ALADDIN OIL & GAS COMPANY ASA
CONSOLIDATED FINANCIAL STATEMENTS AND STANDALONE FINANCIAL STATEMENT OF THE PARENT COMPANY
PREPARED IN ACCORDANCE WITH SIMPLIFIED APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS ACCORDING TO THE NORWEGIAN ACCOUNTING ACT § 3-9

AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2010

Contents

BOARD OF DIRECTORS' REPORT

Operations

Aladdin Oil & Gas Company ASA (hereinafter, "the Company") is an independent Norwegian exploration- and production company engaged in development and operation of oil and natural gas properties in Russia. The Company owns three entities OOO Geotechnologia, ZAO Orneftegaz (sold in 2011) and OOO Veselovskoe, which hold exploration and production licenses (hereinafter, "the Group"). Geotechnologia is located in the Timan Pechora region and owns two production licenses (West Ukhtinskoye and Middle Sedolskoye Gas field) and one exploration license (Middle Sedolskoye). OOO Veselovskoye holds five production licenses located in the Orenburg area. The local head offices are located in Ukhta and Orenburg. The Group's headquarter is located in Oslo, Norway.

The Company's goal is to become a significant producer of oil and gas in Russia and the former Soviet Union.

Highlights 2010

First half year 2010 was challenging for the Group. The financial situation for the Company was challenging which affected the operations. However, the Company was able to launch gas production in Ukhta from its Middle Sedolskoye Gas Field.

In July 2010 the Company's bonds were converted to shares and NOK 32 million in fresh equity was paid in. This significantly strengthened the financial position of the Group.

The Group has continued its focus on developing the gas licenses in Ukhta. The gas production commenced in April 2010 and reached an average production of roughly 110-115 thousand cubic meters per day (700 boped) by December 2010.

The Company has not met all its license obligations and anticipates further breaches before the situation is remediated. The Company decided not to apply an extension of the Bogdanovskaya exploration license due to its limited potential and the latter expired in December 2010. The Company has written off the license and related assets in the annual accounts for 2009. The Board of Directors considers the risk for losing the remaining licenses as minimal as the necessary actions for maintaining these are in progress. The Company has decided to abandon the Khersonskoe license due to the production prospects not being satisfactory. This resulted in write off of MNOK 1.8.

At the end of the year, the Company's licenses had a total of 36 mmboe P50 reserves. In addition, the company has reported resources , through the WU17 structure area (4 discovery wells), the interesting gas discovery in structure 14 on the MS license and promising structures on Veselovskoye license in Orenburg.

Highlights 2011

One production well (7VDE) has been drilled and tested successfully gas on the Middle Sedolskoye Gas Field. The well is planned to be producing in the fourth quarter of 2011.

In Orenburg 248km 2D survey on Veselovskoye license has been completed. Interpretation is expected by year end.

2 wells have been worked over on Veselovskoye license in 2011. Further evaluation is required to conclude on the productivity of the wells.

The Company raised MNOK 80.8 during second quarter 2011.

A new law will be implemented from 2012 to reduce tax burden for small fields. Mineral extraction tax for small fields (less than 35mln barrels) will be reduced from 0% to 62,5% dependent on their initial recoverable reserves. This will apply to fields with a depletion rate of less than 5%.

Please refer to Note 27 for further detail on activities undertaken in 2011.

Financial statements 2010

Aladdin prepares and presents its accounts in accordance with Simplified International Financial Reporting Standards (IFRS). The Board of Directors and the CEO considers the statements and corresponding notes presented in this report to give a correct and accurate summary of the Company's operations and position at the end of the year. Aside from the financial restructuring referred to under highlights there has not been any events after year-end which may alter the figures presented or the position of the Company.

Consolidated 2010 Group operating revenues amounted to MNOK 15.8.. The Company, Aladdin Oil & Gas Company ASA, had a net loss in 2010 of MNOK 88.3 caused by impairment of MNOK 88.

For the year ended 31 December 2010 the Group incurred a loss of MNOK 61.6 (2009: MNOK 171.2) and had cash outflows from operating activities of MNOK 40.2 (2009: MNOK 39.0 and as at 31 December 2010 had accumulated losses of MNOK 347.4 (2009: MNOK 281.1) and a working capital deficit of MNOK 14.2 (2009: deficit MNOK 66.0).

At the year-end of 2010, the Group had total equity of MNOK 161.9, which is equal to an equity ratio of 70.8 %. Available cash and cash equivalents at year end 2010 were MNOK 4.5. Total capital at the end of the year was MNOK 228.8. The Group's non-current interest-bearing debt at the year end 2010 was MNOK 4.3 compared to MNOK 62.0 at year end 2009 (Note 17). The Group's short term debt as of 31 December 2010 amounted to MNOK 23.8, compared to MNOK 85.6 in 2009. The Group's net cash flow from operations amounted to minus MNOK 40.2 million. The Group's total investments were MNOK 10.1 in 2010. Please refer to Note 3 for details on acquisition of OOO Veselovskoe. New equity paid in 2011 was MNOK 80.8.

Working conditions

Safe working conditions are a fundamental prerequisite for the future growth in the Aladdin Group. The board and the CEO consider the working conditions in the Group to be satisfactory. No serious accidents resulting in major personnel injuries or material damage have been reported in 2010. In 2010 the sickness absenteeism was 1.1% for Aladdin.

Research & development activities

The Group has not undertaken any research- and development (R&D) activities in 2010.

Gender equality

Out of the 70 employees in the Group as of year-end 2010, 15 are women. Women represent 42.8% of the board members in Aladdin. The Company is trying to recruit women to Group management positions. Women are well represented in the Group. There are no significant differences in employee benefits between men and women.

Anti discrimination

The discrimination act´s purpose is to promote equality, ensure equal opportunities and rights, and prevent discrimination. The Group is working actively, targeted and planned to promote this in all of the Group's activities. The activities include recruitment, salary – and working condition, promotion, development and protection against harassment.

The Group is working actively and targeted for designing and facilitating the physical conditions, so that the Company´s various functions can be used by so many people as possible. For employees or applicants with disabilities it will be made individual arrangements.

The external environment

Aladdin Oil & Gas Company ASA is through its subsidiaries OOO Geotechnologia and OOO Veselovskoe an operator of the Group's oil fields in Russia. During drilling, the responsibility for the well may be transferred to a subcontractor (drilling company) which holds full responsibility for the operations and any reporting to Russian authorities until the well is finished. When a well is finished and ready for being put in production, the responsibility of the well is transferred back to the operating entities. The Board is very aware of the importance in finding industrial solutions protecting the external environment and ensuring the companies co-existence with other important industries. The Company upholds the laws and regulations applying in Russia at all time. No environmental incidents have been reported for 2010 or until date.

Financial risk

Mainly, the Group is exposed to currency risk, price risk and liquidity risk. The Group seeks to achieve an acceptable risk within these areas. As to interest rate risk, the company's bond loans had fixed interest rates, and were therefore considered being low risk. Said loans were converted to equity in July 2010. The functional and presentation currency for Aladdin is Norwegian kroner, while the Russian subsidiaries have income and expenses in roubles and inter-company loans in US dollars and roubles. The Group is therefore exposed to currency risk. Due to the fact that Russian Rouble and Norwegian Kroner are deemed to be stable currencies, both correlated with the oil prices, the Group uses no derivative financial instruments to hedge the currency risk exposure.

The Group's gross income is exposed to price risk due to oil price fluctuations. However, the net income is subject to the Russian duties and taxes which are progressive relative to the oil price and therefore limits the Group's overall exposure to this risk. A substantial or extended decline in oil price would have a material adverse effect for us. Historically, the price of oil has fluctuated greatly in response to changes in many factors. The Group does not and will not have control over these factors, so have to accept this risk.

As to liquidity, the Group is in a development phase, and the access to necessary funds is considered a risk factor with regards to the future funding of the company, which is planned to be covered through a combination of loans and equity.

The Group estimate to reach breakeven point (EBITDA) for the Group early 2012, to reduce the liquidity risk. The current cash situation and analysis shows that the Group will need additional funding early 2012.

Further information on financial instruments and risks are provided in Note 17 and 25.

Operational risk

Aladdin is exposed to operational and technical risk during drilling and production activities on the company's licenses in Russia. Technical risk inhered in the operations as well as risk of equipment being delayed and contractors failing operations may cause delays of operations. Similar cost can increase due to the high level of activity and pressure in the industry. In shallow areas low pressure is a technical challenge. Aladdin's exploration license Middle Sedolskoye expires in 2011, however the Company has applied for extension of the license. There are always operational risks associated with such extension processes for Aladdin as well as for other operators in Russia. Aladdin fails to be in compliance with all license obligations which may cause additional risk related to its licenses. See notes 26 and 27 for more detailed information on the licenses.

Political risk

It is still recognized to be a significant political risk related to foreign investments in Russia. Oxford Analytica and AON have recently ranked Russia in the category "medium risk". Oil companies in Russia have been subject to high taxation over the last years. However Russian authorities have now realized that the high taxation has reduced the level of investments and the growth rate. Strong signals from Kremlin gives reason to believe that the level of taxation is more likely to decrease than increase especially for smaller fields.

Business ethics

Aladdin has adopted a policy that all activities and operations are to be conducted in a professional and safe manner, without injuries on human beings or environmental damage. Training and exercises are important measures to achieve such. Aladdin supports honesty and trustful relationships with our business partners as well as the local community where we operate and has zero tolerance for corruption.

Corporate governance

The Norwegian recommendation for corporate governance covers general principles which Norwegian private, and listed companies in particular, are encouraged to follow. Aladdin supports and tries to act according to these recommendations

Going Concern

The Board of Director's intention is to maintain the Company as going concern. The Group has raised MNOK 80.8 during 2011. Further finance requirements will be needed for 2012. The Board of Directors is of the opinion that necessary funds will be available for the Company and the Group will continue as going concern.
At the same time the Board of Directors stresses there are uncertainties related to obtaining future financing and thereby the Groups ability to continue as going concern.

Outlook

The Company's goal for the oil production in Orenburg during 2011 and 2012 is to increase the production through re-activating three wells on the Veselovskoe license and further development of the licenses Voinskoe, Besedinskoe and Nikiferovskoe. The development consists mainly of conducting seismic programs, work overs and sidetracks.

The Company aims at increasing gas production in Ukhta up to 175,000 cubic meters per day by end of 2011. The plan is to achieve this through putting one more production well on the Middle Sedolskoye license on stream. A seismic program will be executed and exploration and appraisal wells drilled during 2011 and 2012 to further enhance production in 2012 and onwards.

The financing of these operations is expected to be a combination of debt- and equity issues.

Parent company accounts and the allocation of profit for the year

The profit and loss account for the parent company Aladdin Oil & Gas Company ASA showed a loss for the year of MNOK 88.3. The Board suggests the loss is allocated to other equity. Unrestricted equity at 31 December 2010 amounts to NOK 0.

London, September 29th, 2011

Frederick Matthew Thomas Ponsonby
Chairman of the Board

Mikhail Alyautdinov
Board Member

Einar Lyche
Board Member

Katherine Hatlen Støvring
Board Member

Artur Rastrogin
Board Member

Ann Elizabeth Seabrook
Board Member

Linda Dowding
Board Member

Alexey Kruzhkov
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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Aladdin Oil & Gas Company ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Aladdin Oil & Gas Company ASA, which comprise the financial statements for the parent company and the financial statements for the group. The financial statements comprise the balance sheets as at December 31, 2010, income statements, the statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with simplified application of international accounting standards according to the Norwegian accounting act § 3-9, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Basis for Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Aladdin Oil & Gas Company ASA and of the group as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with international accounting standards according to the Norwegian accounting act § 3-9.

Emphasis of matter

Without qualifying our opinion;

- we draw attention to Note 1 in the financial statements for the Group company, Note 1 in the financial statements for the Parent and the report from the Board of Directors which indicates that the Group incurred a net loss of MNOK 61, 6 (Parent: MNOK 88,3) during the year ended December 31, 2010 cash outflows from operating activities of MNOK 40,2 (Parent: MNOK 19,5) and accumulated losses of MNOK 347,4 (Parent: MNOK 355,6) as at December 31, 2010. These conditions, along with other matters as set forth in the aforementioned notes and the report from the Board of Directors, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

- we draw attention to note 26 in the financial statements of the group regarding non- compliance of the license terms. It is not possible to predict whether the group will be successful in repairing the non-compliance. A negative outcome for some or all of the licenses could materially affect the Group's and the parent's ability to generate cash flow and consequently the carrying amount of the non- current assets and loans to group companies in the financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

- we draw attention to the fact that this auditor's report refers only to the financial statements as at and for the year ended December 31, 2010. As described in Note 24, the Group has restated the prior year's consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the coverage of the loss

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

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Deloitte.

Other

This auditor's report replaces the auditor's report of June 30, 2011 which was issued because the financial statements and the Board of Directors report of Aladdin Oil & Gas Company ASA for the year ended December 31, 2010 were not prepared within the period allowed by the law.

Oslo, October 3, 2011
Deloitte AS

Mette Herdlevær (signed)
State Authorised Public Accountant (Norway)

Consolidated Income Statement for the year ended 31 December 2010

(in thousand NOK unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING REVENUE AND OPERATING EXPENSES			
Revenue		15,823	6,399
Cost of sales	4	(22,635)	(16,444)
Impairment of property, plant and equipment	10	-	(8,618)
Impairment of exploration and evaluation assets	11	(1,827)	(6,387)
Impairment of intangible assets	9	(429)	(57,991)
Gross loss		**(9,068)**	**(83,041)**
General and administrative expenses	5	(39,152)	(39,971)
Operating loss		**(48,220)**	**(123,012)**
FINANCIAL INCOME AND FINANCIAL EXPENSES			
Finance expenses, net	6	(11,746)	(14,429)
Foreign exchange loss, net	7	(1,569)	(46,539)
Other income/(expense)		853	(300)
Financial items, net		**(12,462)**	**(61,268)**
Loss before taxation		**(60,682)**	**(184,280)**
Income tax (expense) / benefit	8	(962)	13,085
Loss for the period		**(61,644)**	**(171,195)**
Allocation of net loss:			
Shareholders of Aladdin Oil & Gas Company ASA		(61,644)	(171,195)
Loss per ordinary share for profit attributable to the shareholders of Aladdin Oil & Gas Company ASA – basic (in NOK per share)	20	(0.08)	(4.06)
Loss per ordinary share for profit attributable to the shareholders of Aladdin Oil & Gas Company ASA – diluted (in NOK per share)	20	(0.08)	(3.39)
Weighted average number of shares outstanding – basic	20	781,852,157	42,165,582
Weighted average number of shares outstanding – diluted	20	792,037,657	50,523,082

Aladdin Oil & Gas Company ASA
Consolidated Balance Sheet as at 31 December 2010
(in thousand NOK unless noted otherwise)

	Notes	31 December 2010	31 December 2009	1 January 2009
ASSETS				
Non-current assets				
Intangible assets				
Licenses	9	137,684	140,761	227,562
Exploration and evaluation assets	11	48,549	72,171	48,213
Total intangible assets		**186,233**	**212,932**	**275,775**
Tangible fixed assets				
Oil and gas properties	10	30,058	1,569	12,817
Machinery and equipment	10	1,928	2,584	4,597
Other property, plant and equipment	10	689	1,343	2,067
Other non-current assets		302	214	917
Total tangible fixed assets		**32,977**	**5,710**	**20,398**
Total non-current assets		**219,210**	**218,642**	**296,173**
Current assets				
Inventories	14	793	2,776	2,163
Trade receivables	13	1,654	213	48
Other receivables	13	2,702	5,450	10,232
Cash and cash equivalents	12	4,457	11,180	6,056
Total current assets		**9,606**	**19,619**	**18,499**
TOTAL ASSETS		**228,816**	**238,261**	**314,672**
SHAREHOLDERS EQUITY AND LIABILITIES				
Shareholders equity				
Paid-in capital				
Share capital	15	175,151	5,770	2,262
Share premium account	15	318,835	297,826	227,270
Other paid-in capital	15	23,211	40,520	22,511
Total paid-in capital		**517,197**	**344,116**	**252,043**
Retained earnings				
Effect of translation to presentation currency		(7,829)	(10,378)	191
Retained earnings and other reserves		(347,426)	(281,120)	(109,925)
Total retained earnings		**(355,255)**	**(291,498)**	**(109,734)**
TOTAL SHAREHOLDERS EQUITY		**161,942**	**52,618**	**142,309**
Liabilities				
Provisions for liabilities and charges				
Deferred income tax liabilities	8	30,572	29,859	46,855
Assets retirement obligation	18	8,226	8,101	5,057
Total provisions for liabilities and charges		**38,798**	**37,960**	**51,912**
Other non-current liabilities				
Bonds	17	-	57,826	50,571
Long-term loan	17	3,116	3,295	3,989
Interest	17	1,173	922	838
Total other non-current liabilities		**4,289**	**62,043**	**55,398**

(in thousand NOK unless noted otherwise)

Current liabilities				
Bonds	17	-	49,623	48,323
Short-term loans	17	72	36	-
Interest	17	-	6,971	4,985
Trade accounts payable	19	14,654	20,402	9,014
Other taxes payables		3,644	2,750	819
Other payables	19	5,417	5,858	1,912
Total current liabilities		**23,787**	**85,640**	**65,053**
TOTAL LIABILITIES		**66,874**	**185,643**	**172,363**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**228,816**	**238,261**	**314,672**

London, September 29th, 2011

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Linda Dowding
Board Member

Alexey Kruzhkov
Chief Executive Officer

Consolidated Statement of Cash Flows for the year ended 31 December 2010

(in thousand NOK unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**(60,682)**	**(184,280)**
Depreciation of property, plant and equipment	10,11	4,105	1,586
Depreciation of intangible assets	9	4,465	93
Impairment of property, plant and equipment	10	-	8,618
Impairment of exploration and evaluation assets	11	1,827	6,387
Impairment of intangible assets	9	429	57,991
Gain from disposal of other assets		(146)	1,262
Finance expense, net	6	11,746	14,429
Foreign exchange loss, net		1,569	46,539
Effect of share option programme	15	-	700
Other		(1,708)	(2,509)
Operating cash flows before working capital changes and income tax paid		**(38,395)**	**(49,184)**
Working capital changes:			
Change in accounts receivable and prepayments		73	6,022
Change in inventories		1,660	(1,488)
Change in accounts payable and accruals		(4,271)	2,747
Change in other taxes payable		591	1,669
Change in other assets		215	1,755
Income tax paid		(49)	(519)
Net cash used in operating activities		**(40,176)**	**(38,998)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of exploration and evaluation assets		(10,739)	(30,069)
Interest received		622	-
Purchase of subsidiaries from third parties, net of cash acquired	3	-	(8,282)
Net cash used in investing activities		**(10,118)**	**(38,351)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		3,214	10,422
Interest paid		-	(11,858)
Proceeds from share issues		40,343	91,372
Repayment of borrowings		-	(7,124)
Net cash generated by financing activities		**43,557**	**82,812**
Foreign exchange losses on cash balances		14	(339)
Change in cash and cash equivalents		**(6,723)**	**5,124**
Cash and cash equivalents at the beginning of the period	12	**11,180**	**6,056**
Cash and cash equivalents at the end of the period	12	**4,457**	**11,180**

Aladdin Oil & Gas Company ASA
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(in thousand NOK unless noted otherwise)

	Note	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Effect of translation to presen-tation currency reserve	Retained earnings	Total equity
As at 1 January 2009		**2,262**	**227,270**	**22,511**	**252,043**	**-**	**(100,497)**	**151,546**
Correction of previous years errors		-	-	-	-	191	(9,428)	(9,237)
Restated as at 1 January 2009		**2,262**	**227,270**	**22,511**	**252,043**	**191**	**(109,925)**	**142,309**
Loss for the year		-	-	-	-	-	(171,195)	(171,195)
Effect of translation to presentation currency		-	-	-	-	(10,569)	-	(10,569)
Share issues	15	3,508	70,556	-	74,064	-	-	74,064
Effect of Share Option Programme	15	-	-	700	700	-	-	700
Unregistered capital	15	-	-	17,309	17,309	-	-	17,309
As at 31 December 2009		**5,770**	**297,826**	**40,520**	**344,116**	**(10,378)**	**(281,120)**	**52,618**
Loss for the year		-	-	-	-	-	(61,644)	(61,644)
Effect of translation to presentation currency		-	-	-	-	2,549	-	2,549
Share issues	15	169,381	21,009	-	190,390	-	(4,662)	185,728
Unregistered capital	15	-	-	(17,309)	(17,309)	-	-	(17,309)
As at 31 December 2010		**175,151**	**318,835**	**23,211**	**517,197**	**(7,829)**	**(347,426)**	**161,942**

Note 1. Accounting policies and effect of new accounting standards

Aladdin Oil & Gas Company ASA is a public limited company incorporated in Norway. The company's main office is located in Øvre Slottsgate 14, 0157 Oslo. The list of subsidiaries is presented in Note 2.

Basis of preparation and going concern. These consolidated financial statements of Aladdin Oil & Gas Company ASA (hereinafter, "the Company" or 'the Parent Company') and its subsidiaries (together referred to as "the Group") have been prepared in accordance with the Norwegian Accounting Act §3-9 and the rules for simplified IFRS passed by the Norwegian Finance Ministry 21 January 2008. This implies that recognition and measurement mainly is performed according to International Financial Reporting Standards (IFRS) and presentation and notes to the financial statements are according to the Norwegian Accounting Act and Norwegian generally accepted accounting standards.

All transactions and balances between subsidiaries are eliminated. The financial statements are based on the financial statements of the individual entities which have been prepared using the same accounting policies. All entities have the same reporting date, 31 December. The financial statements were approved by the board of directors on September 29th 2011.

These consolidated annual financial statements were prepared on a going concern basis, which assumes that the Group will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

For the year ended 31 December 2010 the Group incurred a loss of MNOK 61.6 (2009: MNOK 171.2 and had cash outflows from operating activities of MNOK 40.2 (2009: MNOK 39.0 and as at 31 December 2010 had accumulated losses of MNOK 347.4 (2009: MNOK 281.1) and a working capital deficit of MNOK 14.2 (2009: deficit MNOK 66.0).

. The exploration and development activities of the Group will require significant amounts of finance within the next twelve months. This indicates a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business.

During 2010, the Group agreed with bondholders to convert MNOK 125.7 of borrowings at nominal into equity (Note 15 and 17), thereby reducing liabilities by MNOK 125,7 nominal, and increasing its equity by similar amount. Management believes the Group will be able to raise the finance to support its oil and gas exploration and development activities and ultimately recover its investment in oil and gas exploration activities through the sale of oil and gas or the sale of oil and gas properties. For this reason, management believes it is appropriate to prepare these financial statements on the basis of accounting principles applicable to going concern.

Foreign currency. The Norwegian kroner (NOK) are the presentation currency for the Group's operations and functional currency of the Parent Company. The individual financial statements of each of the companies within the Group are prepared in the currency of the primary economic environment in which it operates (its functional currency). Financial statements of the Russian and Cyprus subsidiaries are measured in Russian Roubles and United States Dollar respectively.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks;

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in equity.

(in thousand NOK unless noted otherwise)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

Exchange differences on intercompany transactions with the predetermined maturity dates are recognized in income statement of the subsidiary which currency is other than the Parent's functional currency. If the intercompany balances are not expected to be repaid, exchange differences are recognized in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Summary exchange rates used for translation are provided below.

	31 December 2010	**31 December 2009**	**1 January 2009**
Exchange rate as at reporting date			
Russian Roubles/NOK	5.1613	5.2091	4.1796
Russian Roubles/USD	30.4769	30.2442	29.3804
NOK/USD	5.9048	5.8060	7.0294
Average exchange rate for the year 31 December			
Russian Roubles/NOK	5.0268	5.0493	-
Russian Roubles/USD	30.3692	31.7231	-
NOK/USD	6.0468	6.2941	-

Property, plant and equipment. Property, plant and equipment are recorded at historical cost of acquisition and adjusted for accumulated depreciation, depletion and impairment. All subsequent additions are recorded at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion and impairment. The cost of property, plant and equipment includes provisions for dismantlement, abandonment and site restoration.

The Group accounts for exploration and evaluation activities in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources.* Geological and geophysical exploration costs are charged against income as incurred, unless directly attributable to properties capable of commercial development. Costs directly associated with an exploration well are initially capitalised as an exploration and evaluation assets (E&E) until the drilling of the well is complete and the results have been evaluated. If oil and gas are not found, the exploration expenditure is written off as a dry hole. If oil and gas are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphical test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written-off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to the oil and gas properties and an impairment review of the property is undertaken at that time.

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them to production together with E&E expenditures incurred in finding commercial reserves and transferred from the E&E assets described above. The cost of development and production assets also include the costs of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised and the costs of recognising provisions for future restoration and decommissioning.

Depletion of capitalized costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for development costs.

Depreciation of non oil and gas property, plant and equipment is calculated using the straight-line method over their estimated remaining useful lives.

Useful lives of the assets that are depreciated by the straight-line method, in years, were as follows:

Type of facility	**Years**
Machinery and equipment	5-15
Other	3-5

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expense' in the Consolidated Income statement.

Licenses. The Group measures licences at cost less accumulated amortisation and impairment losses. Licences are amortised using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs.

Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions, including those related to dismantlement, abandonment and site restoration, are evaluated and re-estimated annually, and are included in the consolidated financial statements at each reporting date at the present value of the expenditures expected to be required to settle the obligation using pre – tax discount rates which reflect the current market assessment of the time value of money and the risks specific to the liability.

Changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year under financial items. Other changes in provisions, relating to a change in the expected pattern of settlement of the obligation, changes in the discount rate or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. Changes in provisions relating to dismantlement, abandonment and site restoration are added to, or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

The provision for dismantlement liability is recorded on the consolidated balance sheet, with a corresponding amount being recorded as part of property, plant and equipment.

Impairment of assets. Assets that are subject to depreciation and depletion are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped by license areas, which are the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Account receivables. Account receivables and other current receivables are recorded in the consolidated balance sheet at nominal value less provisions for expected losses. Provisions for expected losses are based on individual assessments of the each receivable.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash balances are presented separately from cash available for the business to use until such time as restrictions are removed.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognised initially at the fair value of the liability, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalized.

Warrants. Warrants are equity instrument that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. Warrants are initially recognized at fair value less issue cost as part of equity.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Revenue. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that economic benefits will flow to the entity, typically when oil and gas are dispatched to customers and title has transferred. Gross revenues exclude value added taxes. Sales of the Group are only performed in the Russian Federation.

Options. Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 15.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using the applicable tax rate that has been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

Adoption of New or Revised Standards and Interpretation

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2009, became effective for the Group from 1 January 2010. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IAS 27, Consolidated and Separate Financial Statements *(revised January 2008; effective for annual periods beginning on or after 1 July 2009).* The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

IFRS 3, Business Combinations *(revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).* The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations.

IFRIC 17, Distributions of Non-Cash Assets to Owners *(effective for annual periods beginning on or after 1 July 2009).* The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18, Transfers of Assets from Customers *(effective for annual periods beginning on or after 1 July 2009).* The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 *Revenue*.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment *(effective for annual periods beginning on or after 1 January 2010)*. The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement *(effective with retrospective application for annual periods beginning on or after 1 July 2009).* The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

IFRS 1, First-time Adoption of International Financial Reporting Standards *(following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).* The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS *(effective for annual periods beginning on or after 1 January 2010).* The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Improvements to International Financial Reporting Standards *(issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the above standards and interpretations.

New accounting pronouncements

The following new standards, interpretations and amendments to standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in October 2010; effective from 1 January 2013, early adoption is permitted).
- Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).

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- IFRS 10, Consolidated Financial Statements (issued in May 2011; effective from 1 January 2013, with earlier application permitted).
- IFRS 11, Joint Arrangements (issued in May 2011; effective from 1 January 2013, with earlier application permitted).
- IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011; effective from 1 January 2013, with earlier application permitted).
- IFRS 13, Fair Value Measurement (issued in May 2011; effective for annual periods beginning or after 1 January 2013, with early application permitted).
- Consolidated and Separate Financial Statements – Amendment to IAS 27 (issued in May 2011, applicable to annual reporting periods, beginning on or after 1 January 2013).
- Investments in Associates – Amendment to IAS 28 (issued in May 2011, applicable to annual reporting periods, beginning on or after 1 January 2013).

The Group does not expect the new accounting pronouncements to have material impact on the Consolidated Financial Statements. Management expects above stated changes in standards and interpretations will be implemented in the Group's financial statements when they come into force.

Note 2. Subsidiaries

The following are the principal subsidiaries which have been consolidated into these Consolidated Financial Statements.

Company	Parent company	% of ownership	Country
31 December 2010			
Larchbay Traders & Consultants Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Aladdin Oil & Gas (Cyprus) Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Stikito Limited	Aladdin Oil & Gas Company ASA	100%	Cyprus
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	Russia
OOO KOMI Drilling	Larchbay Traders & Consultants Ltd.	100%	Russia
ZAO YuK Perspectiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
ZAO Orneftegaz	ZAO YuK Perspectiva	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia
31 December 2009			
Larchbay Traders & Consultants Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Aladdin Oil & Gas (Cyprus) Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Stikito Limited	Aladdin Oil & Gas Company ASA	100%	Cyprus
Norgesveien S.L.	Aladdin Oil & Gas Company ASA	100%	Spain
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	Russia
OOO KOMI Drilling	Larchbay Traders & Consultants Ltd.	100%	Russia
ZAO YuK Perspectiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
ZAO Orneftegaz	ZAO YuK Perspectiva	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia
1 January 2009			
Larchbay Traders & Consultants Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Aladdin Oil & Gas (Cyprus) Ltd.	Aladdin Oil & Gas Company ASA	100%	Cyprus
Stikito Limited	Aladdin Oil & Gas Company ASA	100%	Cyprus
Norgesveien S.L.	Aladdin Oil & Gas Company ASA	100%	Spain
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	Russia
OOO KOMI Drilling	Larchbay Traders & Consultants Ltd.	100%	Russia
ZAO YuK Perspectiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
ZAO Orneftegaz	ZAO YuK Perspectiva	100%	Russia

Norgesveien S.L. was sold in 2010. The sale did not result in a gain or loss.

Note 3. Business combinations

On 5 May 2009 Stikito Limited, a subsidiary of the Group, acquired LLC Veselovskoe for a cash consideration of MNOK 7.0. Transaction costs incurred on acquisition amounted to MNOK 1.2. LLC Veselovskoye is developing a number of oil deposits in Orenburg region.

In 2010 the Group completed independent appraisal of the net identifiable assets and liabilities acquired, which is presented below:

	Note	Carrying value at date of acquisition	Fair value adjustments	Fair value at the date of acquisition
Licenses		-	15,840	15,840
Property, plant and equipment	10	1,469	-	1,469
Exploration and evaluation assets	11	6,689	-	6,689
Current assets		2,364	-	2,364
Debt		(14,907)	-	(14,907)
Deferred income tax liabilities		-	(3,168)	(3,168)
Net identifiable assets		**(4,385)**	**12,672**	**8,287**
Total purchase consideration				**8,287**
Less: Cash and cash equivalents of subsidiary acquired				(5)
Outflow of cash and cash equivalents on acquisition				**8,282**

Note 4. Cost of sales

	Year ended 31 December 2010	Year ended 31 December 2009
Depreciation, depletion and amortization	8,175	1,226
Mineral tax	5,182	2,814
Repair and maintenance	2,446	4,061
Employee’s remuneration	2,147	2,249
Geological and geophysical exploration costs	1,310	1,937
Rent	722	1,194
Materials and supplies	502	726
Security	382	276
Utilities	380	272
Transportation services	175	870
Changes in finished goods	(26)	(114)
Other cost of sales	1,240	933
Total cost of sales	**22,635**	**16,444**

Note 5. General and administrative expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Employees remuneration	14,832	13,873
Consulting costs	11,430	13,339
Business trip expenses	2,074	2,204
Representative expenses	2,025	1,135
Rent	1,955	2,249
Materials and supplies	1,227	719
Communication services	655	799
Engineering services	605	722
Allowance for doubtful debts	586	489
Transportation services	485	352
Fines and penalties	436	242

Bank charges	435	463
Taxes other than income tax	397	574
Depreciation and amortization	395	453
Management expenses	216	427
Other administrative expenses	1,399	1,931
Total general and administrative expenses	**39,152**	**39,971**

Note 6. Finance expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense	11,512	18,817
Interest income	(145)	(5,125)
Other	379	737
Total finance expenses	**11,746**	**14,429**

Note 7. Foreign exchange loss

For the year ended 31 December 2009 foreign exchange loss in the amount of MNOK 46.5 was mainly related to the intercompany loans received by Larchbay Traders & Consultants Ltd. and Aladdin Cyprus ASA from Aladdin Oil & Gas Company ASA.

Note 8. Income tax

Tax expense	31 December 2010	31 December 2009
Tax payable	(456)	(223)
Change in deferred tax	(506)	13,308
Tax (expense) / benefit	**(962)**	**13,085**

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2010	Year ended 31 December 2009
Loss before income tax	**(60,682)**	**(184,280)**
Theoretical tax charge at tax rate 28% applicable to Parent Company	16,991	51,598
Effect of tax rates in different jurisdictions	(4,263)	(18,348)
Unrecognised deferred tax assets	(5,494)	(16,169)
Permanent difference related to Cyprus Companies	(3,120)	(4,297)
Permanent difference related to Russian Companies	(4,659)	(1,079)
Other unrecognised deferred (income)/expense tax asset movements	(417)	1,380
Total income tax (expense) / benefit	**(962)**	**13,085**

	31 December 2010	31 December 2009	1 January 2009	Change 2010	Change 2009
Licenses	142,157	140,854	227,562	1,303	(86,708)
Property, plant and equipment	-	-	-	-	-
Exploration and evaluation assets	-	1,434	-	-	1,434
Other	779	18	-	760	18

Total temporary differences	**142,936**	**140,872**	**227,562**	**2,063**	**(86,690)**
Basis deferred tax	**142,936**	**140,872**	**227,562**	**2,063**	**(86,690)**
Deferred tax liability (Russia)	(30,572)	(29,859)	(46,855)	(713)	16,996
Deferred tax asset (Russia)	-	-	-	-	-
Net deferred tax	**(30,572)**	**(29,859)**	**(46,855)**	**(713)**	**16,996**
Deferred tax asset not recognized in the consolidated balance sheet	**28,312**	**23,625**	**17,010**		

The table below states the income tax rates applicable for the Group's subsidiaries and Parent Company:

	Year ended 31 December 2010	Year ended 31 December 2009
Parent Company	28%	28%
Russian subsidiaries	20%	20%
Cyprus subsidiaries	10%	10%

Note 9. Licenses

	Year ended 31 December
As at 1 January 2009	**227,562**
Acquisition through business combination	15,840
Depletion	(93)
Impairment	(57,991)
Effect of translation to presentation currency	(44,557)
As at 31 December 2009	**140,761**
Depletion	(4,465)
Impairment	(429)
Effect of translation to presentation currency	1,817
As at 31 December 2010	**137,684**

Each year the company assesses if there are indicators of impairment related to the Company's intangible assets.

The license for ZAO Orneftegaz expired as at 31 December 2010. The Company's Board of directors decided not to apply for the extension of the license and to cease the development of the Bogdanovskoye field. As a result an impairment loss related to the license was recognized in the amount of MNOK 57.9 for the year ended 31 December 2009.

Note 10. Property, plant and equipment

	Oil and gas properties	Machinery and equipment	Other	Total
Cost				
Opening balance as at 1 January 2009	**12,817**	**7,257**	**2,787**	**22,861**
Additions	227	138	126	491
Transfers from exploration and evaluation assets	13	-	4	17
Disposals	(623)	(254)	(41)	(918)
Acquisition through business combinations	1,469	-	-	1,469
Effect of translation to presentation currency	(2,568)	(1,432)	(570)	(4,570)
Closing balance as at 31 December 2009	**11,335**	**5,709**	**2,306**	**19,350**
Additions	585	275	348	1,208
Transfers from exploration and evaluation assets	31,395	324	230	31,949
Disposals	(651)	(129)	(1,504)	(2,284)
Effect of translation to presentation currency	(900)	46	32	(822)
Closing balance as at 31 December 2010	**41,764**	**6,225**	**1,412**	**49,401**

Accumulated depreciation (including impairment)				
Opening balance as at 1 January 2009	**-**	**(2,660)**	**(720)**	**(3,380)**
Charge for the period	(1,203)	(1,132)	(420)	(2,755)
Impairment	(8,618)	-	-	(8,618)
Disposals	19	105	22	146
Effect of translation to presentation currency	36	562	155	753
Closing balance as at 31 December 2009	**(9,766)**	**(3,125)**	**(963)**	**(13,854)**
Charge for the period	(2,961)	(1,193)	(343)	(4,497)
Disposals	968	21	600	1,589
Effect of translation to presentation currency	53	-	(17)	36
Closing balance as at 31 December 2010	**(11,706)**	**(4,297)**	**(723)**	**(16,726)**
Net book value as at 1 January 2009	**12,817**	**4,597**	**2,067**	**19,481**
Net book value as at 31 December 2009	**1,569**	**2,584**	**1,343**	**5,496**
Net book value as at 31 December 2010	**30,058**	**1,928**	**689**	**32,675**

Impairment charge for the year ended 31 December 2009 amounted to MNOK 8.6 and relates to the impairment of property, plant and equipment of ZAO Orneftegaz due to its abandonment

Note 11. Exploration and evaluation assets

	Year ended 31 December
As at 1 January 2009	**48,213**
Additions	35,644
Transfers to property, plant and equipment	(17)
Exploration and evaluation costs written-off as unsuccessful	(6,387)
Acquisition through business combination	6,689
Effect of translation to presentation currency	(11,971)
As at 31 December 2009	**72,171**
Additions	8,784
Transfers to property, plant and equipment	(31,949)
Disposal	(24)
Exploration and evaluation costs written-off as unsuccessful	(1,827)
Effect of translation to presentation currency	1,394
As at 31 December 2010	**48,549**

In 2010 the Group's management decided not to continue development of Khersonskoye deposit. As a result, impairment in the amount of MNOK 1.8 was recognized as of 31 December 2010.

Additions to exploration and evaluation assets included capitalised depreciation in the amount of MNOK 0.4 (for the year ended 31 December 2009: MNOK 1.2).

Note 12. Cash and cash equivalents

	31 December 2010	**31 December 2009**	**1 January 2009**
Cash at bank	3,773	10,750	5,616
Cash on hand	1	10	102
Bank deposits with maturity less than 3 months	60	60	0
Restricted cash	623	360	338
Total cash and cash equivalents	**4,457**	**11,180**	**6,056**

(in thousand NOK unless noted otherwise)

Restricted cash represents an amount reserved for tax deductions from employee's salary under the Norwegian law requirements.

Note 13. Accounts receivable and prepayments

	31 December 2010	31 December 2009	1 January 2009
Trade receivables	1,708	213	48
Allowances for doubtful debts	(54)	-	-
Total trade receivables	**1,654**	**213**	**48**
Advances to suppliers and prepayments	2,123	1,515	703
Allowances for doubtful debts	(1,623)	(1,096)	-
VAT recoverable	813	3,331	8,621
Income tax receivable	407	474	73
Prepaid taxes	224	244	14
Allowances for doubtful debts	(5)	(5)	-
Other receivables	763	987	821
Total other receivables	**2,702**	**5,450**	**10,232**
Total accounts receivable and prepayments	**4,356**	**5,663**	**10,280**

Note 14. Inventories

	31 December 2010	31 December 2009	1 January 2009
Materials and supplies	653	2,662	2,163
Finished goods	140	114	-
Total inventories	**793**	**2,776**	**2,163**

Note 15. Share capital

	31 December 2010	31 December 2009	1 January 2009
Number of issued ordinary shares	1,751,511,860	57,700,610	22,617,680
Par value (in NOK)	0.10	0.10	0.10

Fully paid-in ordinary share capital

	Number of shares registered	Number of shares unregistered
Balance at 1 January 2009	**22,617,680**	**-**
Issue of shares	35,082,930	-
Issue of shares unregistered	-	35,721,257
Effect of Share Option Programme	-	3,180,000
Balance at 31 December 2009	**57,700,610**	**38,901,257**
Registered share issue 2009	35,721,257	(35,721,257)
Issue of shares	330,704,150	-
Issue of shares under conversion of bonds	1,184,527,433	-
Issue of shares under conversion of loan from Lakeshore (Note 17)	142,858,410	-
Effect of Share Option Programme	-	4,828,000
Balance at 31 December 2010	**1,751,511,860**	**8,008,000**

Share issues. During 2009 the Company issued and registered 35,082,930 shares. 8,475,177 shares were issued at NOK 7.70 per share, 60,089,010 shares were issued at NOK 0.50 per share and 2,240,000 shares were issued at NOK 0.25 per share. Out of total share issue in 2009 35,721,257 shares were not officially registered as of 31 December 2009 and were presented as other paid-in capital. As of 31 December 2009 all shares were fully paid.

(in thousand NOK unless noted otherwise)

In December 2009 the Company adopted a capital increase of 35,721,257 shares which resulted in decrease in other paid-in capital as stated above. The share issue was officially registered on 31 January 2010. The subscription price was NOK 0.50 per share. Shares were fully paid in 2009.

During 2010 the Company carried out a capital increase of 330,704,150 shares at par value. All shares were fully paid.

On 31 July 2010 the Company carried out a capital increase of 1,184,527,433 shares by the conversion of the bond debt (Note 17). The details of the conversion are provided in the table below:

	Bonds NOK 50 million	**Bonds NOK 37.5 million**	**Bonds NOK 27.5 million**	**Total**
Principal conversion				
Principal amount of bond, NOK	50,000,000	37,500,000	27,500,000	115,000,000
Conversion price per share, NOK	0.105	0.115	0.10	-
Number of shares converted	476,190,476	326,086,957	275,000,000	1,077,277,433
Interest conversion				
Interest accrued, NOK	3,250,000	4,312,500	3,162,500	10,725,000
Conversion price per share, NOK	0.10	0.10	0.10	-
Number of shares converted	32,500,000	43,125,000	31,625,000	107,250,000
Total number of shares converted	**508,690,476**	**369,211,957**	**306,625,000**	**1,184,527,433**

On 31 July 2010 the Company carried out a capital increase of 142,858,410 shares by the conversion of the loan debt from Lakeshore International Buyout Fund Limited at par value (Note 17).

Fully paid ordinary shares, which have a par value of NOK 0.10, carry one vote per share and carry a right to dividends.

Company's 20 largest shareholders as of 31 December 2010:

	Number of shares	**Country**	**% of ownership**
Waterford Finance & Invest. Limited	1,034,615,355	Guernsey	59.07
MP Pensjon PK	79,224,667	Norway	4.52
Andoskin	64,112,800	Russia	3.66
Bank of New York Mellon SA/NV	60,368,824	Belgium	3.45
Tollefsen	54,119,048	Norway	3.09
Hveem	50,658,696	Norway	2.89
Haadem Invest AS	47,040,217	Norway	2.69
Six Sis AG	36,996,977	Swiss	2.11
Fairview Finance & Investment Limited	21,375,150	British Virgine Islands	1.22
Baal	16,012,976	Singapore	0.91
Hagen	14,553,693	Norway	0.83
Aadvanced Control Engineering AS	14,131,366	Norway	0.81
Fyffe	12,422,000	Singapore	0.71
Stormskjold Tall AS	9,845,652	Norway	0.56
Skeie Alpha Invest AS	9,605,810	Norway	0.55
Totenkopf AS	9,525,652	Norway	0.54
Sundby Holding AS	9,432,698	Norway	0.54
Elander	8,540,462	Norway	0.49
Subtotal	**1,552,582,043**		**88.6**
Other shareholders	198,929,817		11.4
Total issued shares as of 31 December 2010	**1,751,511,860**		**100.00**

Share option programme. In October 2009 the Company's Board of Directors approved the Share Option Programme of the Company (hereinafter referred to as "the Programme"), in which the Group's key executive management are participants (hereinafter referred to as "the Programme participants").

A total of up to 3,180,000 ordinary shares (hereinafter referred to as "Tranche 1") were allocated under the Programme on 5 October 2009 with a strike price of NOK 0.55 per share. All the options granted are American (style) options that may be exercised at any time before the expiry date of the option.

The estimate of the fair value of the services received was measured based on the Ross, Cox and Rubinstein's option pricing model. Valuation of the option was made on the assumption of positive trend in the share value, equation of the share price and exercise price and that all option holders choose to exercise the options. The estimate of the fair value of the options is presented in the table below:

	Original value calculated
Share price (in NOK)	0.55
Exercise price (in NOK)	0.55
Expected volatility (%)	100
Option life (years)	3
Risk-free interest rate (%)	3.1
Fair value of the option at measurement date (in NOK)	**0.22**

Total estimated expense for the year ended 31 December 2009 amounted to MNOK 0.7 and were recognized in equity.

On 18 February 2010 and 31 March 2010 the Group granted 2,028,000 share options (hereinafter referred to as "Tranche 2") and 2,800,000 share options (hereinafter referred to as "Tranche 3") respectively under the new share option programme. The strike price for Tranche 2 and Tranche 3 was set at NOK 1.00 and NOK 0.80 respectively. All the options granted are American (style) options. The period of the share option programme is 3 years for both tranches.

The estimate of the fair value of the options is presented in the table below:

	Tranche 2	Tranche 3
Share price (in NOK)	1.00	0.80
Exercise price (in NOK)	1.00	0.80
Expected volatility (%)	75	75
Option life (years)	3	3
Risk-free interest rate (%)	3.55	3.55
Fair value of the option at measurement date (in NOK)	**0.51**	**0.41**

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme
Number of options as at 1 January 2009	**-**
Options granted in 2009	3,180,000
Options forfeited in 2009	-
Number of options as at 31 December 2010	**3,180,000**
Options granted in 2010	4,828,000
Options forfeited in 2010	**-**
Number of options outstanding as at 31 December 2010	**8,008,000**

(in thousand NOK unless noted otherwise)

Number of options with the breakdown of employees is provided below:

	31 December 2010	31 December 2009
Espen Glende	2,175,000	800,000
Hans-Axel Jahren	1,850,000	800,000
Einar Askvig	1,873,000	540,000
Niclas Biørnstad	475,000	200,000
Sverre Monsen	200,000	200,000
Geir Ytreland	225,000	120,000
Lena Hansen	130,000	50,000
Sergei Sorokin	75,000	75,000
Luis Diaz Martinez	175,000	75,000
Philip Vorobyrov	300,000	120,000
Knut Tollefsen	115,000	40,000
Rudolf Stäger	75,000	40,000
Samuel Kvernes	65,000	40,000
Inger Flesland Strass	75,000	40,000
Anne Johanne Botterud	75,000	40,000
Kevin Sarstedt, Ukhta	25,000	-
Jørn Barkenæs	100,000	-
Total	**8,008,000**	**3,180,000**

Note 16. Pension arrangement

The parent company is required to have a pension arrangement in accordance with the Mandatory Service Pension Act. The parent company's pension arrangement is in accordance with the requirements of the Act. A total of NOK 128 681 has been paid related to pension for parent company. Pension arrangements in Russian subsidiaries are represented by unified social tax charges.

Note 17. Current and non-current debt

	31 December 2010	31 December 2009	1 January 2009
Non-current debt			
Bonds	-	57,826	50,571
Long-term loan	3,116	3,295	3,989
Interest	1,173	922	838
Total	**4,289**	**62,043**	**55,398**
Current debt			
Short-term loans	72	36	-
Bonds	-	49,623	48,323
Interest	-	6,971	4,985
Total	**72**	**56,630**	**53,308**

Bonds NOK 50 million. On 7 December 2007 the Company issued bonds with the total value of NOK 50 million. The bonds were sold at a par value of NOK 500,000 each. The interest rate was fixed at 13 percent per annum. The interest is payable every six months. The bonds were repayable on 10 December 2009 at par value. On 7 August 2009 the maturity date was extended to 10 December 2010. The loan is secured by a first priority pledge over the shares in the subsidiaries Aladdin Oil & Gas Cyprus and Larchbay Traders & consultants Ltd (Cyprus), and a first priority pledge over the inter company loans to the Cyprus Subsidiaries and the Russian Subsidiaries. The bond issue proceeds were used to finance expenses directly related to the development of exploration and production licenses owned by the Russian subsidiaries.

In relation to the bond issue 3,000,000 warrants were issued(expired 2010). For each warrant the warrant holder is entitled to subscribe for new shares. Each warrant holder is entitled to receive one share per each warrant at the exercise price of NOK 27.50.

In July 2010 the Board of Directors proposed a restructuring of debt by conversion the bond issues to the shares of the Company. The entire outstanding principal amount of NOK 50 million was converted to 476,190,476 shares at price of NOK 0.105 per share. As of 10 June 2010 the outstanding interest of NOK 3,250,000 was converted to 32,500,000 shares at a price of NOK 0.10 per share. The conversion was performed in order to improve the Group's liquidity.

Bonds NOK 65 million. In 2007 the Company issued bonds with the total value of NOK 65 million. The bonds were sold at a par value of NOK 100,000 each. The interest rate is fixed at 11.5 percent per annum. The interest is payable annually. The bonds are repayable on 2 May 2009 at par value. The bond issue proceeds were used for general financing purpose. In November 2009 the bond loan of NOK 65 million was restructured by splitting into two bonds:

- NOK 27.5 million. Issued bonds had the same unchanged conditions of the original loan. Maturity date was extended to 2 May 2012. Loan is to be repaid on maturity date at 103 per cent par. The loan is secured by the shares in the Stikito Ltd.

  According to restructuring in July 2010 the entire outstanding principal amount of NOK 27.5 million was converted to 275,000,000 shares at price of NOK 0.10 per share. As of 2 May 2010 the outstanding interest of NOK 3,162,500 was converted to 31,625,000 shares at a price of NOK 0.10 per share.

- NOK 37.5 million. Issued bonds had the same unchanged conditions of the original loan except for extended maturity date to 2 May 2011. The bond loan was not secured.

  In relation to the bond issue 2,177,500 warrants were issued. For each warrant the warrant holder is entitled to subscribe for new shares. Each warrant holder is entitled to receive one share per each warrant at the exercise price of NOK 18.90.

- According to restructuring in July 2010 the entire outstanding principal amount of NOK 37.5 million was converted to 326,086,957 shares at price of NOK 0.115 per share. As of 2 May 2010 the outstanding interest of NOK 4,312,500 was converted to 43,125,000 shares at a price of NOK 0.10 per share.

Lakeshore loan. On 4 June 2010 the Company received a loan in amount of MUSD 0.5 from Lakeshore International Buyout Fund Limited. The loan was used to finance current operational expenses. The loan was redeemed in full in July 2010 by conversion of loan debt to equity shares at a price NOK 0.10 per share.

LB - Havreholm loans. On 5 August 2002 the Group received a loan of MUSD 0.567 from Havreholm AS. The annual interest rate is 7%. As per the loan agreement the maturity date is not stated, the Group shall repay the loan as soon as OOO Geotechnologia has sufficient cash flow from oil production. The purpose of the loan is to finance drilling of wells on OOO Geotechnologia. The loan is unsecured.

As of 31 December 2010, 2009 and 2008 fair value of the bonds and loans approximates its carrying value.

(in thousand NOK unless noted otherwise)

Note 18. Asset retirement obligation

As at 1 January 2009	**5,057**
Business combination	2,084
Additional provisions recognized	129
Increase resulting from changes in estimates	1,858
Reductions arising from payments	(539)
Unwinding of discount	635
Effect of translation	(1,123)
As at 31 December 2009	**8,101**
Additional provisions recognized	-
Reductions resulting from changes in estimates	(13)
Reductions arising from payments	(538)
Unwinding of discount	603
Effect of translation	73
As at 31 December 2010	**8,226**

The management of the Group has evaluated the expenditures for environmental restoration until 2028 - 2031 based on the interpretation of the existing license agreements and in accordance with IAS 37, *Provisions, contingent liabilities and contingent assets*. As at 31 December 2010 discount rate used to calculate liabilities was 7.4 percent, (as at 31 December 2009 and 31 December 2008 discount rates amounted to 8.5 percent and 11.2 percent respectively), is an actual pre-tax rate, the application of which the Group considers reasonable in the current economic situation in Russian Federation at the reporting date. The relevant asset has been included in Oil and gas properties as part of the property, plant and equipment and in exploration and evaluation assets.

Note 19. Accounts payable and accruals

	31 December 2010	**31 December 2009**	**1 January 2009**
Trade accounts payable	14,654	20,402	9,014
Total trade accounts payable	**14,654**	**20,402**	**9,014**
Advances received	1,123	177	34
Tax provision	501	497	-
Salary payable	400	344	492
Other payables	3,393	4,840	1,386
Total other payables	**5,417**	**5,858**	**1,912**
Total accounts payable and accruals	**20,071**	**26,260**	**10,926**

Note 20. Earnings per share

Basis for calculation	**Note**	**31 December 2010**	**31 December 2009**
Loss for the period		**(61,644)**	**(171,195)**
Weighted average number of ordinary shares		**781,852,157**	**42,165,582**
Effect of warrants attached to bond		2.177,500-	5,177,500
Effect of stock options	15	8,008,000	3,180,000
Total shares		**792,037,657**	**50,523,082**
Loss per ordinary share - basic		(0.08)	(4.06)
Loss per ordinary share - diluted		(0.08)	(3.39)

Note 21. Related party transactions

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties are Companies within the group (Note 2), key management personnel (Note 15, 22, 28) and shareholders (Note 15).

(in thousand NOK unless noted otherwise)

No significant transactions with related parties took place as of 31 December 2010 except for travel expenses to Waterford Finance & Investment Ltd. (shareholder to the Parent) in the amount of NOK 249 thousand.

Note 22. Employees' remuneration

In accordance with Section 6-16a, cf. Section 5-6, third subsection, of the Norwegian Public Limited Liability Companies Act, the General Meeting of the Company shall consider the statement by the Board of Directors regarding determination of salary and other remuneration to the managing director and senior employees for the coming fiscal year. The Board of Directors of the Company will propose the following statement for the Annual General Meeting to consider:

The Remuneration Committee. The Company, by the Board of Directors, established a Remuneration Committee 2011 which shall consider questions related to the compensation to the managing director and key employees. When determining the methods that shall be used for evaluating the remuneration and possible bonus, share based and other incentive schemes, the Remuneration Committee shall ensure that the size of the remuneration reflects the duties and responsibilities of the employees, and that the implemented schemes, if any, also shall contribute to the long-term value added for the Company's shareholders.

Base salary. The total sum of salary to be offered the key management shall be competitive in comparison with comparable positions in comparable companies. The Remuneration Committee is the advisory corporate body of the Board of Directors in relation to the determination of the salary and other remuneration for the key management of the Company.

Determination of salary and other remuneration of the managing director and of the key management will be performed by the Board of Directors, in collaboration with the Remuneration Committee.

Variable elements. In addition to fixed salary, the Company has a bonus arrangement for a few designated key employees in order to keep management priorities in accordance with goals and strategies, set by the Board of Directors.

Pensions schemes and payment in kind. The key management of the Company takes part in the pension scheme of the Company (as applicable from time to time) and receives payment in kind on the terms and conditions as the other employees of the Company.

Incentive schemes. The share-based incentive scheme comprises of freestanding subscription rights (warrants) in favour of the Directors and other persons affiliated with the Company (non-Directors), which grant the holder a right to subscribe for shares in the Company if the pre-determined terms and conditions are satisfied.

Aladdin Oil & Gas Company ASA issued first half of 2011 1,638,500 of freestanding subscription rights (warrants) to the below specified Directors and designated persons affiliated with the Company (non-Directors):

Name	**The freestanding subscription rights (warrants) - number**
Directors	
Frederick Ponsonby	108,750
Artur Rastrogin	108,750
Mikhail Alyautdinov	108,750
Einar Lyche	72,500
Katherine Støvring	72,500
Total number of freestanding subscription rights (warrants) - directors	**471,250**
Alexey Kruzhkov	108,750

(in thousand NOK unless noted otherwise)

Nikolay Piskun	217,500
Andrey Lavka	195,750
Roman Krotov	181,250
Nikolai Zateev	181,250
Timur Alyautdinov	65,250
Espen Glende	217,500
Total number of freestanding subscription rights (warrants) - Other persons affiliated with the Company (non-Directors)	**1,167,200**
Total	**1,638,500**

Each freestanding subscription right (warrant) shall entitle the holder to demand one ordinary share in the Company at a strike price of NOK 4. No compensation to the Company shall be paid by the Directors or designated persons for the freestanding subscription rights (warrants).
Vesting period:
The vesting schedule for the freestanding subscription rights (warrants) shall be:

- 50% of the issued warrants on 1st June 2012; and
- 50% of the issued warrants on 1st January 2013;

however, the Board of Directors of the Company, with the support of the Remuneration Committee, may decide to establish an accelerated vesting schedule in respect of the designated person affiliated with the Company (non-Directors) in question subject to the fulfilment of the terms and conditions in respect of the designated person affiliated with the Company (non-Directors), but no earlier than 1st January 2012.

All of the non-vested freestanding subscription rights (warrants) shall lapse if a Director or a designated person in question ceases to be a Director or senior employee of the Company or a person engaged by the Company on a consultant-for-hire contract, as the case may be, prior to each vesting period, unless the cessation is due to any of the following reasons:

(i) non-election of a Director by the General Meeting of the Company; or
(ii) the Company terminates the contract of a senior employee by serving notice (in accordance with the terms and conditions of the contract) in circumstances where the senior employee in question is not in breach, nor has been in breach, of the employment contract; or
(iii) dismissal by the Company of a senior employee which is determined by an employment tribunal or at a court of competent jurisdiction from which there is no right to appeal to be wrongful or without cause;
(iv) the expiration of the contract of a person engaged on a consultant-for-hire basis in circumstances where the person in question is not in material breach, nor has been in material breach, of the consultant-for-hire contract; or
(v) death; or
(vi) permanent incapacity.

The freestanding subscription rights (warrants) granted to the designated person affiliated with the Company are subject to the material fulfilment of the expected results of the 2011 work program for the Company as approved by the Board of Directors:

(i) Total production in December 2011 being 2000 boepd or higher; and
(ii) Total 2P reserves being 70 mmboe or higher on or around 31 December 2011; and
(iii) Annual consolidated revenue for 2011 being US$ 11.1mln; and
(iv) Annual consolidated EBITDA for 2011 being US$ 2.4mln.

The freestanding subscription rights (warrants) are also subject to closing price of the Shares at the OTC list of the Norwegian Securities Dealers Association being NOK 6 or higher on average for 30 trading days preceding the final dealing day prior to or on 31 December 2011.

(in thousand NOK unless noted otherwise)

The Group also makes use of share options programs which are described in Note 15.

Type of remuneration	Year ended 31 December 2010	Year ended 31 December 2009
Salaries	13,846	12,397
Social security tax	2,242	2,336
Other benefits	854	1,318
Other cost	37	71
Total employees' remuneration	**16,979**	**16,122**
Employees y.e	**72**	**119**

Information on remuneration type of key management personal is provided below:

	Title	From	To	Salary	Remuneration	Other expenses
Year ended 31 December 2010						
Hans Axel Jahren	VP business development	01.01.2010	31.12.2010	1,930	-	8
Pål Nedrelid	CEO	01.01.2010	31.01.2010	191	-	-
Einar Askvig	CEO	01.01.2010	31.08.2010	66	-	-
Alexey Kruzhkov	CEO	22.10.2010	31.12.2010	-	-	-
Jørn Barkenæs	CFO	01.01.2010	31.12.2010	735	-	8
Espen Glende	COO	01.01.2010	31.12.2010	1,485	-	43
Einar Askvig	Chairman	01.01.2009	20.07.2010	121	113	123
Anne-Johanne Botterud	Board member	01.01.2009	20.07.2010	84	-	-
Samuel L. Kværnes	Board member	01.01.2009	20.07.2010	57	-	-
Inger F. Strass	Board member	01.01.2009	20.07.2010	57	-	-
Total				**4,725**	**113**	**182**

The COO and CFO have under given terms 3-6 months salary after the end of employment in addition to normal notice period.

	Title	From	To	Salary	Remuneration	Other expenses
Year ended 31 December 2009						
Hans Axel Jahren	CEO	01.01.2009	31.05.2009	578	-	29
Hans Axel Jahren	VP business development	01.06.2009	31.12.2009	592	-	-
Pål Nedrelid	CEO	01.06.2009	15.11.2009	658	-	-
Einar Askvig	CEO	15.11.2009	31.12.2009	116	-	-
Jørn Barkenæs	CFO	01.09.2009	31.12.2009	243	-	-
Espen Glende	COO	01.01.2009	31.12.2009	1,125	-	64
Einar Askvig	Chairman	01.01.2009	31.12.2009	50	848	68
Cecilie D. Simonsen	Board member	01.01.2009	26.05.2009	38	-	-
Samuel L. Kværnes	Board member	01.01.2009	31.12.2009	50	-	-
Inger F. Strass	Board member	01.01.2009	31.12.2009	50	-	-
Total				**3,500**	**848**	**161**

(in thousand NOK unless noted otherwise)

Note 23. Auditors' fee

The numbers below are booked in 2010 and relates to the previous auditor BDO. Deloitte was appointed new auditor In 2011.
All amounts exclude VAT.

Year ended 31 December 2010	Audit	Audit related	Other services	Tax related	Total
Norway	167	92	372	65	676
Outside Norway	888	-	272	-	1,160
Total	**1,055**	**92**	**644**	**65**	**1,856**

Year ended 31 December 2009	Audit	Audit related	Other services	Tax related	Total
Norway	365	92	109	58	624
Outside Norway	1,049	-	350	-	1,399
Total	**1,414**	**92**	**459**	**58**	**2,023**

Note 24. Restated income statement and balance sheet

Restatement of the financial statements for the year ended 31 December 2009. During the reporting period a detailed review of the Group's consolidated financial statements and accounting policies for the year ended 31 December 2009 was carried out under which certain errors were identified and, subsequently, adjusted in these financial statements in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, as follows.

The revised IAS 1, *Presentation of Financial Statement*, effective from 1 January 2009, requires an entity to present a balance sheet position as at the beginning of the earliest comparative period ('opening balance sheet'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The requirement to present the additional opening balance sheet, when the entity has made a restatement or reclassification, extends to the information in the related notes.

The preparation of the consolidated financial statements for the year ended 31 December 2009 and as of 1 January 2009 revealed errors in the reported amounts. As a result, the Income Statement for the year ended 31 December 2009 and Balance sheet as of 31 December 2009 and 2008 have been restated. The changes are presented below:

The Groups' management has decided to change presentation of income statement from presentation by nature to presentation by function.

Consolidated Income Statement for the year ended 31 December 2009

	Year ended 31 December 2009 before restatement	General and administrative expenses	Effect of translation to presentation currency reserve	Impairment of property, plant and equipment	Exploration and evaluative assets impaired in 2008	Other	Year ended 31 December 2009 restated
OPERATING REVENUE AND OPERATING EXPENSES							
Revenue	6,423	-	-	-	-	(24)	6,399
Cost of sales	(55,964)	39,971	-	-	-	(451)	(16,444)
Impairment of exploration and evaluation assets	(70,078)	-	-	-	7,018	(9,936)	(72,996)
Gross loss	**(119,619)**	**39,971**	**-**	**-**	**7,018**	**(10,411)**	**(83,041)**
General and administrative expenses	-	(39,971)	-	-	-	-	(39,971)
Operating loss	**(119,619)**	-	-	**-**	**7,018**	**(10,411)**	**(123,012)**
FINANCIAL INCOME AND FINANCIAL EXPENSES							
Finance expenses, net	(11,608)	-	-	-	-	(2,821)	(14,429)
Foreign exchange gain / (loss)	(59,896)	-	10,569	-	-	2,788	(46,539)
Other income / (expense)	595	-	-	**-**	-	(895)	(300)
Financial items, net	**(70,909)**	**-**	**10,569**	**-**	**-**	**(928)**	**(61,268)**
Loss before income tax	**(190,528)**	**-**	**10,569**	**-**	**7,018**	**(11,339)**	**(184,280)**
Income tax benefit	5,763	-	-	4,950		2,372	13,085
Loss for the period	**(184,765)**	-	**10,569**	**4,950**	**7,018**	**(8,967)**	**(171,195)**

Impact of errors identified and reclassifications made

1. Reclassification of general and administrative expenses

For the year ended 31 December 2009 general and administrative expenses were reclassified from operating expenses in amount of MNOK 40.0.

2. Impact of errors in currency translation

The restatement of Consolidated Balance Sheet and Consolidated Income Statement for the year ended 31 December 2009 resulted in overestimation of effect of translation to presentation currency reserve in amount of MNOK 10,6.

3. Impact of errors in impairment of property, plant and equipment

As at 31 December 2009 as a result of the decision of the Group's management to cease operations of ZAO Orneftegaz, an impairment loss of property, plant and equipment was recognized as stated above. As a result deferred tax was adjusted in the amount of MNOK 5.0.

4. Exploration and evaluation assets impairment

As at 31 December 2008 the impairment of 4 wells was recognized in OOO Geotechnologia which resulted in the reduction of the impairment charge in the amount of MNOK 7.0 for the year ended 31 December 2009.

5. Impact of other errors

Other errors did not have a material impact on the Consolidated Income Statement.

(in thousand NOK unless noted otherwise)

Balance sheet as at 31 December 2009

		Adjustments to					
	31 December 2009 before restatement	Intangible assets	Assets retirement obligation	Exploration and evaluation assets	Impairment of fixed assets	Other	**31 December 2009 restated**
ASSETS							
Non-current assets							
Intangible assets							
Licenses	94,253	46,508	-	-	-	-	140,761
Goodwill	37,674	(37,674)	-	-	-	-	-
Exploration and evaluation assets	56,718	-	6,069	18,142	(8,758)	-	72,171
Total intangible assets	**188,644**	**8,834**	**6,069**	**18,142**	**(8,758)**	**-**	**212,932**
Tangible fixed assets							
Oil and gas properties	8,131	-	334	-	(8,618)	1,722	1,569
Machinery and equipment	2,584	-	-	-	-	-	2,584
Other property, plant and equipment	1,343	-	-	-	-	-	1,343
Other non-current assets	350	-	-	-	-	(136)	214
Total tangible fixed assets	**12,408**	**-**	**334**	**-**	**(8,618)**	**1,586**	**5,710**
Total non-current assets	**201,053**	**8,834**	**6,403**	**18,142**	**(17,376)**	**1,586**	**218,642**
Current assets							
Cash and cash equivalents	**10,977**	**-**	**-**	**-**	**-**	**203**	**11,180**
Trade receivables	213	-	-	-	-	-	213
Other receivables	7,141	-	-	-	-	(1,691)	5,450
Total accounts receivable and prepayments	**7,354**	**-**	**-**	**-**	**-**	**(1,691)**	**5,663**
Inventories	**8,105**	**-**	**-**	**-**	**-**	**(5,329)**	**2,776**
Other current assets	**640**	**-**	**-**	**-**	**-**	**(640)**	**-**
Total current assets	**27,076**	**-**	**-**	**-**	**-**	**(7,457)**	**19,619**
TOTAL ASSETS	**228,129**	**8,834**	**6,403**	**18,142**	**(17,376)**	**(5,871)**	**238,261**
SHAREHOLDERS EQUITY AND LIABILITIES							
Shareholders equity							
Paid-in capital							
Share capital (57,700,610 shares at NOK 0.1)	5,770	-	-	-	-	-	5,770
Share premium	297,826	-	-	-	-	-	297,826
Paid-in capital	40,520	-	-	-	-	-	40,520
Total paid-in capital	**344,116**	**-**	**-**	**-**	**-**	**-**	**344,116**
Retained earnings							
Effect of translation to presentation currency	842	-	-	-	-	(11,220)	(10,378)
Retained earnings and other reserves	(285,260)	(2,712)	(1,698)	18,142	(17,376)	7,784	(281,120)
Total retained earnings	**(284,418)**	**(2,712)**	**(1,698)**	**18,142**	**(17,376)**	**(3,436)**	**(291,498)**
TOTAL SHAREHOLDERS EQUITY	**59,698**	**(2,712)**	**(1,698)**	**18,142**	**(17,376)**	**(3,436)**	**52,618**

Liabilities							
Provisions for liabilities and charges							
Deferred income tax liabilities	18,313	11,546	-	-	-	-	29,859
Asset retirement obligation	-	-	8,101	-	-	-	8,101
Total provisions for liabilities and charges	**18,313**	**11,546**	**8,101**	**-**	**-**	**-**	**37,960**
Bonds	59,260	-	-	-	-	(1,434)	57,826
Long-term loan	3,295	-	-	-	-	-	3,295
Interest	922	-	-	-	-	-	922
Total other non-current liabilities	**63,477**	**-**	**-**	**-**	**-**	**(1,434)**	**62,043**
Current liabilities							
Bonds	49,623	-	-	-	-	-	49,623
Short-term loans	-	-	-	-	-	36	36
Interest	-	-	-	-	-	6,971	6,971
Trade accounts payable	35,645	-	-	-	-	(15,243)	20,402
Other payables	-	-	-	-	-	5,858	5,858
Other taxes payables	1,373	-	-	-	-	1,377	2,750
Total current liabilities	**86,641**	**-**	**-**	**-**	**-**	**(1,001)**	**85,640**
TOTAL LIABILITIES	**168,431**	**11,546**	**8,101**	**-**	**-**	**(2,435)**	**185,643**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	**228,129**	**8,834**	**6,403**	**18,142**	**(17,376)**	**(5,871)**	**238,261**

Impact of errors identified and reclassifications made

1. Impact of errors in intangible assets

As at 31 december the Company has reclassified goodwill to licenses and recognized deferred tax related to the acquisition. The net impact on the retained earnings as of 31 December 2009 amounted to MNOK 2.7.

2. Impact of errors in assets retirement obligation

In the restated Consolidated Financial Statements for the year ended 31 December 2009 assets retirement obligation was recognized in the amount of MNOK 8.1.

3. Impact of errors in exploration and valuation assets

In the restated Consolidated Financial Statements for the year ended 31 December 2009 exploration and evaluation expenses in the amount of MNOK 18.1 were capitalized. The expenses mainly represented geological and geophysical exploration costs previously expensed in statutory accounting.

4. Impact of errors in impairment of property, plant and equipment

In the restated Consolidated Financial Statements for the year ended 31 December 2009 non-production wells in OOO Geotechnologia were impaired by MNOK 8.8.

As at 31 December 2009 the management of the Group decided to close ZAO Orneftegaz. As a result, an impairment of property, plant and equipment was recognized in amount of MNOK 8.6 which resulted in a decrease in exploration and evaluation assets.

The net impact of property, plant and equipment impairment on the financial result for the year ended 31 December 2008 amounted to MNOK 17.4.

5. Impact of other errors

Other errors mainly represented reclassifications between categories of the Consolidated Balance Sheet and did not have any material impact on the Consolidated Financial Statements.

(in thousand NOK unless noted otherwise)

Balance sheet as at 1 January 2009

		Adjustments to					
	1 January 2009 before restatement	Intangible assets	Deferred taxes	Assets retirement obligation	Exploration and evaluation assets	Other	**1 January 2009 restated**
ASSETS							
Non-current assets							
Intangible assets							
Licenses	132,126	95,433	-	-	-	3	227,562
Goodwill	66,075	(66,075)	-	-	-	-	-
Total intangible assets	**198,201**	**29,358**	**-**	**-**	**-**	**3**	**227,562**
Tangible fixed assets							
Oil and gas properties	8,125	-	-	-	-	4,692	12,817
Machinery and equipment	4,597	-	-	-	-	-	4,597
Other property, plant and equipment	2,067	-	-	-	-	-	2,067
Exploration and evaluation assets	41,059	-	-	5,057	(9,508)	11,605	48,213
Deferred tax assets	1,057	-	-	-	-	(1,057)	-
Other non-current assets	160	-	-	-	-	757	917
Total tangible fixed assets	**57,065**	**-**	**-**	**5,057**	**(9,508)**	**15,997**	**68,611**
Total non-current assets	**255,266**	**29,358**	**-**	**5,057**	**(9,508)**	**16,000**	**296,173**
Current assets							
Cash and cash equivalents	**5,968**	**-**	**-**	**-**	**-**	**88**	**6,056**
Trade receivables	48	-	-	-	-	-	48
Other receivables	11,834	-	-	-	-	(1,602)	10,232
Total accounts receivable and prepayments	**11,882**	**-**	**-**	**-**	**-**	**(1,602)**	**10,280**
Inventories	**17,638**	**-**	**-**	**-**	**-**	**(15,475)**	**2,163**
Total current assets	**35,488**	**-**	**-**	**-**	**-**	**(16,989)**	**18,499**
TOTAL ASSETS	**290,754**	**29,358**	**-**	**5,057**	**(9,508)**	**(989)**	**314,672**
SHAREHOLDERS EQUITY AND LIABILITIES							
Shareholders equity							
Paid-in capital							
Share capital (22,617,680 shares at NOK 0.1)	2,262	-	-	-	-	-	2,262
Share premium	227,270	-	-	-	-	-	227,270
Paid-in capital	22,511	-	-	-	-	-	22,511
Total paid-in capital	**252,043**	**-**	**-**	**-**	**-**	**-**	**252,043**
Retained earnings							
Effect of translation to presentation currency	-	-	-	-	-	191	191
Retained earnings and other reserves	(110,250)	29,358	(20,430)	-	(9,508)	905	(109,925)
Total retained earnings	**(110,250)**	**29,358**	**(20,430)**	**-**	**(9,508)**	**1,096**	**(109,734)**
TOTAL SHAREHOLDERS EQUITY	**141,793**	**29,358**	**(20,430)**	**-**	**(9,508)**	**1,096**	**142,309**

Liabilities							
Provisions for liabilities and charges							
Deferred income tax liabilities	26,425	-	20,430	-	-	-	46,855
Assets retirement obligation	-	-	-	5,057	-	-	5,057
Total provisions for liabilities and charges	**26,425**	**-**	**20,430**	**5,057**	**-**	**-**	**51,912**
Other non-current liabilities							
Bonds	50,407	-	-	-	-	164	50,571
Long-term loan	3,989	-	-	-	-	-	3,989
Interest	838	-	-	-	-	-	838
Total other non-current liabilities	**55,234**	**-**	**-**	**-**	**-**	**164**	**55,398**
Current liabilities							
Bonds	48,322	-	-	-	-	1	48,323
Short-term loans	-	-	-	-	-	-	-
Interest	-	-	-	-	-	4,985	4,985
Trade accounts payable	15,867	-	-	-	-	(6,853)	9,014
Other payables	-	-	-	-	-	1,912	1,912
Other taxes payables	3,113	-	-	-	-	(2,294)	819
Total current liabilities	**67,302**	**-**	**-**	**-**	**-**	**(2,249)**	**65,053**
TOTAL LIABILITIES	**148,961**	**-**	**20,430**	**5,057**	**-**	**(2,085)**	**172,363**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	**290,754**	**29,358**	**-**	**5,057**	**(9,508)**	**(989)**	**314,672**

Impact of errors identified and reclassifications made

1. Impact on intangible assets

As at 1 January 2009 the fair value of the licenses was understated by MNOK 95.4. Goodwill was fully allocated to the cost of licenses under independent reserves report. The net impact on the retained earnings as of 1 January 2009 amounted to MNOK 29.4.

2. Impact of deferred taxes

As at 1 January 2009 the carrying values of deferred tax liabilities arising on recognition of intangible assets were adjusted by MNOK 20.4.

3. Impact of errors in assets retirement obligation

As at 1 January 2009 assets retirement obligation was recognized in the amount of MNOK 5.1

4. Impact of errors in exploration and valuation assets

As at 1 January 2009 non-production wells were impaired by MNOK 9.5

5. Impact of other errors

Other errors represented mainly reclassifications between categories of the Consolidated Balance Sheet and did not have a material impact on the Consolidated Financial Statements.

Note 25. Financial risk management

The company and the Group are exposed to credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk for the financial instruments the Company and Group have. The Company and the Group does not use derivative financial instruments in connection with management of financial risk management.

Credit risk. The Company has significant credit risk attached to its loans to subsidiaries. The subsidiaries are involved in oil and gas extraction and their ability to repay the loans is dependent on the inherent risk in the subsidiaries operations.

Liquidity risk. Most of financial liabilities of the Company and the Group are short-term. The Company and the Group liquidity risk relates to the possibility for future access to necessary funding. Reasonable liquidity risk management will include maintaining certain level of adequacy of cash and liquid assets.

Interest risk. The Company and the Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The loan portfolio of the Group has fixed interest terms. The Group does not have a policy of hedging interest rate risk.

Currency risk. The Company and the Group are exposed to the fluctuations in foreign exchange rates. The Company and the Group have not been entered into any hedge agreement to manage the risk as of 31 December 2010 (31 December 2009: same).

Operation risk. The Company and the Group are exposed to operational and technical risks from drilling and production in connection with the licenses in Russia. Technical risk is inherent in the operations and risk of delays in delivering of the equipment from sub-contractors may delay the production. The Group is exposed to risk of changes in raw material prices but did not use any financial instruments to manage the risk.

Note 26. Commitments and Contingencies

Licence compliance. As per licence agreements the Group is obliged:

- to conform to the Russian mineral laws;
- to provide annual geological and geophysical reports to Russian legal authorities;
- to make regular payments to the budget of the cost of production for the right to extract oil and gas;
- to make regular tax payments;
- to conform to other license obligations.

The table below provides the status of compliance with the licenses as of 31 December 2010:

Company	License	Expiry date	Compliance situation
OOO Geotechnologia	Middle Sedolskaya	27.02.2030	In breach
	Middle Sedolskaya	31.12.2011	In breach
	West Ukhtinskaya	31.1.2023	In breach
ZAO Orneftegaz	Bogdanovskaya	31.12.2010	The license is expired
OOO Veselovskoe	Besedinskoe	31.12.2013	In compliance
	Khersonskoe	31.12.2012	The Company has decided not to maintain the license
	Nikiferovskoe	31.12.2015	In breach
	Veselovskoe	31.12.2018	In breach
	Voinskoe	31.12.2012	In breach

License for the Bogdanovskoye deposit expired on 31 December 2009. An impairment loss was recognized in the amount of MNOK 58.0 in the year ended 31 December 2009 (Note 9).

The Company has started the process to execute its license obligations. The work is still ongoing and is expected to be completed not earlier than 2012. The Company considers the risk of losing the licenses as minimal as action is being taken to fulfill the obligations.

Note 27. Subsequent events

Loan facility. On 14 January 2011 the Board of directors approved a bridge loan facility of USD 5 million from Waterford Finance & Investment Limited repayable in 6 months. This has been repaid.

Share consolidation. On 28 February 2011 the Board of Directors adopted a resolution to consolidate the shares of the Company by conversion of 40 ordinary shares with a par value of NOK 0.10 to 1 ordinary shares with a par value of NOK 4. The outstanding number of shares after consolidation will be 43,826,436.

Issuance of freestanding subscription rights (warrants). The Board of Directors also adopted a resolution to issue freestanding subscription rights (warrants) to the Directors and designated persons affiliated with the Company. The total sum of the freestanding subscription rights (warrants) approved for issue by the Annual General Meeting on 28 February 2011 amounted to 1,638,500 each entitling the holder to demand one ordinary share in the Company. Subscription of the freestanding subscription rights (warrants) will be carried out by consecutive subscription letters to the Directors and designated persons.

Share issue. On 16 June 2011 the additional share issue of up to 20,202,650 ordinary shares was completed. The Company placed 20,202,650 ordinary shares at a subscription price of NOK 4 per share. Gross proceeds amounted to NOK 80,810,600 before commissions and expenses. Funds raised will be used to finance the ongoing work program and repayment of the bridge loan granted by Waterford Finance & Investment Limited.

Sale of Company. During 2011 ZAO Orneftegaz has been sold for a consideration of RUB 10000. The Bogdanovskaya license which was held by ZAO Orneftegaz expired in 2010 and the investment has earlier been written off. The assets belonging to ZAO Orneftegaz have been transferred to OOO Veselovskoye.

Note 28. Reserves (unaudited)

The Company has a total of 36mmboe P50 reeserves. The determination of these reserves is an ongoing process subject to continual revision as additional information becomes available. Estimate of reserves quantities are imprecise and change over time as new information becomes available.

(in thousand NOK unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING REVENUE AND OPERATING EXPENSES			
Revenue from intercompany services		12.900	-
General and administrative expenses	2	(20,110)	(16,400)
Impairment of loans to Group companies		(9,813)	(182,321)
Operating loss		**(17,023)**	**(198,721)**
FINANCIAL INCOME AND FINANCIAL EXPENSES			
Interest income from Group companies	3	18,739	32,292
Interest income	3	145	4,662
Foreign exchange gain	3	60	463
Impairment of investments in subsidiaries	3	(78,187)	(75,000)
Interest expense	3	(8,514)	(16,162)
Foreign exchange loss	3	(469)	(307)
Other finance expense	3	(3,043)	(2.288)
Financial items, net		**(71,269)**	**(56,339)**
Loss before income tax		**(88,292)**	**(255,061)**
Income tax (expense) / benefit		-	-
Loss for the period		**(88,292)**	**(255,061)**

Aladdin Oil & Gas Company
Balance Sheet as at 31 December 2010
(in thousand NOK unless noted otherwise)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Tangible fixed assets			
Fixtures and fittings	7	23	40
Total tangible fixed assets		**23**	**40**
Financial non-current assets			
Investments in group companies	8	-	78,202
Other non-current assets		300	215
Total financial non-current assets		**300**	**78,417**
Total non-current assets		**323**	**78,457**
Current assets			
Accounts receivable and prepayments		426	711
Loans to Group Companies		163 402	112 789
Cash and Cash equivalents	10	2 733	9 793
Total current assets		**166,561**	**123,293**
TOTAL ASSETS		**166,884**	**201,750**
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholders equity			
Paid-in capital			
Share capital	11	175,151	5,770
Share premium		318,835	297,826
Other paid-in capital		23,211	40,520
Total paid-in capital		**517,197**	**344,116**
Retained earnings			
Retained earnings and other reserves		(355,618)	(262,664)
Total retained earnings		**(355,618)**	**(262,664)**
TOTAL SHAREHOLDERS EQUITY		**161,579**	**81,452**
Liabilities			
Other non-current liabilities			
Bonds	17	-	57,826
Total other non-current liabilities		**-**	**57,826**
Current liabilities			
Bonds	17	-	49,623
Interest	17	-	6,971
Accounts payable and accruals		4,055	4,757
Taxes payables		-	-
Other taxes and withholdings		884	156
Other payables		366	965
Total current liabilities		**5,305**	**62,472**
TOTAL LIABILITIES		**5,305**	**120,298**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**166,884**	**201,750**

London, September 29th, 2011

Frederick Matthew Thomas Ponsonby
Chairman of the Board

Mikhail Alyautdinov
Board Member

Einar Lyche
Board Member

Katherine Hatlen Støvring
Board Member

Artur Rastrogin
Board Member

Ann Elizabeth Seabrook
Board Member

Linda Dowding
Board Member

Alexey Kruzhkov
Chief Executive Officer

Aladdin Oil & Gas Company ASA
Statement of Cash Flows for the year ended 31 December 2010
(in thousand NOK unless noted otherwise)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(88,292)**	**(255,061)**
Interest income from Group Companies		(31,639)	(32,292)
Interest expense	3	8,514	18,757
Interest Income	3	(145)	(5,125)
Foreign exchange loss	3	2,282	-
Effect of share option programme		-	700
Impairment		88,000	257,321
Depreciation of property, plant and equipment		17	30
Other finance expense	3	3,452	-
Operating cash flows before working capital changes and income tax paid		**(17,811)**	**(15,670)**
Change in other assets		90	700
Change in accounts payable and accruals		(1,949)	4,536
Change in other taxes payable		122	23
Net cash used in operating activities		**(19,548)**	**(10,411)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to subsidiaries		(31,069)	(72,324)
Net cash used in investing activities		**(31,069)**	**(72,324)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		3,214	8,765
Net proceeds from share issues		40,343	91,372
Interest paid			(11,858)
Net cash generated by financing activities		**43,557**	**88,279**
Change in cash and cash equivalents		**(7,060)**	**5,544**
Cash and cash equivalents at the beginning of the period		**9,793**	**4,249**
Cash and cash equivalents at the end of the period		**2,733**	**9,793**

Statement of Changes in Equity for the year ended 31 December 2010

(in thousand NOK unless noted otherwise)

	Note	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Retained earnings	Total equity
As at 1 January 2009		**2,262**	**227,270**	**22,511**	**252,043**	**(7,603)**	**244,440**
Loss for the year		-	-	-	-	(255,061)	(255,061)
Total comprehensive loss		**-**	**-**	**-**	**-**	**(255,061)**	**(255,061)**
Share issues	11	3,508	70,556	-	74,064	-	74,064
Effect of Share Option Programme	11	-	-	700	700	-	700
Unregistered capital increase	11	-	-	17,309	17,309	-	17,309
As at 31 December 2009		**5,770**	**297,826**	**40,520**	**344,116**	**(262,664)**	**81,452**
Loss for the year		-	-	-	-	(88,292)	(88,292)
Total comprehensive loss		-	-	-	-	**(88,292)**	**(88,292)**
Share issues	11	169,381	21,009	-	190,390	(4,662)	185,728
Unregistered capital increase		-	-	(17,309)	(17,309)	-	(17,309)
As at 31 December 2010		**175,151**	**318,835**	**23,211**	**517,197**	**(355,618)**	**161,579**

Note 1. Accounting policies and effect of new accounting standards

Aladdin Oil & Gas Company ASA is a public limited company incorporated in Norway. The company's main office is located in Øvre Slottsgate 14, 0157 Oslo.

Basis of preparation. These financial statements of Aladdin Oil & Gas Company ASA (hereinafter, "the Company" or 'the Parent Company') have been prepared in accordance with the Norwegian Accounting Act §3-9 and the rules for simplified IFRS passed by the Norwegian Finance Ministry 21 January 2008. This implies that recognition and measurement mainly is performed according to International Financial Reporting Standards (IFRS) and presentation and notes to the financial statements are according to the Norwegian Accounting Act and Norwegian generally accepted accounting standards.

These annual financial statements were prepared on a going concern basis, which assumes that the Group will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

. The exploration and development activities of the Group will require significant amounts of finance within the next twelve months. This indicates a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business.

During 2010, the Group agreed with bondholders to convert MNOK 125.7 of borrowings at nominal into equity (Note 15 and 17), thereby reducing liabilities by MNOK 125,7 nominal, and increasing its equity by similar amount. Management believes the Group will be able to raise the finance to support its oil and gas exploration and development activities and ultimately recover its investment in oil and gas exploration activities through the sale of oil and gas or the sale of oil and gas properties. For this reason, management believes it is appropriate to prepare these financial statements on the basis of accounting principles applicable to going concern.

The financial statements were approved by the board of directors on September 29.th 2011.

Foreign currency. The Norwegian kroner (NOK) are the presentation and functional currency of the Parent Company.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks;

Property, plant and equipment. Property, plant and equipment are recorded at historical cost of acquisition and adjusted for accumulated depreciation. All subsequent additions are recorded at historical cost of acquisition and adjusted for accumulated depreciation.

Impairment of assets. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use.

Account receivables. Account receivables and other current receivables are recorded in the balance sheet at nominal value less provisions for expected losses. Provisions for expected losses are based on individual assessments of the each receivable.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash balances are presented separately from cash available for the business to use until such time as restrictions are removed.

Borrowings. Borrowings are recognised initially at the fair value of the liability, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Warrants**.** Warrants are equity instrument that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. Warrants are initially recognized at fair value less issue cost as part of equity.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Options. Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 15 in Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the applicable tax rate that has been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(in thousand NOK unless noted otherwise)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

Note 2. General and administrative expenses

	Year ended 31 December 2010	Year ended 31 December 2009
Employees' remuneration	8,012	7,784
Consulting costs	7,198	5,080
Maintence and repairment	-	339
Business trip expenses	917	843
Rent	514	650
Bank charges	269	237
Communication services	262	351
Representative expenses	102	-
Insurance	101	135
Utilities	77	12
Depreciation	17	30
Bad debts	2.282	-
Other administrative expenses	359	939
Total general and administrative expenses	**20,110**	**16,400**

Note 3. Finance costs

	31 December 2010	31 December 2009
Interest income from Group companies	18.739	32.292
Interest income	145	4.662
Foreign exchange gain	60	463
Impairement of investments in subsidiaries	(78.187)	(75.000)
Interest expense	8,514	16,162
Foreign exchange loss	(469)	(307)
Other finance expense	(3,043)	(2.288)
Total finance costs	**(71.269)**	**(56.339)**

Note 4. Auditors' fee

The numbers below are booked in 2010 and relates to the previous auditor BDO. Deloitte was appointed new auditor In 2011.
All amounts exclude VAT.

	31 December 2010	31 December 2009
Statutory audit	167	365
Other attestation services	92	92
Tax advice	65	58
Other services	372	109
Total audit fee	**697**	**624**

(in thousand NOK unless noted otherwise)

Note 5. Employees' remuneration

	31 December 2010	31 December 2009
Salaries	6,538	5,794
Social security tax	980	889
Other benefits	456	1,030
Other staff cost	37	70
Total employees' remuneration	**8,012**	**7,784**

Employees y.e.	4	6

Also refer to note 22 in Consolidated Financial Statements.

Note 6. Tax expense

Tax expense	Year ended 31 December 2010	Year ended 31 December 2009
Loss for the period	(88,292)	(255,061)
Permanent differences	72	(3,741)
Change in temporary differences	90,141	262,680
Tax base	1,921	3,878
Utilized tax losses carried forward from prior years	(1,921)	(3,878)
Tax payable	-	-

	31 December 2010		31 December 2009	
Basis for deferred tax	**Benefit**	**Liability**	**Benefit**	**Liability**
Fixed assets	-	-	-	7
Financial non-current assets	153,187	-	75,000	-
Receivables	192,133	-	182,320	-
Losses carried forward	18,340	-	20,261	-
Other	1	-	-	290
Total	**363,661**	**-**	**277,581**	**297**
Off-balance sheet deferred tax benefits	363,661		277,284	
Net deferred benefit/liability in the balance sheet				

Note 7. Fixtures and fittings

	Total
COST	
Opening balance as at 1 January 2009	**70**
Closing balance as at 31 December 2009	**70**
Closing balance as at 31 December 2010	**70**
Accumulated depreciation (including impairment)	**-**
Opening balance as at 1 January 2009	
Charge for the period	(30)
Closing balance as at 31 December 2009	**(30)**
Charge for the period	(17)
Closing balance as at 31 December 2010	**(47)**
Net book value as at 1 January 2009	**70**
Net book value as at 31 December 2009	**40**
Net book value as at 31 December 2010	**23**

(in thousand NOK unless noted otherwise)

Note 8. Investments in Group Companies

Company	Date of acquisition	Registered office	Voting share	Ownership share
Larchbay Traders & Consultants Ltd.	18.07.2006	Cyprus	100%	100%
Stikito Limited	06.04.2006	Cyprus	100%	100%
Aladdin Oil & Gas (Cyprus) Ltd.	12.03.2007	Cyprus	100%	100%

Note 9. Loans to Group Companies

Company	Maturity date	31 December 2010	31 December 2009
Larchbay Traders & Consultants Ltd.	30 days notice	127,809	92,264
Stikito Limited	30 days notice	35,593	20,525
Aladdin Oil & Gas (Cyprus) Ltd.	30 days notice	-	-
Total loans to group companies		**163,402**	**112,789**

Note 10. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash at bank	2,050	9,373
Bank deposits	60	60
Restricted cash	623	360
Total cash and cash equivalents	**2,733**	**9,793**

Restricted cash represents an amount reserved for tax deductions from employee's salary under the Norwegian law requirements.

Note 11. Share capital

Refer to note 15 in Consolidated Financial Statements.

Note 12. Bonds

Refer to note 17 in Consolidated Financial Statements.

Note 13. Related party transactions

Most significant related party transactions are disclosed in note 21 in Consolidated Financial Statements.

Note 14. Subsequent events

Refer to note 27 in Consolidated Financial Statements.

Note 15. Restatement

The accounting for convertible bonds in 2009 has been restated in these financial statements. In the restated 2009 accounts, the equity component of NOK 4.662 has been separated from liabilities and recorded as equity.