16. INFORMATION ON ANY ONE OR MORE TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY UNDERTAKING WITH RELATED PARTIES, IF THEY ARE INDIVIDUALLY OR COLLECTIVELY MATERIAL AND HAVE BEEN CONCLUDED ON TERMS OTHER THAN AT ARM'S LENGTH

In the fourth quarter of 2010, no material transactions within PETROLINVEST Group were concluded 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 17 to the interim condensed consolidated financial statements.

17. INFORMATION ON SURETIES FOR LOANS OR GUARANTEES ISSUED BY THE ISSUER OR ITS SUBSIDIARY UNDERTAKING — JOINTLY TO ONE ENTITY OR ITS SUBSIDIARY, IF THE AGGREGATE VALUE OF EXISTING SURETIES AND GUARANTEES IS EQUIVALENT TO AT LEAST 10% OF THE ISSUER'S EQUITY

In the fourth quarter 2010, TOO OilTechnoGroup gave a USD 30,000 thousand guarantee to PETROLINVEST S.A. as collateral for the USD 20,000 thousand loan extended by PETROLINVEST S.A. to Occidental Resources, Inc. The Guarantee remains in force until final repayment of the obligations resulting from the loan agreement which matures on 30 November 2011. The guarantee was given free of charge.

Occidental Resources, Inc. and TOO OilTechnoGroup are subsidiaries of PETROLINVEST S.A.

This is the sixth guarantee issued to collateralise the loans extended by PETROLINVEST S.A. to Occidental Resources, Inc. to finance its exploration and production project. As at 31 December 2010, the total amount of the guarantees given by TOO OilTechnoGroup to the Company was USD 119,000 thousand, and the value of the loan agreements collateralised by the guarantees was USD 82,041 thousand.

18. OTHER INFORMATION WHICH THE ISSUER DEEMS RELEVANT FOR THE ASSESSMENT OF ITS PERSONNEL, ASSETS, FINANCIAL SITUATION, AND ITS NET RESULT, AS WELL AS THEIR CHANGES, AND FOR THE ASSESSMENT OF THE ISSUER'S ABILITY TO PERFORM ITS OBLIGATIONS

The Management Board of PETROLINVEST S.A. believes that information presented in this Report is an exhaustive description of the Company's personnel, assets and financial situation, and that no other events had taken place that have not been disclosed by the Company and that could be material for the assessment of the Company's standing.

The Company entered into agreements to secure financing for the exploration and production efforts of the Group within at least 12 months from the date of this Report. As part of the effort to obtain investment financing, in March 2010 the Company entered into a farm-out agreement with a Total Group company to ensure, among other things, financing in the amount of USD 70 million for the works carried out on the OTG Contract area, as well as an agreement with EBRD concerning a loan convertible to shares in the amount of USD 50 million. The Management Board emphasises that the availability of financing under agreements as yet not activated is conditional on a number of requirements to be met by the Company and by third parties, as described in detail in the Management Board's Report on the Activities of PETROLINVEST Capital Group for the 6-month period ended 30 June 2010.

In addition, the Company has the ability to use funds ensured under the agreement with GEM Global Yield Fund and GEM Investments Advisers of 29 April 2009, which provides financing of PLN 200 million in total (of which PLN 44.6 million carried out in the form of issue of shares), and is supported by Prokom Investments S.A., which undertook to take actions to acquire operational financing for the Company in the period from 31 December to 30 June 2012 totalling PLN 200 million.

19. FACTORS WHICH IN THE ISSUER'S OPINION WILL AFFECT ITS RESULTS IN A PERIOD COVERING AT LEAST THE NEXT QUARTER

The main factors that may affect the Company's results in the next quarter include primarily:

- ✓ With respect to exploration and production:
 - access to financing, with particular regard to financing from Prokom Investments (including the pace of work related to meeting conditions of execution of concluded agreements),
 - fluctuations of exchange rates, including in particular USD to PLN, KZT to USD and KZT to PLN,
 - fluctuations of interest rates that impact the Company's debt service costs.
- ✓ With respect to trading activities:
 - efforts undertaken in respect of cost reductions, reviewing operating procedures, and changes to the policy on purchases of goods,
 - availability of long-term contracts for LPG deliveries, and the ability of trade partners to ensure supplies under the contracts,
 - access to short-term financing;
 - fluctuations of exchange rates, including in particular USD to PLN;
 - fluctuations of crude oil and LPG pricing in world markets and the relations between those prices and the prices that are possible to achieve in the domestic market;
 - seasonal changes in the demand for liquefied gas for heating and automotive purposes.

20. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS WHICH OCCURRED SINCE THE END OF THE LAST FINANCIAL YEAR

As at 31 December 2010, no changes in contingent liabilities or contingent assets occurred at PETROLINVEST Group compared with the end date of FY 2009.

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PETROLINVEST S.A. GROUP

The condensed consolidated interim financial statements do not cover all information and disclosures required for the consolidated annual financial statements, and should be read in conjunction with the financial statements of the Company for the year ended 31 December 2009.

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Continuing operations				
Sale of goods	149 231	75 066	42 062	20 427
Rendering of services	726	674	204	167
Revenue	149 957	75 740	42 266	20 594
Value of goods and materials sold	133 314	59 816	38 187	17 551
Materials and energy	2 334	2 225	623	544
Employee benefits	16 429	100 217	5 664	4 993
Depreciation and amortisation	4 124	4 036	1 160	1 324
External services	38 898	24 967	25 885	7 561
Taxes and charges	2 856	5 773	1 284	1 488
Other expenses	1 789	1 500	693	306
Operating expenses	199 744	198 534	73 496	33 767
Gross profit/ (loss)	(49 787)	(122 794)	(31 230)	(13 173)
Other operating income	2 780	4 670	2 247	2 508
Other operating expenses	43 494	87 117	22 749	7 844
Finance income	1 784	10 130	751	3 865
Finance costs	70 378	162 804	14 280	26 965
Impairment of investments	0	83 235	0	52 536
Profit/ (loss) before tax	(159 095)	(441 150)	(65 261)	(94 145)
Income tax expense	(3 983)	(8 876)	(871)	1 144
Profit/ (loss) for the period from continuing operations	(155 112)	(432 274)	(64 390)	(95 289)
Profit/ (loss) from discontinued operations	0	(8 391)	0	(631)
Profit/ (loss) for the period	(155 112)	(440 665)	(64 390)	(95 920)
Attributable to:				
Equity holders of the parent	(148 610)	(420 157)	(59 241)	(96 806)
Non-controlling interests	(6 502)	(20 508)	(5 149)	886
Weighted average number of issued shares for basic earnings per share computations	33 127 514	13 518 960	43 100 719	18 655 550
Number of diluting potential ordinary shares	0	0	0	0
Earnings (loss) per share in PLN	(4,49)	(31,08)	(1,37)	(5,19)
Earnings (loss) from continuing operations per share in PLN	(4,49)	(30,46)	(1,37)	(5,16)
Diluted earnings (loss) per share in PLN	(4,49)	(31,08)	(1,37)	(5,19)
Diluted earnings (loss) from continuing operations per share in PLN	(4,49)	(30,46)	(1,37)	(5,16)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Profit/ (loss) for the period	(155 112)	(440 665)	(64 390)	(95 920)
Other comprehensive income				
Exchange differences on translation of foreign operation	39 208	(182 071)	36 928	15 611
Total net other comprehensive income	39 208	(182 071)	36 928	15 611
Total comprehensive income for the period	(115 904)	(622 736)	(27 462)	(80 309)
Total income attributable to:				
Equity holders of the parent	(108 363)	(608 337)	(21 576)	(80 225)
Non-controlling interests	(7 541)	(14 399)	(5 886)	(84)

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PETROLINVEST S.A. GROUP

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

	<u>31 December</u> <u>2010</u> <u>unaudited</u> <u>PLN '000</u>	<u>30 September</u> <u>2010</u> <u>unaudited</u> <u>PLN '000</u>	<u>31 December</u> <u>2009</u> <u>audited</u> <u>PLN '000</u>
ASSETS			
Non-current assets (long-term)			
Goodwill	381 050	355 736	350 046
Intangible assets	84	79	195
Property, plant and equipment	48 672	52 592	53 498
Expenditure on exploration for and evaluation of mineral resources	522 603	506 182	469 135
Investment properties	2 567	2 567	2 567
Other financial assets	98 759	77 531	75 664
Non-current receivables	22 297	24 446	22 204
Long-term deposits	40	647	88
Deferred tax	51 257	50 433	48 061
	<u>1 127 329</u>	<u>1 070 213</u>	<u>1 021 458</u>
Non-current assets held for sale	<u>13 773</u>	<u>12 598</u>	<u>11 409</u>
Current assets (short-term)			
Inventories	1 424	5 849	1 315
Trade and other receivables	8 567	14 733	4 967
Income tax overpayment	20	19	18
Prepayments and deferred costs	7 264	8 332	7 611
Current investments	87 967	41 785	40
Cash and cash equivalents	13 177	24 227	13 139
<i>restricted use cash</i>	<i>0</i>	<i>10 748</i>	<i>11 269</i>
	<u>118 419</u>	<u>94 945</u>	<u>27 090</u>
TOTAL ASSETS	<u>1 259 521</u>	<u>1 177 756</u>	<u>1 059 957</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	505 177	412 966	215 266
Contributions to share capital	37 831	0	0
Exchange differences on translation of foreign operations	(108 263)	(145 928)	(148 510)
Other reserves	1 104 948	1 107 425	1 009 895
Retained earnings	(913 745)	(854 503)	(765 134)
	<u>625 948</u>	<u>519 960</u>	<u>311 517</u>
Minority interest	<u>(7 541)</u>	<u>(1 655)</u>	<u>0</u>
Total equity	<u>618 407</u>	<u>518 305</u>	<u>311 517</u>
Non-current liabilities			
Non-current provisions	9 643	7 194	14 434
Deferred tax liability	0	0	0
Interest-bearing loans and borrowings	73 448	186 468	279 929
Finance lease liabilities	54	64	27
Other non-current liabilities	197 745	179 716	175 343
	<u>280 890</u>	<u>373 442</u>	<u>469 733</u>
Current liabilities			
Current provisions	25 969	20 621	18 946
Current portion of interest-bearing loans and borrowings	258 754	199 391	167 603
Finance lease liabilities	46	63	118
Trade and other payables	73 848	63 823	89 546
Accruals and deferred income	1 607	2 111	2 494
	<u>360 224</u>	<u>286 009</u>	<u>278 707</u>
Total liabilities	<u>641 114</u>	<u>659 451</u>	<u>748 440</u>
TOTAL EQUITY AND LIABILITIES	<u>1 259 521</u>	<u>1 177 756</u>	<u>1 059 957</u>

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PETROLINVEST S.A. GROUP

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Cash flows from operating activities				
Profit/ (loss) before taxation	(159 095)	(441 150)	(65 261)	(94 145)
Adjustments for:	99 397	389 622	53 568	63 244
Depreciation and amortisation	4 124	4 384	1 160	1 565
Interest and dividends, net	16 091	13 787	3 534	1 352
Foreign exchange differences	1 950	18 712	7 124	(4 556)
Gain/ (loss) from investing activities	81	(635)	24	262
(Increase)/ decrease in receivables	(3 526)	2 444	6 791	610
(Increase)/ decrease in inventories	(104)	2 226	4 428	888
Increase/ (decrease) in payables except loans and borrowings	(599)	83 830	(706)	(55 038)
Change in accruals and prepayments	(763)	(5 327)	443	(4 671)
Change in provisions	(2 152)	(9 443)	6 459	(15 675)
Income tax paid	(17)	(168)	0	(7)
Other, including	84 312	279 812	24 311	138 514
result of discontinued operations (before write-off and tax)	0	(2 018)	0	0
impairment of investments	0	83 235	0	52 536
impairment of expenditures on exploration for and evaluation of mineral	4 533	0	4 533	0
impairment of tangible assets	3 304	0	3 304	0
impairment of non-current assets held for sale	1 848	0	1 848	0
acquisition cost of right to use financing	0	31 640	0	0
conversion of collateral-related fee to equity	25 985	88 482	6 251	88 482
share-based payment	0	80 705	0	0
valuation of equity instruments	9 021	(2 244)	0	(2 244)
liabilities discount	39 243	0	8 234	0
bank fees	376	0	141	0
other	2	12	0	(260)
Net cash flows from operating activities	(59 698)	(51 528)	(11 693)	(30 901)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and intangible assets	121	44	(404)	0
Purchase of property, plant and equipment and intangible assets	(463)	(135)	(432)	0
Expenditure on exploration for and evaluation of mineral resources	(41 036)	(47 264)	3 714	(36 636)
Capitalised costs of external financing	(19 518)	(5 196)	(7 383)	2 901
Acquisition of a subsidiary and jointly-controlled entity, net of cash acquired	36	0	36	0
Interest received	0	4	0	0
Repayment of loans granted	3 202	5	3 202	0
Loans granted	(44 200)	(195)	(3 202)	0
Net cash flows from investing activities	(101 858)	(52 737)	(4 469)	(33 735)
Cash flows from financing activities				
Proceeds from share capital increase	317 578	117 545	64 331	64 142
Costs relating to share issue	(13 923)	(6 364)	(1 329)	343
Payment of finance lease liabilities	(58)	(262)	(30)	(59)
Proceeds from loans and borrowings	61 809	3 000	0	3 000
Repayment of loans and borrowings	(166 953)	(890)	(52 759)	(223)
Interest paid	(16 539)	(17 032)	(4 839)	(2 809)
Other	(364)	(380)	(160)	(128)
Net cash flows from financing activities	181 550	95 617	5 214	64 266
Net increase/ (decrease) in cash and cash equivalents	19 994	(8 648)	(10 948)	(370)
Net foreign exchange difference	786	2 668	519	2 668
Cash and cash equivalents at the beginning of the period	(7 603)	(1 623)	23 606	(9 901)
Cash, cash equivalents at the end of the period	13 177	(7 603)	13 177	(7 603)
including restricted use cash	11 815	11 269	11 815	11 269
cash, cash equivalents at the end of the period according to IAS 7 (excluding restricted use cash)	1 362	(18 872)	1 362	(18 872)

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital PLN '000	Foreign exchange differences on translation of foreign operations PLN '000	Other capital, including PLN '000	Attributable to equity holders of the parent						Retained earnings/ Accumulated (losses) PLN '000	Total PLN '000	Non-controlling interests PLN '000	Total equity PLN '000
				From profit appropriation		Unregistered share capital increase PLN '000	Revaluation of assets and liabilities PLN '000	Other reserves PLN '000	Contributions to share capital PLN '000				
				PLN '000	PLN '000								
As at 1 January 2010	215 266	(148 510)	1 009 895	15 441	879 165	8 523	(21 874)	128 640	0	(765 134)	311 517	0	311 517
Currency translation differences	0	40 247	0	0	0	0	0	0	0	0	40 247	(1 039)	39 208
Revaluation of assets and liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss for the period	0	0	0	0	0	0	0	0	0	(148 610)	(148 610)	(6 502)	(155 112)
Total comprehensive income for the period	0	40 247	0	0	0	0	0	0	0	(148 610)	(108 363)	(7 541)	(115 904)
Issue of share capital	289 911	0	102 963	0	111 486	(8 523)	0	0	37 831	0	430 705	0	430 705
Issue of equity instruments	0	0	52 302	0	0	0	0	52 302	0	0	52 302	0	52 302
Transaction costs	0	0	(60 212)	0	(60 212)	0	0	0	0	0	(60 212)	0	(60 212)
As at 31 December 2010	505 177	(108 263)	1 104 948	15 441	930 439	0	(21 874)	180 942	37 831	(913 744)	625 949	(7 541)	618 408
As at 1 January 2009	63 481	39 670	633 096	15 441	473 930	153 590	(21 874)	12 009	0	(344 977)	391 270	14 399	405 669
Currency translation differences	0	(188 180)	0	0	0	0	0	0	0	0	(188 180)	6 109	(182 071)
Revaluation of assets and liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss for the period	0	0	0	0	0	0	0	0	0	(420 157)	(420 157)	(20 508)	(440 665)
Total comprehensive income for the period	0	(188 180)	0	0	0	0	0	0	0	(420 157)	(608 337)	(14 399)	(622 736)
Issue of share capital	151 785	0	278 579	0	423 646	(145 067)	0	0	0	0	430 364	0	430 364
Issue of share capital / share based payments	0	0	80 705	0	0	0	0	80 705	0	0	80 705	0	80 705
Warrant issue	0	0	29 640	0	0	0	0	29 640	0	0	29 640	0	29 640
Issue of equity instruments	0	0	6 286	0	0	0	0	6 286	0	0	6 286	0	6 286
Transaction costs	0	0	(18 411)	0	(18 411)	0	0	0	0	0	(18 411)	0	(18 411)
As at 31 December 2009	215 266	(148 510)	1 009 895	15 441	879 165	8 523	(21 874)	128 640	0	(765 134)	311 517	0	311 517

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1) Segment Information

Operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

No operating segments have been aggregated to form the above-mentioned reportable operating segments.

The Management Board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Financial income, financial costs and income taxes are monitored on the Group level and are not assigned to operating segments.

The following tables present a breakdown of revenues and profits (losses) for 12 months ended on 31 December 2010 and 31 December 2009 and assets and liabilities as at 31 December 2010 and 31 December 2009 by operating segments.

<i>for 12-month period ended 31 December 2010 and as at 31 December 2010 (PLN '000)</i>	<i>LPG</i>	<i>Prospecting and extraction</i>	<i>Unallocated</i>	<i>Total operations</i>
Revenue				
Third party	149 250	707	0	149 957
Inter-segment	0	0	0	0
Total segment revenue	149 250	707	0	149 957
Expenses				
Operating expenses	(155 937)	(43 634)	(173)	(199 744)
<i>including depreciation and amortisation</i>	(3 292)	(832)	0	(4 124)
Other operating activities results	1 638	(42 352)	0	(40 714)
Segment profit/ loss before finance income and costs	(5 049)	(85 279)	(173)	(90 501)
Financial activities results			(68 594)	(68 594)
Tax			3 983	3 983
Profit/ (loss) for the period				(155 112)
Assets and liabilities				
Segment assets	97 812	1 151 937	9 772	1 259 521
Segment liabilities	75 585	563 594	1 935	641 114
Capital expenditure	215	60 554	248	61 017

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<i>for 12-month period ended 31 December 2009 and as at 31 December 2009 (PLN '000)</i>	<i>LPG</i>	<i>Prospecting and extraction</i>	<i>Unallocated</i>	<i>Total operations</i>
Revenue				
Third party	75 740	0	0	75 740
Inter-segment	0	0	0	0
Total segment revenue	75 740	0	0	75 740
Expenses				
Operating expenses	(82 769)	(115 039)	(726)	(198 534)
<i>including depreciation and amortisation</i>	(2 889)	(1 147)	0	(4 036)
Other operating activities results	2 935	(85 382)	0	(82 447)
Impairment of investments		(83 235)	0	(83 235)
Segment profit/ loss before finance income and costs	(4 094)	(283 656)	(726)	(288 476)
Financial activities results			(152 674)	(152 674)
Tax			8 876	8 876
Profit/ (loss) from discontinued operations			(8 391)	(8 391)
Profit/ (loss) for the period				(440 665)
<hr/>				
Segment assets	51 850	997 202	10 905	1 059 957
Segment liabilities	60 797	684 982	2 661	748 440
Capital expenditure	62	52 460	73	52 595

2) Employee benefits

	<i>for 12 months ended 31 December</i>		<i>for 3 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Wages and salaries	14 381	17 153	5 011	4 520
Share Incentive Programme	0	80 705	0	0
Social security costs	1 900	2 143	614	438
Other	148	216	39	35
	16 429	100 217	5 664	4 993

During the 12-month period ended 31 September 2009, the Management Board of PETROLINVEST S.A. resolved to increase the Company's share capital by a total of PLN 23,812 thousand via the issue of 2,381,212 ordinary series K, M and N shares, each of a nominal value of PLN 10. The Series K, M and N Shares were 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. In compliance with IFRS 2, the Company was required to measure the fair value of the shares granted. The measurement to fair value was performed as at the subscription date. The excess of fair value over nominal value of the shares paid up by eligible persons totalling PLN 80.6 million was charged to the Group's expenses for 2009. The cost did not have any impact on the Group's cash flows.

3) Other operating income and expenses

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Release of provision for liabilities	1 609	3 135	1 609	3 135
Other	1 171	1 535	638	(627)
other operating income	2 780	4 670	2 247	2 508
Collateral-related fees	25 985	85 958	6 251	7 329
Provisions for liabilities	6 373	46	6 373	2
Impairment of receivables and prepayments	4 893	63	4 530	16
Net loss on disposal of property, plant and equipment	81	0	24	(22)
Impairment of non-current assets held for sale	1 848	0	1 835	0
Impairment of property, plant and equipment	3 304	83	3 303	51
Other	1 010	967	433	468
other operating expenses	43 494	87 117	22 749	7 844

On 14 May 2009, the Company signed three agreements with: PROKOM Investments S.A., Osiedle Wilanowskie Spółka z ograniczoną odpowiedzialnością and Agro Jazowa S.A., setting forth the terms on which those companies make their assets available to the Company to serve as collateral for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego. The commission is calculated as 6.5% of the value of the collateral from the moment it is established to the moment it is released. The discounted commission calculated under the agreements referred to above for the 12-month period ended 31 December 2010 was PLN 35.6 million, of which PLN 26 million were taken to other operating expenses and PLN 9.6 were taken to the Company's financial costs (the discounted fee calculated for the 12-month period ended 31 December 2009 was PLN 108.6 million, of which PLN 86 million was taken to other operating expenses and PLN 22.6 million was taken to the Company's financial costs). The commission-related liabilities are convertible to equity. By 31 December 2010, a part of the commission charged for the year 2010 amounting to PLN 28 million was converted into the Company's equity. The Management Board believes that the remainder of the commission-related liability will also be converted, which means that the costs of execution of that agreement will not entail any cash outflow.

In 2009, after a new contract was signed with Morgan Stanley, the Company paid USD 3.5 million to Morgan Stanley. Management reassessed the risks and decided to reduce the provision to USD 6 million. The PLN 3.1 million income on the release of the provision was taken to other operating income. In 2010, the Company paid another USD 3 million to Morgan Stanley. As at 31 December 2010, in connection with the agreement signed on 18 November 2010, the provision was reduced to USD 2,450 thousand. The PLN 1.6 million income on the release of the provision was taken to other operating income.

4) Financial revenues

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Bank interest receivable	315	877	29	89
Loans granted to other parties	1 469	6 998	722	1 521
Valuation of equity instruments	0	2 244	0	2 244
Other	0	11	0	11
	1 784	10 130	751	3 865

5) Financial costs

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Interest on bank loans and overdrafts	15 688	22 353	3 512	4 468
Lenders fees	378	382	141	129
Acquisition cost of right to use financing	0	31 640	0	0
Valuation of derivatives	9 021	0	0	0
Valuation (discount) of future liabilities	38 299	48 930	7 274	26 795
Foreign exchange differences	3 830	58 619	1 543	(5 136)
Finance costs under finance leases	13	31	3	5
Other	3 149	849	1 807	704
	70 378	162 804	14 280	26 965

On 18 March 2010, the Company concluded an agreement with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. ("Investors") and GEM Global Yield Fund Limited under which a PLN 127.5 million financing was made available to the Company. On 28 May 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and Prokom Investments S.A. executed an agreement regarding the assumption by Prokom Investments S.A. of certain rights of the Investors under the agreement dated 18 March 2010.

Upon signing the agreement, the Investors also gained the right to demand that the Company issue subscription warrants under the 4 tranches. The right of the Investors to call for the issue of the above specified instruments was a derivative, which, according to the IFRS, is subject to fair value measurement. The measured value of the derivative was PLN 9 million, and was charged to the finance costs. The cost did not have any impact on the Group's cash flows.

Under the Agreements the Company issued four tranches of prepaid subscription warrants at a total issue price of PLN 127.5 million.

On 29 April 2009, the Company entered into an agreement with GEM Global Yield Fund under which a PLN 200 million financing was made available to the Company through an equity line of credit. 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 within 3 years from signing the agreement. The issue price per share is determined based on 90% of the average Petrolinvest close price quoted on 15 consecutive quoting days preceding the day on which subscription warrants conferring the right to subscribe for shares are taken up. The Company is not obliged to use the full amount of the equity line of credit. In exchange for the right to use the committed equity line of credit, the Company agreed to pay to GEM a remuneration (commission) of PLN 2 million and to issue subscription warrants convertible into 1.3 million Company shares in total at PLN 60 per share.

In compliance with IFRS, the Company was required to make an assessment of the fair value of the warrants issued to GEM. The cost of warrant issue calculated using the Black-Scholes model was PLN 29.6 million. IFRS does not allow to treat the right to use the equity line of credit acquired by the Company as the cost of capital; hence, the full cost was taken to the Group's financial costs for 2009. The cost of PLN 29.6 million pertaining to warrant issue did not impact the Group's cash flows.

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6) Income tax

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
<i>Current income tax</i>				
Current income tax charge	130	168	112	6
Income tax returned	0	0	0	0
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(4 113)	(9 044)	(983)	1 138
Income tax expense reported				
in consolidated income statement	(3 983)	(8 876)	(871)	1 144

7) Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations.

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>
Net profit/ loss attributable to equity holders of the parent (in PLN '000), including	(148 610)	(420 157)	(59 241)	(96 806)
from continuing operations	(148 610)	(411 766)	(59 241)	(96 175)
from discontinued operations	0	(8 391)	0	(631)
Weighted average number of shares for basic earnings per share computations	33 127 514	13 518 960	43 100 719	18 655 550
Number of diluting potential ordinary shares	0	0	0	0
Earnings (loss) per share in PLN	(4,49)	(31,08)	(1,37)	(5,19)
Earnings (loss) from continuing operations per share in PLN	(4,49)	(30,46)	(1,37)	(5,16)
Diluted earnings (loss) per share in PLN	(4,49)	(31,08)	(1,37)	(5,19)
Diluted earnings (loss) from continuing operations per share in PLN	(4,49)	(30,46)	(1,37)	(5,16)

Following the resolutions passed on 29 April 2008 by the Extraordinary General Shareholders' Meeting regarding the implementation of the Incentive Programme and the Resolution passed by the Supervisory Board on 18 June 2008 implementing the Rules and Regulations of the Incentive Programme — the Management Board Members were granted the right to subscribe for in aggregate not more than 264,285 subscription warrants convertible into the Company series E shares. In July 2008, all eligible persons submitted their declarations of acceptance of the offer and acquisition of subscription warrants. The rights conferred by the Warrants to subscribe for shares may be exercised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011.

On 19 October 2009, the Company concluded a subscription option agreement for the Company's shares with four open investment funds incorporated in Poland. The Agreement was concluded in consideration of the fact that the funds had subscribed for the greatest number of subscription warrants for the Company shares issued to increase the Company's share capital through the issue of ordinary bearer shares of T series. 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 submit the request referred to above at any point, however no later than within two years from the date of the Agreement.

On 2 November 2009, 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 option to subscribe for shares in the Company. 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 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. In compliance with IFRS, the Company was required to make an assessment of the fair value of the share options issued to the Funds and IDM. The cost of share option issue calculated using the Black-Scholes model was PLN 3.4 million and was charged to equity in the 2009 financial statements.

The table below sets forth the parameters used to determine the number of potential ordinary shares connected with the share issues described above. As at the reporting date, the instruments issued did not have a dilution effect.

	minimum issue price	instrument execution price	number of instruments issued	number of instruments issued at fair value	number of diluting potential ordinary shares
series E - warrants	10,00	227	264 285	5 999 270	0
options	10,00	50,00	247 000	1 235 000	0
			511 285	7 234 270	0

8) Cash and cash equivalents

For the purposes of the interim condensed cash flow statement, cash and cash equivalents comprise the following:

	<i>31 December</i> 2010 <i>unaudited</i> PLN '000	<i>30 September</i> 2010 <i>unaudited</i> PLN '000	<i>31 December</i> 2009 <i>audited</i> PLN '000
Cash at bank and on hand	13 177	24 227	13 139
Revolving credit facility	0	(621)	(20 742)
Cash and cash equivalents in the cash flow statement	13 177	23 606	(7 603)
including restricted use cash	11 815	10 748	11 269
Cash and cash equivalents in the cash flow statement (according to IAS 7)	1 362	12 858	(18 872)

9) Property, plant and equipment and expenditure on exploration for and evaluation of mineral resources

The value of capitalised borrowing costs relating to expenditure on exploration for and evaluation of mineral resources during the 12-month period ended 31 December 2010 was PLN 19.5 million (in the 12-month period ended 31 December 2009 it was PLN 5.2 million).

In the 12-month period ended 31 December 2010, the Group incurred expenditure on exploration for and evaluation of resources totalling PLN 41 million (in the 12-month period ended 31 December 2009 PLN 47.3 million). As at 31 December 2010, liabilities relating to expenditures on exploration for and evaluation of resources totalled PLN 36.3 million (as at 31 December 2009: PLN 61.8 million).

A detailed description of the concessions for exploration and production of crude oil and gas (hydrocarbons) owned by the subsidiaries and jointly-controlled entities and the related investment obligations is provided in notes 16 and 33.1 to the consolidated financial statements for the year ended 31 December 2009.

On 16 March 2010, TOO OilTechnoGroup and the Company concluded a farm-out agreement with TOTAL E&P KOBLANDY, a TOTAL Group Company established and operating under the law of France, setting forth the terms and conditions for the joint continuation of work in the area of the OTG Contract Area. In the Agreement, Total committed to finance the efforts in the area of the OTG Concession with an amount of USD 70 million, including making the Koblandy-4 well on the Koblandy structure. In exchange for the financing, TOO OilTechnoGroup committed to transfer 50% interest in the OTG Concession to Total. The Management Board of the Company tested that agreement for impairment of OTG's assets, including in particular goodwill and expenditures for exploration for and evaluation of mineral resources. The agreement does not impact the value of those assets.

On 29 March 2010, the Company received a decision from the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan authorising the extension of the exploration period under the OTG Contract by five years in order to evaluate the discoveries within the contractual territory.

The decision authorising the extension of the exploration period under the OTG Contract by at least three years in order to ensure the proper evaluation of the discovered deposits was one of the preconditions of the farm-out agreement concluded on 16 March 2010 between the Company, TOO OilTechnoGroup and TOTAL E&P KOBLANDY. Pursuant to the decision in question, on 21 October 2010, TOO OilTechnoGroup and the Ministry of Oil and Gas of the Republic of

Kazakhstan (formerly The Ministry of Energy and Natural Resources of the Republic of Kazakhstan) concluded an Annexe to the OTG Contract No 993 for hydrocarbon exploration and production.

The Annexe prolongs the exploration period of the Contract by five years, i.e. to 18 March 2016, in order to permit evaluation of the discoveries made on the contract area, and commits TOO OilTechnoGroup to spend USD 55,000 thousand in capital expenditure in the prolonged exploration period, in accordance with the amended Working Programme for years 2011–2016.

Moreover, the Parties have specified in the Annexe the new geographical coordinates of the contract area, including the procedure of relinquishment of a part thereof, carried out in accordance with the provisions of the Contract. The relinquished area, which constitutes a 43% part of the previous Contract area, covers parts of the area which do not have a good outlook for exploration, where during the works conducted no hydrocarbons were documented. The current OTG Contract area is 5,376.7 km².

On 7 December 2010, the Company received the decision issued by the Ministry of Oil and Gas of the Republic of Kazakhstan regarding the extension of the exploration period under the Profit Contract by two years.

The above-mentioned provisions will be implemented in the form of an annexe to the Profit Contract No 1810 dated 18 August 2005, registered for the benefit of TOO Company Profit. The current exploration period for the Profit Contract, as provided in the annexe dated 5 March 2008, expired on 18 August 2010.

In the 12-month period ended 31 December 2010, the Group purchased property, plant and equipment worth PLN 469 thousand (in the 12-month period ended 31 December 2009: PLN 135 thousand).

In the 12-month period ended 31 December 2010, the Group sold property, plant and equipment with a net value of PLN 121 thousand and incurred a net loss on sale of PLN 87.1 thousand (in the 12-month period ended 31 December 2009, the Company sold property, plant and equipment with a net value of PLN 44 thousand and incurred a net loss on sale of PLN 27 thousand).

10) Other financial assets

	<u>31 December</u> <u>2010</u> <i>unaudited</i> <u>PLN '000</u>	<u>30 September</u> <u>2010</u> <i>unaudited</i> <u>PLN '000</u>	<u>31 December</u> <u>2009</u> <i>audited</i> <u>PLN '000</u>
Loans granted and loan discounts	166 476	119 316	75 704
including current loans and borrowings	87 967	41 785	40
Payments under agreements for acquisition of financial assets	20 250	0	0
Total other financial assets, including	186 726	119 316	75 704
non-current	98 759	77 531	75 664
current	87 967	41 785	40

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. on the transfer by Prokom to the Company of:

(i) Accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A. The Company purchased accounts receivable from Prokom for PLN 45,460,579.37; and

(ii) Accounts receivable 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 Company purchased accounts receivable from Prokom for PLN 20,250,000.00.

11) Goodwill

On 12 May 2010, PETROLINVEST GAZ S.A., a subsidiary of PETROLINVEST S.A., acquired 100% of the shares in SIGMA ENTERPRISES LIMITED registered in Cyprus. The purchase price of Sigma shares was fixed at USD 3 thousand. In addition, on the same day PETROLINVEST GAZ S.A. extended the share capital of Sigma by USD 7 thousand, subscribing for shares at a price equalling the nominal value of shares. As transactions were insignificant in the period from 1 to 12 May 2010, for consolidation purposes 1 May 2010 was treated as the date of the change of control. Goodwill on consolidation determined as of the date of the change of control amounts to 0. The settlement of the purchase of the company is provisional.

On 16 December 2010, the Company signed an agreement, whereby it purchased from Mr Wiesław Skrobowski shares that jointly represent 60% of Silurian's share capital, at the selling price totalling PLN 3,000.00 and the equivalent in PLN of USD 25,000.00. As transactions were insignificant in the period from 1 to 16 December 2010, for consolidation purposes 1 December 2010 was treated as the date of the change of control. Goodwill on consolidation determined as of the date of the change of control amounts to PLN 75 thousand. The settlement of the purchase of the company is provisional. The

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main reason for the transaction of the acquisition of shares in Silurian being settled on a provisional basis is the short time interval between the acquisition of control and the end of the reporting period and the date of approval of this Report.

Moreover, on 16 December 2010, the Company concluded an investment agreement with Mr Wiesław Skrobowski on investing funds in Silurian Sp. z o.o. The subject matter of the Agreement is the establishment, as part of business conducted by Silurian, of cooperation regarding development, ensuring organisational and legal security as well as provision of services to companies which are active in Poland in the field of shale gas exploration. Silurian intends to offer comprehensive services to entities holding concessions for exploration of shale gas. The services will include general contracting, project management and performance of drilling works during both exploration and production of shale gas and will be provided using Silurian's own drilling installations. Silurian will operate based on reliable, American drilling technologies and methodologies related to drilling during exploration and production of shale gas.

	31 December 2010	30 September 2010	31 December 2009
	0	0	0
	PLN '000	PLN '000	PLN '000
Occidental Resources, Inc.	317 151	294 560	290 129
TOO EmbajugNieft	63 824	61 176	59 917
Silurian sp. z o.o.	75	0	0
Total carrying amount	381 050	355 736	350 046

Goodwill at acquisition date is measured, in compliance with IFRS, in the functional currency of the acquired company and subsequently measured at the exchange rate of Polish zloty to such functional currency prevailing on a given balance sheet date. Foreign exchange differences arising on the measurement are taken to equity as exchange differences on translation of foreign operations.

12) Equity

As at 31 December 2010, the Company's share capital was PLN 505,177 thousand and was divided into 50,517,656 shares, each of a nominal value of PLN 10.

The Company's share capital ownership structure as at the balance sheet date was as follows:

	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A.	11 366 001	11 366 001	113 660 010	22,50%
Osiedle Wilanowskie Sp. zo.o.	2 344 715	2 344 715	23 447 150	4,64%
Ryszard Krauze	3 586	3 586	35 860	0,01%
Other shareholders	36 803 354	36 803 354	368 033 540	72,85%
Share capital, total	50 517 656	50 517 656	505 176 560	100,00%

The Company's share capital structure as of 31 December 2009 was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A. together				
with Osiedle Wilanowskie	9 617 307	9 617 307	96 173 070	44,68%
Ryszard Krauze	3 586	3 586	35 860	0,02%
Other shareholders	11 905 706	11 905 706	119 057 060	55,30%
Share capital, total	21 526 599	21 526 599	215 265 990	100,00%

During the 12-month period ended 31 December 2010, the share capital increased by PLN 289,911 thousand in consequence of the following share issues:

- 300,000 shares of S series — the increase of share capital on 19 February 2010,
- 70,800 shares of P series — the increase of share capital on 20 January 2010,
- 1,313,780 shares of V series — the increase of share capital on 17 March 2010,
- 3,824,241 shares of V series — the increase of share capital on 23 March 2010,
- 1,440,354 shares of V series — the increase of share capital on 23 March 2010,
- 394,736 shares of V series — the increase of share capital on 24 March 2010,
- 1,578,945 shares of V series — the increase of share capital on 25 March 2010,
- 2,323,777 shares of V series — the increase of share capital on 15 June 2010,

- 56,550 shares of V series — the increase of share capital on 3 August 2010,
- 131,950 shares of V series — the increase of share capital on 4 August 2010,
- 754,004 shares of V series — the increase of share capital on 5 August 2010,
- 4,712,534 shares of V series — the increase of share capital on 18 August 2010,
- 2,469,129 shares of V series — the increase of share capital on 21 September 2010,
- 399,200 shares of P series — the increase of share capital on 29 September 2010,
- 9,221,057 shares of B series — the increase of share capital on 13 December 2010.

Shares of P, V and B series were issued within the registered conditional capital of the Company.

For a detailed description of the share issues by the Company, refer to the current reports published upon each issue.

On 8 November 2010, pursuant to the resolutions of the Extraordinary General Meeting of the Company of 30 October 2010, the Court registered the change in labelling of Company shares series: A, B, C, D, F, G, H, K, L, M, N, Q, R, S, T, U and V by marking the shares of these series as series "A".

The Company's share capital structure as at 31 December 2010 was as follows:

Serie	Number of shares	Type of shares	Nominal value (PLN)	Nominal value of shares
Series A	40 526 599	bearer	10	405 265 990
Series B	9 221 057	bearer	10	92 210 570
Series P	770 000	bearer	10	7 700 000
Share capital, total	50 517 656			505 176 560

13) Interest-bearing loans and borrowings

The following material events related to interest-bearing loans and borrowings extended to PETROLINVEST Group took place during the 12-month period ended 31 December 2010:

Powszechna Kasa Oszczędności Bank Polski S.A.

On 15, 17 and 31 March 2010, the outstanding balance of the credit facility extended to the Company under the credit facility agreement of 21 March 2007 by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego was reduced to USD 68.7 million.

The purpose of the repayments was to meet the provisions of the annexe of 6 November 2009, in which the parties to the credit facility agreement had decided to release one of the loan securities in exchange for the early repayment in the amount of PLN 60 million, and repayment of USD 11.2 million in connection with the permission from the banks to sell companies in Russia.

On 9 August, as a result of an early payment, a further reduction by USD 3.5 million of the outstanding credit facility extended by PKO BP and BGK occurred. On 29 December, the Company repaid the amount of USD 11,835 thousand, which constituted a part of the instalment payable on 31 December 2010. The remaining part of the instalment in the amount of USD 4,862 thousand is to be repaid by the Company by 31 March 2011. The outstanding balance of the credit facility as at 31 December 2010 was USD 53,371 thousand.

Fortis Bank Polska S.A.

On 15 June 2010 the overdraft credit facility agreement, concluded with Fortis Bank Polska S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

BRE Bank S.A.

On 31 March 2010, the overdraft credit facility agreement, concluded with BRE Bank S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

Bank Polska Kasa Opieki Spółka Akcyjna

On 31 December 2010, the overdraft credit facility agreement, concluded with BRE Bank S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

European Bank for Reconstruction and Development

On 29 March 2010, the Company concluded a Loan Agreement with the European Bank for Reconstruction and Development, under which EBRD extended a loan facility to the Company in the maximum amount of USD 50,000,000.

The loan will be used to finance geological work carried out by TOO OilTechnoGroup and TOO Emba Jug Niefert in 2010–2011 in the areas covered by the OTG Contract and the Emba Contract respectively, in the Republic of Kazakhstan. The loan amount will be transferred by PETROLINVEST S.A. to OTG and Emba through project loans. The loan interest is based on LIBOR plus a margin of 3.5% p.a. The lending period is 3 years from the date of conclusion of the Loan Agreement.

The extension of the Loan depended on a number of conditions precedent. As at the day of approving this Report, the conditions precedent had not been met and the credit facility had not been opened.

Bank CenterCredit JSC

On 20 July and 27 September 2010, OilTechnoGroup signed annexes to loan agreements with Bank CenterCredit JSC regarding the arrangements on a credit line facility of 13 April 2006. The current terms and conditions of the financing are as follows:

- The loan shall be repaid in monthly instalments. The final repayment date is 5 April 2012.
- Interest on the loan accrues at 18% p.a. (effective interest rate is 19.6%).

Caplan Ventures Inc

On 19 November 2008, OilTechnoGroup entered into a loan agreement with Caplan Ventures Inc totalling KZT 360 million. The interest is 17% p.a. The loan matured on 20 March 2009. Pursuant to annexes dated 19 March 2009, 19 March 2010 and 22 December 2010, the maturity date was extended to 31 December 2011. At the same time, the loan was converted to USD. The main outstanding amount is equivalent to USD 3 million (PLN 8.7 million).

MD Investment S.A.

On 1 June 2010, the Company entered into a loan agreement with MD Investment S.A. for the amount of PLN 50,010 thousand. The maturity date of the loan was fixed on the first day after the agreement's termination by the Lender. Interest accruing on the loans is based on WIBOR.

A detailed description of the agreement concluded with C. Ulrich założone w 1805 roku w Warszawie is provided in the note "Related Party Transactions".

14) Receivables

	31 December 2010	30 September 2010	31 December 2009
	<i>unaudited</i>	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000	PLN '000
Trade receivables	8 417	14 645	4 914
Receivables from public authorities	73	32	23
Receivables from employees	0	0	26
Other receivables	77	56	4
Current receivables	8 567	14 733	4 967
Receivables from public authorities	22 297	24 446	22 204
Non-current receivables	22 297	24 446	22 204
	30 864	39 179	27 171

15) Trade and other payables and other current liabilities

	31 December 2010	30 September 2010	31 December 2009
	<i>unaudited</i>	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000	PLN '000
Trade liabilities	16 597	13 900	12 467
Liabilities to public authorities	1 828	3 473	2 499
Liabilities related to expenditure for exploration for and evaluation of resources	36 323	33 777	61 768
Concession and share option liabilities	11 626	11 574	10 608
Other liabilities	7 474	1 099	2 204
Current liabilities	73 848	63 823	89 546
Collateral-related liabilities	3 889	652	18 986
Concession and share option liabilities	193 856	179 064	156 357
Non-current liabilities	197 745	179 716	175 343
	271 593	243 539	264 889

16) Prepayments and accruals

Current prepayments and accruals on the assets' side comprise:

	31 December 2010 <i>unaudited</i> PLN '000	30 September 2010 <i>unaudited</i> PLN '000	31 December 2009 <i>audited</i> PLN '000
Capital raising expenses	6 945	7 065	7 183
Gas cylinders expensed over time	60	78	148
Other	259	1 189	280
	7 264	8 332	7 611

17) Related party transactions

The table below sets forth aggregate amounts of transactions concluded by the Company with related entities in the 12-month period ended 31 December 2010 and 31 December 2009 as well as balances of receivables and liabilities as at 31 December 2010 and 31 December 2009.

Related party		Sales to related parties (PLN '000)	Purchases from related parties (PLN '000)	Receivables from related parties (PLN '000)	Liabilities to related parties (PLN '000)
Ryszard Krauze together with S.Ulrich założone w 1805 roku w Warszawie S.A.	2010	0	0	50	406
	2009	0	0	50	390
Prokom Investments together with Osiedle Wilanowskie Sp. z o.o.	2010	10	46 731	1	10 283
	2009	0	109 053	0	20 914
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	2010	0	54	0	0
	2009	0	271	0	0
PETROLINVEST GAZ S.A.	2010	6 054	0	558	0
	2009	2	0	435	0
Occidental Resources, Inc.	2010	0	0	248 367	0
	2009	0	0	118 469	0
TOO Profit Company	2010	0	0	0	0
	2009	0	0	0	0
TOO EmbaJugNieft	2010	0	0	148 413	0
	2009	0	0	130 643	0

The agreements discussed below are agreements pertaining to transactions within the Group as well as transactions with related parties of the Group companies.

Agreements concluded between the Company and Occidental Resources, Inc.

During the reporting period covered herein, the Company concluded three agreements with Occidental Resources, Inc. The subject of those agreements was a loan granted by the Company for a total amount of USD 50,000 thousand. As at 31 December 2010, USD 32,027 thousand had been made available by the Company (USD 37,826 thousand were made available as at the date of this Report). Additionally, during the period under discussion, annexes were signed to extend the repayment date of the loans that matured in 2010. All loan agreements, save for the one dated 12 July 2010, are payable on or before 30 November 2011. The agreement dated 12 July 2010 becomes payable on or before 30 June 2011. Interest accruing on the loans was agreed upon at 18% p.a. In order to secure the above-mentioned receivable, the Company entered into three guarantee agreements with OTG as the guarantor for USD 75,000 thousand in total.

Agreements concluded between the Company and PETROLINVEST GAZ S.A.

During the reporting period, the Company concluded three loan agreements with PETROLINVEST GAZ S.A., for a total amount of PLN 97 thousand. As at 31 December 2010, the whole amount had been made available by the Company. The interest rate of the loan in the amount of PLN 22 thousand of 20 January 2010 is 5% p.a. The other loans are subject to an interest rate of 7% p.a. These loans are payable within 14 days of termination by the Lender. Moreover, during the period in question, annexes to all the remaining loan agreements were signed, changing maturity dates to 14 days of termination by the Lender.

During the period under discussion, the Company entered into three agreements with PETROLINVEST GAZ regarding the sale of liquefied propane gas with a total value up to PLN 6,516 thousand. The terms and conditions of the agreements did not deviate from market conditions, the sale of LPG was effected using the "FCA Morski Terminal Gazowy Gdynia" formula in accordance with the Incoterms 2000. The performance term of the last of those agreements expired on 31 October 2010. All the gas sale agreements had been performed as at 31 December 2010.

Agreements concluded between the Company and Petrolinvest Mockavos Perpyla

During the reporting period an annexe was signed to increase the agreement amount from EUR 350 thousand to EUR 400 thousand. Moreover, during the reporting period, the repayment period of the loan was extended until 30 June 2011. Other terms of the agreement remained unchanged.

Agreements concluded between the Company, PROKOM Investments S.A. ("Prokom") and Osiedle Wilanowskie Sp. z o.o. ("Osiedle Wilanowskie")

On 25 February 2010, the Company received from Prokom a call and a request, filed in compliance with the credit facility collateral agreements of 14 May 2009, to offer to Prokom 1,313,780 ordinary bearer shares at an issue price of PLN 21.8654 per share, i.e. for a total amount of PLN 28,726,325.21.

The payments for shares of V series were made as a result of a set-off agreement between the Company and Prokom, under which the Parties set off the accounts receivable under the share subscription agreement for the shares of V series totalling PLN 28,726,325.21 against due accounts payable to Prokom by the Company under the credit facility collateral agreement of 14 May 2009.

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, as well as the credit facility collateral agreements concluded on 14 May 2009 with Prokom, AGRO JAZOWA S.A. and Osiedle Wilanowskie, the Company received a call to offer to Prokom and Osiedle Wilanowskie a total of 3,824,241 series V ordinary bearer shares at an issue price of PLN 20.5544 per share and 1,440,354 ordinary bearer shares at an issue price of PLN 20.8282 per share, i.e. for a total amount of PLN 108,604,960.38.

Payments towards Series V Shares were made as a result of the following netting agreements concluded by the Company on 18 March 2010:

1. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for 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,
2. a netting agreement with Osiedle Wilanowskie under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for 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,
3. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for 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.

On 28 May 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. ("Investors") and Prokom executed an agreement regarding the assumption by Prokom of certain of the Investors' rights under the agreement dated 18 March 2010 between the Company, the Investors and GEM Global Yield Fund Limited.

Under the Assumption Agreement, the Investors transferred to Prokom all the rights to subscribe for second tranche convertible bonds or second tranche prepaid subscription warrants for the total issue price of PLN 30 million. Prokom also had the right to demand that the Investors assign to Prokom or an entity designated by Prokom any rights to subscribe for the third and fourth tranche convertible bonds and the third and fourth tranche prepaid subscription warrants that the Company agreed to issue in favour of the Investors under the Agreement. Prokom was entitled to exercise the rights referred to in the preceding sentence within 180 days from the date of execution of the Assumption Agreement. Once Prokom or an entity designated by Prokom had exercised the said rights, the terms of conversion of the convertible bonds into shares in the Company and the terms of exercise of the rights to the prepaid subscription warrants were to remain as originally stated in the Agreement.

The Assumption Agreement had been performed as at the approval date of this Report. As a result of the performance of the above-mentioned agreement:

- On 9 June 2010, Osiedle Wilanowskie was designated by Prokom as an entity entitled to subscribe for II Tranche Subscription Warrants with the prepayment amount of PLN 30 million. As a result, Osiedle Wilanowskie acquired 2,323,777 series V ordinary bearer shares at a price of PLN 12.91 per share.

- On 5 and 13 August 2010, Osiedle Wilanowskie was designated as an entity entitled to subscribe for and exercise a part of III and IV tranche prepaid subscription warrants with the total prepayment amount of PLN 50 million. In connection with the execution of III and IV tranche prepaid subscription warrants, the company and Osiedle Wilanowskie executed a Netting Agreement for the amount of PLN 8,117 thousand. The right to subscribe for and exercise III and IV tranche subscription warrants was transferred by Osiedle Wilanowskie to a group of entities, each of which acquired the right to such a number of the prepaid warrants in the case of exercise of which no Investor can subscribe for the number of the Company's shares that would entitle him to execute 5% or more of the overall number of votes at the general meeting of the Company. The entities designated by Osiedle Wilanowskie acquired 4,712,534 series V ordinary bearer shares in the Company at a price of PLN 10.61 per share.

On 1 June and 16 July 2010, Prokom, as a collateral of trade payables of Petrolinvest, guaranteed the blank promissory note issued by Petrolinvest up to the amount of PLN 10 million for Orlen Gaz Sp. z o.o.

On 9 September 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and Prokom Investments S.A. executed an agreement regarding the transfer by the Investors to Prokom of 2,400,000 subscription warrants entitling their holders to take up 2,400,000 shares in the Company at an issue price of PLN 20 per share, issued in favour of the Investors under the subscription agreement of 18 March 2010 (detailed information on the agreement is provided in point 7 of the first section hereof).

On 15 September 2010, the Company, Prokom and Osiedle Wilanowskie concluded annexes to the following agreements:

- the agreement of 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,

- agreements concluded on 14 May 2009 with Prokom and Osiedle Wilanowskie Sp. z o.o. setting forth the terms on which the said entities make their assets available to the Company to serve as collateral 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.

Under the annexes it became possible to fulfil the requests of Prokom and Osiedle Wilanowskie by changing the conditions of executing 2,400,000 subscription warrants of the Company owned by Prokom and Osiedle Wilanowskie, the rights to which were transferred to Prokom under the agreement of 9 September 2010. On 15 September 2010, Prokom transferred to Osiedle Wilanowskie the rights to 952,604 out of 2,400,000 subscription warrants.

On 15 September 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, as well as the credit facility collateral agreements concluded on 14 May 2009 with Prokom, AGRO JAZOWA S.A. and Osiedle Wilanowskie Sp. z o.o., the Company received a call to offer to Prokom and Osiedle Wilanowskie a total of 2,553,950 ordinary bearer shares at an issue price of PLN 11.8918 per share, i.e. for a total amount of PLN 30,371,062.60.

Payments of Prokom and Osiedle Wilanowskie for the series V and P Shares were made by netting mutual accounts receivable/accounts payable by the Company and Prokom and Osiedle Wilanowskie. On 15 September 2010, the Company entered into the following netting agreements:

1. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the subscription for series V Shares totalling PLN 17,212,143.75 with outstanding accounts payable by the Company to Prokom for an advance towards the fee for providing and maintaining collateral for the credit facility charged for the period ending 14 September 2010 in the amount of PLN 12,161,416.19 and the payment of PLN 5,050,744.71 to PKO BP SA of 9 August 2010 for the partial repayment on behalf of Petrolinvest of the credit facility extended to the Company by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the credit agreement dated 21 March 2007.

2. two netting agreements with Osiedle Wilanowskie under which the Parties netted an outstanding accounts receivable by the Company in relation to the subscription for series V Shares totalling PLN 12,150,244.48 and the subscription for series P Shares totalling PLN 1,008,674.37 with outstanding accounts payable by the Company to Osiedle Wilanowskie for an advance towards the fee for providing and maintaining collateral for the credit facility charged for the period ending 14 September 2010 in the amount of PLN 2,928,421.35, the payment of PLN 5,426,195.29 to PKO BP SA of 9 August 2010 for the partial repayment on behalf of Petrolinvest of the credit facility extended to the Company by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the credit agreement dated 21 March 2007, and other accounts payable by Petrolinvest totalling PLN 4,804,315.07.

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. ("Assignment Agreement") on the transfer by Prokom to the Company:

- (i) Accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A. The Company acquired these accounts from Prokom for PLN 45,460,579.37 and the transaction will be settled in a non-cash manner, through the issue of shares by the Company; and

- (ii) Accounts receivable 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 Company acquired these accounts from Prokom for PLN 20,250,000.00 and the transaction will be settled in a non-cash manner, through the issue of shares by the Company.

The Assignment Agreement was concluded in exercise of one of the obligations under the agreement of 13 January 2009 concluded by the Company and Prokom and in connection with being granted, as at 9 December 2010, the consent of PKO Bank Polski S.A., acting as the Consortium Agent, to perform the Agreement as regards the part thereof relating to the acquisition of the above accounts receivable. The Bank's consent was granted subject to conditions which guarantee the legal security of the Company as a party to the Assignment Agreement.

In connection with the conclusion of the Assignment Agreement, the Company and Prokom concluded an agreement concerning the transfer to Prokom of rights and obligations under the pledge agreement concluded on 13 January 2008 between InvestTechnoGroup LLP, a company established under Kazakh law ("ITG") and Prokom, on the basis of which ITG established a pledge over 75% of shares in BMB Munai LLP, a company established under Kazakh law, to serve as collateral for the accounts receivable by Prokom under the Loan Agreement ("Pledge Agreement").

The agreement on the transfer of rights and obligations under the Pledge Agreement shall enter into force upon the fulfilment of the following conditions precedent:

- (i) granting by the Ministry of Oil and Gas of the Republic of Kazakhstan (“MRG”) of consent to the transfer of rights and obligations under the Pledge Agreement to the Company or issuing a confirmation in writing by the MRG that such a consent is not required; and
- (ii) registration of the agreement on the transfer of rights and obligations under the Pledge Agreement with the Almaty Regional Department of Justice or the MRG.

At the same time, on 9 December 2010, in exercise of the agreement of 13 January 2009 providing for the possibility of settling the accounts payable by the Company to Prokom through the issue of shares, the Company received from PROKOM:

- (i) a request to transfer to Prokom a number of shares that corresponds to the quotient of the aggregate amount of accounts receivable by Prokom from the Company under the Assignment Agreement, i.e. PLN 65,710,579.37 and the issue price of PLN 10.00, as well as
- (ii) a call to offer to Prokom 6,571,057 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 65,710,570.

The Subscription Warrants were taken up on 9 December 2010. At the same time Prokom exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of ordinary series B bearer shares of the Company.

The payment for the series B shares was made by Prokom by netting the accounts receivable by the Company and Prokom’s receivables under the Assignment Agreement. As a result, on 9 December 2010, the Company and Prokom concluded a netting agreement under which the Company and Prokom netted an outstanding account receivable by the Company under the subscription for series B shares totalling PLN 65,710,570.00 with outstanding accounts payable by the Company to Prokom totalling PLN 65,710,579.37.

On 31 December 2010, the Company concluded with Prokom an annexe to the agreement setting out terms and conditions for cooperation in seeking financing for the Company dated 20 March 2009. Pursuant to the Annexe, the parties agreed on extending the period for conducting activities by Prokom aimed at seeking financing for the Company’s operations by 18 months, i.e. until 30 June 2012. Simultaneously, Prokom undertook to seek financing in the period of the aforementioned 18 subsequent months up to the amount of PLN 200 million. Pursuant to the Annexe, all other terms and conditions of the agreement dated 20 March 2009 were maintained. The Financing for the Company will be provided by Prokom or third parties indicated by Prokom (“Financing Entities”) on the basis of loan agreements or other agreements of similar nature, on an arm’s length basis with the possibility of conversion into the Company’s equity, or as a direct equity investment in shares of the Company.

The request to convert the whole or a part of the Financing into the Company’s equity shall be effected through the issue of new Petrolinvest shares at an issue price 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 equal to the close price of the Company’s shares at the WSE from the day preceding the date of the request, whereas the issue price shall not be lower than the face value of a share, i.e. PLN 10.

If Prokom obtains 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 Annexe was concluded at arm’s length.

Agreements concluded between the Company and C.Ulrich założone w 1805 roku w Warszawie S.A. (with Mr Ryszard Krauze as the parent entity)

During the period from 1 January 2010 to 31 December 2010, the Company concluded one agreement with C. Ulrich założone w 1805 roku w Warszawie S.A. the subject of which was granting to the Company a loan of PLN 2,500 thousand. The Company received all the funds under the agreement. By 31 December 2010, the loan had been fully repaid. The loan was payable within 6 weeks of termination by the Lender and was subject to an interest rate of 7% p.a. The loan was secured by a blank promissory note.

Agreements concluded between Petrolinvest Gaz and Osiedle Wilanowskie Sp. z o.o.

During the period from 1 January 2010 to 31 December 2010, Petrolinvest Gaz concluded one agreement with Osiedle Wilanowskie Sp. z o.o. the subject of which was granting to Petrolinvest Gaz of a loan of PLN 9,299 thousand. The Company received all the funds under the agreement. By 31 December 2010, the loan had been partly repaid. The loan balance as at 31 December and as at the date of this Report is PLN 759 thousand. The loan is payable within 14 days of termination by the Lender and is subject to an interest rate based on WIBOR.

Agreements concluded between the Company and Prokom Investments S.A.

During the period from 1 January 2010 to 31 December 2010, Petrolinvest Gaz concluded one agreement with Prokom INVESTMENTS S.A. The subject matter of the agreement is granting to Petrolinvest Gaz of a loan in the amount of USD 3,200 thousand. The Company made available, and then received all the funds under the agreement. The loan was subject to an interest rate based on WIBOR.

Agreements concluded between Petrolinvest Gaz S.A. and Signa

During the period from 1 January 2010 to 31 December 2010, the entities concluded one loan agreement. The subject matter of the agreement is a loan granted by Signa in the amount of USD 2,000 thousand. As at 31 December 2010,

Petrolinvest Gaz had received and then repaid all the funds under the agreement. The loan was payable within 10 days of termination by the Lender and was subject to an interest rate based on LIBOR.

Agreements concluded by and between TOO EMBA JUG NIEFT and TOO Company Profit

During the period from 1 January 2010 to 31 December 2010, EMBA JUG NIEFT and TOO Company Profit entered into one financial support agreement totalling KZT 1,000 thousand. The loan becomes payable within one year from the date on which funds become available. As at 31 December 2010, the whole amount had been made available. The financial support agreement is non-interest-bearing.

CONDENSED INTERIM FINANCIAL STATEMENTS OF PETROLINVEST S.A.

The condensed interim Financial Statements of PETROLINVEST S.A. contain combined data, being the sum of the financial statements of the unit and its branch.

CONDENSED INTERIM INCOME STATEMENT

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Continuing operations				
Sale of goods	148 404	75 066	41 303	20 427
Rendering of services	726	674	204	167
Revenue	149 130	75 740	41 507	20 594
Value of goods and materials sold	132 594	59 816	37 467	17 551
Materials and energy	2 250	2 110	583	517
Employee benefits	9 810	89 128	2 816	2 972
Depreciation and amortisation	3 286	2 903	808	998
External services	17 698	22 637	6 523	6 076
Taxes and charges	759	884	185	245
Other expenses	1 448	1 038	486	229
Operating expenses	167 845	178 516	48 868	28 588
Gross profit/ (loss)	(18 715)	(102 776)	(7 361)	(7 994)
Other operating income	2 009	3 477	1 855	3 202
Other operating expenses	26 530	86 551	6 451	7 673
Finance income	35 715	27 662	10 896	9 086
Finance costs	28 945	73 399	258	24 011
Impairment of assets	299	101 045	74	54 399
Profit/ (loss) before tax	(36 765)	(332 632)	(1 393)	(81 789)
Income tax expense	0	(1 681)	0	0
Net profit/ (loss) for the year from continuing operations	(36 765)	(330 951)	(1 393)	(81 789)
Net profit/ (loss) for the year	(36 765)	(330 951)	(1 393)	(81 789)
Weighted average number of issued shares for basic earnings per share computations	33 127 514	13 518 960	43 100 719	18 655 550
Number of diluting potential ordinary shares	0	0	0	0
Earnings (loss) per share in PLN	(1,11)	(24,48)	(0,03)	(4,38)
Diluter earnings (loss) per share in PLN	(1,11)	(24,48)	(0,03)	(4,38)

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
 ENDED 31 DECEMBER 2010
 CONDENSED INTERIM FINANCIAL STATEMENTS OF PETROLINVEST S.A.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Profit/(loss) for the period	(36 765)	(330 951)	(1 393)	(81 789)
Total net other comprehensive income	0	0	0	0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(36 765)	(330 951)	(1 393)	(81 789)

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM FINANCIAL STATEMENTS OF PETROLINVEST S.A.

INTERIM CONDENSED BALANCE SHEET

	<u>31 December</u> <u>2010</u> <u>PLN '000</u>	<u>30 September</u> <u>2010</u> <u>PLN '000</u>	<u>31 December</u> <u>2009</u> <u>PLN '000</u>
ASSETS			
Non-current assets (long-term)			
Property, plant and equipment	42 897	43 652	44 229
Investment properties	2 567	2 567	2 567
Intangible assets	35	23	0
Other financial assets	197 925	175 062	197 840
Shares in subsidiaries and jointly-controlled entities	634 111	633 829	633 440
	<u>877 535</u>	<u>855 133</u>	<u>878 076</u>
Current assets (short-term)			
Inventories	1 372	5 792	1 221
Trade and other receivables	8 675	14 286	4 788
Prepayments and deferred costs	7 227	8 289	7 562
Current investments	343 670	260 560	127 410
Cash and cash equivalents	658	582	772
	<u>361 602</u>	<u>289 509</u>	<u>141 753</u>
TOTAL ASSETS	<u>1 239 137</u>	<u>1 144 642</u>	<u>1 019 829</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	505 177	412 966	215 266
Contributions to share capital	37 831	0	0
Other reserves	1 126 975	1 129 452	1 023 399
Unregistered share capital	0	0	8 523
Retained earnings	(635 977)	(634 584)	(599 212)
Total equity	<u>1 034 006</u>	<u>907 834</u>	<u>647 976</u>
Non-current liabilities			
Interest-bearing loans and borrowings	49 734	146 671	213 630
Non-current provisions	6 092	2 867	10 196
Finance lease liabilities	54	64	27
Other non-current liabilities	3 889	652	18 986
	<u>59 769</u>	<u>150 254</u>	<u>242 839</u>
Current liabilities			
Trade and other payables	21 261	23 688	13 131
Finance lease liabilities	46	63	118
Current portion of interest-bearing loans and borrowings	114 274	50 707	104 566
Current provisions	8 749	10 563	9 277
Accruals and deferred income	1 032	1 533	1 922
	<u>145 362</u>	<u>86 554</u>	<u>129 014</u>
Total liabilities	<u>205 131</u>	<u>236 808</u>	<u>371 853</u>
TOTAL EQUITY AND LIABILITIES	<u>1 239 137</u>	<u>1 144 642</u>	<u>1 019 829</u>

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM FINANCIAL STATEMENTS OF PETROLINVEST S.A.

CONDENSED INTERIM CASH FLOW STATEMENT

	<i>for 12 months</i>		<i>for 3 months</i>	
	<i>ended 31 December</i>		<i>ended 31 December</i>	
	2010	2009	2010	2009
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Cash flows from operating activities				
Profit/ (loss) before taxation	(36 765)	(332 632)	(1 393)	(81 789)
Adjustments for:	6 152	308 237	890	64 038
Depreciation and amortisation	3 286	2 903	808	998
Interest and dividends, net	(26 735)	(8 525)	(9 132)	(3 881)
Foreign ex change differences	(1 784)	1 869	(4 137)	9
Gain/ (loss) from investing activities	11	10	16	2
(Increase)/ decrease in receivables	(3 887)	3 078	5 611	300
(Increase)/ decrease in inventories	(151)	1 605	4 420	871
Increase/ (decrease) in payables except loans and borrowings	400	(818)	(3 780)	(78 526)
Change in prepayments and accruals	(793)	(217)	441	24
Change in provisions	(9 718)	(13 680)	130	(18 528)
Other, including	45 523	322 012	6 513	162 769
share-based payments	0	80 705	0	0
lending costs	376	380	141	128
valuation of equity instruments	9 021	(2 244)	0	(2 244)
acquisition cost of right to use financing	0	31 640	0	0
impairment charge re-measurement	200	1 684	(19)	1 684
sale of financial assets	0	(10)	0	(3)
impairment of assets	299	101 055	74	54 402
collateral-related fees	35 627	108 802	6 317	108 802
Net cash flows from operating activities	(30 613)	(24 395)	(503)	(17 751)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and intangibles	36	47	3	3
Purchase of property, plant and equipment and intangibles	(215)	(62)	(82)	73
Expenditure on exploration for and evaluation of mineral resources	0	10	0	3
Acquisition of subsidiary and jointly-controlled entity, net of cash	0	0	0	0
Interest received	0	4	0	0
Repayment of loans granted	2	5	0	0
Granting of loans	(105 841)	(72 823)	(23 783)	(38 197)
Other	0	0	0	0
Net cash flows from investing activities	(106 018)	(72 819)	(23 862)	(38 118)
Cash flows from financing activities				
Proceeds from share capital increase	317 578	117 545	64 331	64 142
Costs relating to share issue	(13 923)	(6 364)	(1 329)	343
Payment of finance lease liabilities	(45)	(228)	(27)	(54)
Proceeds from loans and borrowings	2 500	3 000	0	3 000
Repayment of loans and borrowings	(140 083)	(890)	(36 050)	(223)
Interest paid	(8 392)	(12 711)	(1 719)	(2 864)
Other	(376)	(379)	(141)	(127)
Net cash flows from financing activities	157 259	99 973	25 065	64 217
Net increase/ (decrease) in cash and cash equivalents	20 628	2 759	700	8 348
Cash and cash equivalents at the beginning of the period	(19 970)	(22 729)	(42)	(28 318)
Cash, cash equivalents and long-term deposits at the end of the period	658	(19 970)	658	(19 970)
Including restricted use cash	0	0	0	0

CONSOLIDATED QUARTERLY REPORT OF PETROLINVEST GROUP FOR 4th QUARTER 2010
ENDED 31 DECEMBER 2010
CONDENSED INTERIM FINANCIAL STATEMENTS OF PETROLINVEST S.A.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	<i>Issued capital</i>	<i>Other capital, including</i>	<i>Revaluation and other reserves</i>	<i>From share premium</i>	<i>Other capital</i>	<i>Unregistered share capital increase</i>	<i>Contributions to share capital</i>	<i>Retained earnings/ Accumulated (losses)</i>	<i>Total equity</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
As at 1 January 2010	215 266	1 023 399	15 593	879 166	128 640	8 523	0	(599 212)	647 976
Total comprehensive income for the period	0	0	0	0	0	0	0	(36 765)	(36 765)
Issue of share capital	289 911	111 486	0	111 486	0	(8 523)	37 831	0	430 705
Transaction cost	0	(60 212)	0	(60 212)	0	0	0	0	(60 212)
Equity instruments issue	0	52 302	0	0	52 302	0	0	0	52 302
Share-based payments	0	0	0	0	0	0	0	0	0
As at 31 December 2010	505 177	1 126 975	15 593	930 440	180 942	0	37 831	(635 977)	1 034 006
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
As at 1 January 2009	63 481	501 533	15 593	473 931	12 009	153 590	0	(268 261)	450 343
Total comprehensive income for the period	0	0	0	0	0	0	0	(330 951)	(330 951)
Issue of share capital	151 785	423 646	0	423 646	0	(145 067)	0	0	430 364
Transaction cost	0	(18 411)	0	(18 411)	0	0	0	0	(18 411)
Equity instruments issue	0	6 286	0	0	6 286	0	0	0	6 286
Warrant issue	0	29 640	0	0	29 640	0	0	0	29 640
Share-based payments	0	80 705	0	0	80 705	0	0	0	80 705
As at 31 December 2009	215 266	1 023 399	15 593	879 166	128 640	8 523	0	(599 212)	647 976