

ALADDIN OIL & GAS COMPANY ASA

**CONSOLIDATED FINANCIAL STATEMENTS AND STANDALONE FINANCIAL STATEMENTS
OF THE PARENT COMPANY PREPARED IN ACCORDANCE WITH SIMPLIFIED
APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS ACCORDING TO THE
NORWEGIAN ACCOUNTING ACT § 3-9**

31 DECEMBER 2012

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BOARD OF DIRECTORS' REPORT

Operations

Aladdin Oil & Gas Company ASA (hereinafter, "Aladdin" or "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 two entities OOO Geotechnologia and OOO Veselovskoe (ZAO Orneftegas was sold in 2011, OOO KOMI Drilling was liquidated in 2012), which hold exploration and production licenses (hereinafter, "the Group"). Geotechnologia is located in the Timan Pechora region and owns three production licenses (one for West Ukhtinskoye and two for Middle Sedyelskoye) and one exploration license (Middle Sedyelskoye). OOO Veselovskoye holds five production licenses located in the Orenburg area. The local head offices are located in Ukhta and Orenburg. The Group's headquarters are 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 2012

In the beginning of 2012 the Group put one more well (7VDE) on stream in Ukhta increasing the production to 120-130.000m³/day combined from 3 producing gas wells. Well #12 was drilled in September and started producing at the end of the year.

The initial loan of MUSD 7.6 from Waterford Finance and Investment Ltd was increased by MUSD 2.9 in 2013 and expiration date extended to February 2014. The funds will be spent on 2013 work program and working capital.

Wells #96 and #57 sidetracks have been drilled in Orenburg, started producing oil. Well #57 stable daily rate is about 110 bbl of oil, well #96 was stopped due to low economical profile.

Financial statements 2012

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 of 31 December 2012. Aside from the amendment to the existing loan agreement with Waterford Finance & Investment Ltd. there have not been any events after year-end which may alter the figures presented or the position of the Company.

Consolidated year ended 2012 Group operating revenues amounted to MNOK 31.8 compared to MNOK 22.0 in year ended 2011. The increase is due to new wells in production and higher gas prices. For the period ended 31 December 2012 the Group incurred a loss of MNOK 88.6 (year ended 2011: MNOK 103.6). The loss is reduced by 15.0 MNOK compared to year ended 2011 due to increase in revenue and reduction in general and administrative costs.

The Group's net working capital is negative with MNOK 55.2 (2011: MNOK positive 6.7). Available cash and cash equivalents as at 31 December 2012 were MNOK 2.1. The Group's current interest-bearing debt at the reporting period ended 31 December 2012 was MNOK 50.7.

As at 31 December 2012, the Group had total assets of MNOK 153.3. The Group had total capital of MNOK 153.3. Total equity amounted to MNOK 60.2, which is equal to an equity ratio of 54%.

The Group's net cash flow from operations amounted to minus MNOK 29.4. The main reason for the difference between the Groups's operating profit and net cash flow from operations is impairment recognised in year ended 31 December 2012. The Group's total capital investments were MNOK 26.0 for year ended 31 December 2012.

The parent Company, Aladdin Oil & Gas Company ASA, had a net loss for year ended 31 December 2012 of MNOK 99.0 mainly caused by impairment of MNOK 118.4.

Board of directors and key management personnel changes

During 2012 Einar Lyche and Katherine Støvring resigned from the board. Chief Operational Officer Espen Glende left the company in 2012. The resignations were mutually agreed by the parties and of Aladdin taking steps to cut costs.

Gender equality

Out of the 69 employees in the Group as of year-end 2012, 17 are women. Women are represented in 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.

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 year ended 2012. In 2012 sickness absence was 4.5% (2011: 1.8%).

Research & development activities

The Group has not undertaken any research - and development (R&D) activities in year ended 2012.

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 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 Year ended 2012 or to date.

Financial risk

Mainly, the Group is exposed to currency risk, price risk and liquidity risk. The Group seeks to achieve an acceptable risk level within these areas. As to interest rate risk, the company's loan has fixed interest rates, and is therefore considered being low risk. The loan is however in USD and this represents a currency risk. The functional and presentation currency for Aladdin Oil & Gas Company ASA 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 relatively 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 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 in response to changes in external factors.

The Group is exposed to risk since it does not control these factors.

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 initial loan of MUS\$ 7.6 was increased by MUS\$ 2.9 and expiration date extended to February 2014. The Group's ability to repay or refinance the loan represents a risk.

The Group estimate to have a positive EBITDA in 2013. This will reduce to ongoing cash deficit and reduce liquidity risk going forward. However in the current situation our analysis concludes that the Group will need additional funding before the loan from Waterford Finance & Investment Ltd expires. The Company and the Board is currently working to address this matter.

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. In 2012 Aladdin's oil production license Voinskoye and oil production license for Besedenskoe were extended for 20 years. Exploration Middle Sedyelskoye licence will expire in 2013, however the Company will apply for extension of the license. There are 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 for several licenses which may cause additional risk related to its licenses. See note 18 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. Mineral extraction tax (NDPI) will be increased starting from July 2013 with introducing new formula for natural gas producers.

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.

Going Concern

The Board of Director's intention is to maintain the Company as going concern and the financial statements have been prepared based on the going concern assumption. The initial loan of MUS\$ 7.6 from Waterford Finance & Investment Ltd was extended to February 2014 in January 2013. Waterford Finance & Investment Ltd. increased its credit facility by a further MUS\$ 2.9 to finance the approved work program. 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 2013 is to make stable production at the current level during the year and maintain water injection, if necessary.

The Company aim at gas production in Ukhta – stabilize production at the 750 boepd level by end of 2013. A seismic program is also being carried out to further explore and appraise the license.

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

Parent company accounts and the coverage of the loss for the year

The profit and loss account for the parent company Aladdin Oil & Gas Company ASA showed a loss for Year ended 31 December 2012 of MNOK 99.0 due to impairment of MNOK 118.4. The Board suggests accumulated losses comprising current year loss and prior retained earnings (losses) to be covered by other paid-in capital. Unrestricted equity at 31 December 2012 amounts to NOK 0.



Frederick Matthew Thomas Ponsorby
Chairman of the Board



Guzel Mouksinova
Board Member

London, June 11, 2013



Mikhail Alyautdinov
Board Member



Alexey Kruzhkov
Chief Executive Officer

Aladdin Oil & Gas Company ASA
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

(Thousand NOK)	Note	Year ended 31 December 2012	Year ended 31 December 2011
OPERATING REVENUE AND OPERATING EXPENCES			
Revenue		31,804	21,984
Production costs	3	-21,284	-18,125
Gross profit		10,520	3,859
Exploration cost expensed		-18,814	-19,639
Salaries	15	-17,561	-16,159
General and administrative expenses	4	-11,408	-18,928
Operating loss before depreciation and impairment		-37,263	-50,867
Ordinary depreciation	6	-7,566	-4,539
Impairment	6	-35,714	-46,838
Operating loss		-80,543	-102,244
FINANCIAL INCOME AND FINANCIAL EXPENCES			
Interest income		30	180
Interest expenses		-4,663	-4,067
Foreign exchange gain / (loss), net		-6,989	-4,288
Other financial income / (expense)		2,796	-
Financial items, net		-8,826	-8,175
Loss before income tax		-89,369	-110,421
Income tax benefit / (expense)	5	786	6,817
Loss for the period		-88,583	-103,604
Other comprehensive income			
Effect of translation to presentation currency		7,421	-364
Other comprehensive income for the year, net of tax		7,421	-364
Total comprehensive income for the year		-81,162	-103,968
Weighted average number of ordinary shares - basic	13	64,081,336	53,980,011
Weighted average number of ordinary shares - diluted	13	64,081,336	54,234,649
Loss per ordinary share - basic	13	-1.38	-1.92
Loss per ordinary share - diluted	13	-1.38	-1.91
Total comprehensive income per share - basic	13	-1.27	-1.93
Total comprehensive income per share - diluted	13	-1.27	-1.92

Aladdin Oil & Gas Company ASA
Consolidated Statement of Financial Position as at 31 December 2012

(Thousand NOK)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets			
Licenses	6	102,821	115,353
Exploration and evaluation assets	6	9,323	16,031
Total intangible assets		112,144	131,384
Tangible fixed assets			
Oil and gas property	6	33,086	35,134
Other property, plant and equipment	6	1,066	2,138
Total tangible fixed assets		34,152	37,272
Total non-current assets		146,296	168,656
Current assets			
Inventories	9	782	1,111
Trade receivables	8	1,719	603
Other receivables	8	2,400	3,753
Cash and cash equivalents	7	2,107	15,834
Total current assets		7,008	21,301
TOTAL ASSETS		153,304	189,957
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholder's equity			
Paid-in capital			
Share capital	10	16,020	256,325
Other paid-in capital		70,434	-
Total paid-in capital		86,454	256,325
Retained earnings			
Effect of translation to presentation currency		-771	-8,192
Retained earnings and other reserves		-25,513	-106,801
Total retained earnings		-26,284	-114,993
TOTAL EQUITY		60,170	141,332

Aladdin Oil & Gas Company ASA
 Consolidated Statement of Financial Position as at 31 December 2012

(Thousand NOK)	Note	31 December 2012	31 December 2011
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	5	20,576	23,134
Assets retirement obligation	12	10,342	10,866
Total provision for liabilities and charges		30,918	34,000
Current liabilities			
Short-term loans	14	50,773	4,829
Trade accounts payable		4,688	4,291
Other taxes payable		3,667	2,870
Other payables		3,088	2,635
Total current liabilities		62,216	14,625
TOTAL LIABILITIES		93,134	48,625
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		153,304	189,957

London, June 11, 2013



Frederick Matthew Thomas Ponsonby
 Chairman of the Board



Mikhail Alyautdinov
 Board Member



Guzel Mouksinova
 Board Member



Alexey Kruzikov
 Chief Executive Officer

Aladdin Oil & Gas Company ASA
Consolidated Statement of Cash Flows for the year ended 31 December 2012

(Thousand NOK)	Note	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		-89,369	-110,421
Loss before income tax			
Depreciation	6	7,566	4,540
Impairment	6	35,714	46,838
Gain from disposal of other assets		4	-637
Finance expense, net		4,632	2,418
Foreign exchange loss, net		6,989	4,261
Effect of share option programme	10	-	2,182
Other		-1,265	3,846
Operating cash flows before working capital changes and income tax paid		-35,729	-46,973
Working capital changes		12,742	-10,915
Net cash used in operating activities		-29,358	-57,888
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation assets and oil and gas properties		-26,029	-6,803
Interest received		-	170
Net cash used in investing activities		-26,029	-6,633
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	14	42,198	-
Interest paid		-	-2,882
Proceeds from share issues		-	81,174
Net cash generated by financial activities		42,198	78,292
Foreign exchange losses on cash balances		-536	-2,394
Change in cash and cash equivalents		-13,727	11,377
Cash and cash equivalents at the beginning of the period	7	15,834	4,457
Cash and cash equivalents at the end of the period	7	2,107	15,834

The accompanying notes are an integral part of these consolidated financial statements.

Aladdin Oil & Gas Company
Consolidated Statement of Changes in Equity for the year ended 31 December 2012

(Thousand NOK)	Note	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Effect of translation to presentation currency reserve	Retained earnings	Total equity
As at 1 January 2011		175,151	318,835	23,211	517,197	-7,829	-347,426	161,942
Transfer to retained earnings		-	-318,835	-23,211	-342,046	-	342,046	-
Share issues	10	81,174	-	-	81,174	-	-	81,174
Effect of share option program		-	-	-	2,183	-	-	2,183
Loss for the period		-	-	-	-2,183	-	-101,421	-103,604
Effect of translation to presentation currency		-	-	-	-	-363	-	-363
As at 31 December 2011		256,325	-	-	256,325	-8,192	-106,801	141,332
As at 1 January 2012		256,325	-	-	256,325	-8,192	-106,801	141,332
Reduction in share capital	10	-240,305	-	169,816	-70,489	-	70,489	-
Loss for the period		-	-	-	-	-	-88,583	-88,583
Reclassification of reserves		-	-	-99,382	-99,382	-	99,382	-
Effect of translation to presentation currency		-	-	-	-	7,421	-	7,421
As at 31 December 2012		16,020	-	70,434	86,454	-771	(25,513)	60,170

The accompanying notes are an integral part of these consolidated financial statements

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 Bryggetorget 1, 0250 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 2012.

These consolidated annual financial statements were prepared on a going concern basis. There is as at the date of these financial statements a reasonable expectation that the Group will have adequate resources 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. Thus the going concern basis of accounting has been adopted in preparing the financial statements.

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.

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 recognized 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 recognized 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 recognized in equity.

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

Aladdin Oil & Gas Company
Notes to the Consolidated Financial Statements for the year ended 31 December 2012

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 2012	31 December 2011
Exchange rate as at reporting date		
Russian Roubles/NOK	5.453	5.364
Russian Roubles/USD	30.373	32.146
NOK/USD	5.582	5.993
Average exchange rate		
Russian Roubles/NOK	5.323	5.241
Russian Roubles/USD	31.074	29.387
NOK/USD	5.817	5.607

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. 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
Other property, plant and equipment	3-15

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expense' in the consolidated statement of comprehensive income.

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.

Provisions. Provisions are recognized 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 statement of comprehensive income 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 recognized immediately in profit or loss.

The provision for dismantlement liability is recorded on the consolidated statement of financial position, 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 recognized 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 recognized 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 recognized 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 recognized 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 Year ended 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 recognized in profit or loss.

Revenue. The Group recognizes 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. The Group sells oil and gas in a single geographical area, which is 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 10.

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 recognized 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.

New accounting pronouncements. The Group has adopted all the new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2012.

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended 31 December 2012.

Management anticipates that these Standards will be adopted in the Group's financial statements for the period beginning 1 January 2013 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases may deviate from the effective dates as issued by the IASB. Standards and Interpretations that are clearly not relevant for the Group's financial statements have not been included in the below schedule.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
IFRS 10	Consolidated Financial Statements	May 2011	1 January 2014
IFRS 11	Joint Arrangements	May 2011	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	May 2011	1 January 2014
IFRS 13	Fair Value Measurement	May 2011	1 January 2013
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	June 2011	1 July 2012
IAS 19 (as revised in 2011)	Employee Benefits	June 2011	1 January 2013
IAS 27 (as revised in 2011)	Separate Financial Statements	May 2011	1 January 2014
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures	May 2011	1 January 2014
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2014
Amendments to IFRS 1 ¹	Amendments for government loan with a below-market rate of interest when transitioning to IFRSs	March 2012	1 January 2013
Amendments to IFRS 10, 11 and 12 ¹	Amendments to transitional guidance	June 2012	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27 ¹	Amendments for investment entities	October 2012	1 January 2014
Improvements to IFRSs (Various Standards and Interpretations) ¹	Improvements to IFRSs	May 2012	1 January 2013
IFRS 9 ¹	Financial Instruments	November 2009 and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011)	IASB mandatory date 1 January 2015 postponed by the EU

¹ The standard/revised standard/amendment has as at the date of issue of these financial statements not yet been adopted by the EU

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Notes to the Consolidated Financial Statements for the year ended 31 December 2012

Note 2. Subsidiaries

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

Company	Parent company	% of ownership	Country
31 December 2012			
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
ZAO YuK Perspektiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia
31 December 2011			
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 Perspektiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia

OOO KOMI Drilling was liquidated in 2012.

Note 3. Production costs

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Mineral tax	10,695	7,560
Repair and maintenance	4,560	3,100
Materials and supplies	2,933	1,554
Technical services	1,934	3,119
Transportation services	611	1,249
Other cost of sales	551	1,543
Total cost of sales	21,284	18,125

Note 4. General and administrative expenses

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Consulting costs	3,465	6,128
Business trip expenses	1,152	2,435
Rent	1,346	1,538
Taxes other than income tax	1,599	637
Allowance for doubtful debts	612	1,360
Other administrative expenses	3,234	6,830
Total general and administrative expenses	11,408	18,928

Note 5. Income tax

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Tax payable	-1,772	-621
Change in deferred tax	2,558	7,438
Tax benefit / (expense)	786	6,817

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

Aladdin Oil & Gas Company
Notes to the Consolidated Financial Statements for the year ended 31 December 2012

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Loss before income tax	-89,369	-110,421
Theoretical tax benefit at tax rate 28% applicable to Parent Company	25,023	30,918
Effect of tax rates in different jurisdictions	-9,670	-13,805
Unrecognised deferred tax assets	-9,514	-2,524
Permanent difference related to Cyprus Companies	-3,016	-3,100
Permanent difference related to Russian Companies	-774	-2,272
Other unrecognised deferred income tax asset movements	-1,264	-2,400
Total income tax benefit / (expense)	786	6,817

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011	Change
Temporary differences			
Licenses	102,821	115,353	-12,532
Total temporary differences	102,821	115,353	-12,532
Basis deferred tax	102,821	115,353	-12,532
Deferred tax liability (Russia)	-20,576	-23,134	2,558
Net deferred tax	-20,576	-23,134	2,558
Deferred tax asset not recognized in the consolidated statement of financial position	34,427	26,099	8,328

As at 31 December 2012 the Group has total taxable losses carried forward of MNOK 163.1, which MNOK 30.3 in Russia that expires in ten years and MNOK 132.8 in Norway that do not expire.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Parent Company	28%	28%
Russian subsidiaries	20%	20%
Cyprus subsidiaries	10%	10%

Note 6. Non-Current Assets

(Thousand NOK)	Licenses	Exploration and evaluation assets	Oil and gas properties	Other property, plant and equipment	Total
Cost					
Opening balance as at 1 January 2012	195,467	47,067	50,286	8,636	301,456
Additions	-	3,441	22,120	13	25,574
Transfers from exploration and evaluation assets	-	-	537	-537	-
Disposals	-	-	-	-1,065	-1,065
Effect of translation to presentation currency	-	-1,315	-1,240	-781	-3,336
Closing balance as at 31 December 2012	195,467	49,193	71,703	6,266	322,629
Accumulated depreciation (including impairment)					
Opening balance as at 1 January 2012	-80,114	-31,036	-15,153	-6,499	-132,802
Charge for the period	-128	-	-7,069	-369	-7,566
Impairment	-10,524	-8,543	-16,647	-	-35,714
Disposals	-	-	-	180	180
Effect of translation to presentation currency	-1,880	-291	252	1,488	-431
Closing balance as at 31 December 2012	-92,646	-39,870	-38,617	-5,200	-176,333
Net book value as at 31 December 2012	102,821	9,323	33,086	1,066	146,296

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Notes to the Consolidated Financial Statements for the year ended 31 December 2012

(Thousand NOK)	Licenses	Exploration and evaluation assets	Oil and gas properties	Other property, plant and equipment	Total
Cost					
Opening balance as at 1 January 2011	200,662	50,376	41,764	1,714	300,741
Additions	-	1,118	10,547	255	12,793
Transfers from exploration and evaluation assets	-	-342	122	220	-
Disposals	-	-2,249	-291	-207	-2,753
Effect of translation to presentation currency	-5,195	-1,836	-1,856	-54	-9,325
Closing balance as at 31 December 2011	195,467	47,067	50,286	1,928	301,456
Accumulated depreciation (including impairment)					
Opening balance as at 1 January 2011	-62,978	-1,827	-11,706	-723	-81,531
Charge for the period	-585	-	-2,775	-270	-4,540
Impairment	-16,551	-29,209	-1,078	-	-46,838
Disposals	-	-	274	-	-167
Effect of translation to presentation currency	-	-	133	-48	276
Closing balance as at 31 December 2011	-80,114	-31,036	-15,152	-1,041	-132,800
Net book value as at 31 December 2011	115,353	16,031	35,134	887	168,656

Oil and gas properties. The management of the company analyzed the reserves and made an impairment review at each reporting date. An impairment loss related to oil and gas properties was recognized in the amount of MNOK 16.6 during the year ended 31 December 2012 due to increase of mineral extraction tax in Russia.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

The following key assumptions were used when the cash flow testing was performed for the year ended 31 December 2012:

Key assumptions used in the cash flow testing	Year ended 31 December 2012
Information used	Actual operating results for the year and cash-flow projections
Forecast period	2012 - 2032
Discount rate (WACC)	15.0 percent

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future oil and gas prices, forecasted weighted average cost of capital (WACC) and forecasted volumes of capital expenditures.

The amount of the impairment in 2012 subject to indicators changed by 10 percent is shown in the table below:

Assumption	Impairment loss
Weighted average cost of capital (WACC) increase	16,212
Future oil and gas prices decrease	84,798
Capital expenditure increase	12,683

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.

Acquisition costs of licenses. Acquisition costs of licenses of production fields are grouped with the cost of developing the field and tested for impairment at each reporting period based on future cash flows from oil and gas production.

Acquisition costs for licenses still in the of exploration stage are tested for impairment at each reporting date based on evaluation of future plans for exploring the exploration licenses, results of exploratory drilling and other activities impacting on the license values. Prospects were set as a cash generating units. The license value for Middle Sedyelskoye gas field in relation of 2 prospects was impaired by MNOK 10.5 in the 12 months 2012 accounts due to dry wells drilled on the prospects

As of 31 December 2012 the book value of production licenses was MNOK 13.2 (as of 31 December 2011: MNOK 13.7) and the book value of exploration licenses was MNOK 89.6 (as of 31 December 2011: MNOK 101.7). The main part of the book value for exploration licenses relate to the Middle Sedyelskoye exploration license which is expiring as at 31.12.2013. Should the Company not succeed in prolonging the license terms this value will be lost. The Company has a history of success in prolonging the license terms See note 17 for further information.

Exploration and evaluation assets. As of 31 December 2012 additional impairment was made in respect of two wells on Middle Sedyelskoye gas field and one well at Besedinskoe oil field with the total value MNOK 8.5.

During year ended 31 December 2011 five wells were written-off on Middle Sedyelskoye gas field with the total value of MNOK 14 and four wells on West Uhtinskoye prospect with the total value MNOK 9. Other movements in impairment charge relate to change in decommissioning liabilities.

Note 7. Cash and cash equivalents

(Thousand NOK)	31 December 2012	31 December 2011
Cash at bank	2,102	15,691
Cash on hand	5	6
Restricted cash	-	137
Total cash and cash equivalents	2,107	15,834

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

Note 8. Accounts receivable and prepayments

(Thousand NOK)	31 December 2012	31 December 2011
Trade receivables	1,719	617
Allowances for doubtful debts	-	-14
Total trade receivables	1,719	603
Advances to suppliers and prepayments	1,570	1,395
Allowances for doubtful debts	-1,259	-842
VAT recoverable and prepaid	436	1,726
Income tax receivable	-	1,274
Prepaid taxes	1,369	34
Other receivables	284	166
Total other receivables	2,400	3,753
Total accounts receivable and prepayments	4,119	4,356

Note 9. Inventories

(Thousand NOK)	31 December 2012	31 December 2011
Materials and supplies	691	1 066
Finished goods	91	45
Total inventories	782	1,111

Note 10. Share capital

	31 December 2012	31 December 2011
Number of issued ordinary shares	64,081,336	64,081,336
Par value (in NOK)	0.25	4.00

Fully paid-in ordinary share capital

	Number of shares registered	Number of shares unregistered
Balance at 1 January 2011	1,751,511,860	8,008,000
Share consolidation	-1,707,633,174	-7,807,800
Issue of shares	20,202,650	-
Effect of Share Option Program	-	-
Balance at 31 December 2011	64,081,336	200,200
Balance at 31 December 2012	64,081,336	200,200

During 2011 the Company carried out a share consolidation where each 40 shares were consolidated to one share, increasing par value from NOK 0.1 to NOK 4 per share. In June 2011 the Company carried out a capital increase of 20,202,650 shares at par value. All shares were fully paid. In 2012 the Company made reduction in share capital from NOK 256,325,344 to NOK 16,020,334 by reducing the par value from NOK 4.0 to NOK 0.25. Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Company's 20 largest shareholders as of 31 December 2012:

	Number of shares	Country	% of ownership
Waterford Finance And Investment L	25,903,581	Guernsey	40%
Soyuzneftegas Capital Limited	13,606,000	Cyprus	21%
Mp Pensjon Pk	2,730,617	Norway	4%
Hveem	2,508,187	Norway	4%
Euroclear Bank S.A./N.V. ("Ba")	2,213,702	Belgium	3%
Rbc Dexia Investor Services Trust	1,724,146	UK	3%
Tollefsen	1,352,977	Norway	2%
Andoskin	1,323,916	Russia	2%
Citibank Na London Branch	1,318,000	UK	2%
Haadem Invest As	1,173,506	Norway	2%
Bank Of New York Mellon Sa/Nv	1,133,320	Belgium	2%
Fairview Finance & Investment Ltd.	782,450	The British Virgin Islands	1%
Six Sis Ag	905,542	Switzerland	1%
Baal	525,325	Singapore	1%
Clearstream Banking S.A.	428,375	Luxemburg	1%
Hagen	363,843	Norway	1%
Fyffe	310,550	Singapore	0%
Cheviot Capital Client Account	249,975	Belgium	0%
Stormskjold Regnskap As	246,142	Norway	0%
Totenkopf As	238,142	Norway	0%
Subtotal	59,038,296		92%
Other shareholders	5,043,040		8%
Total issued shares as of 31 December 2012	64,081,336		100%

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Share option program In October 2009 the Company's Board of Directors approved the Share Option Program of the Company, in which the Group's key executive management are participants. The options were granted in 2009-2011, no options have been granted during the year ended 31 December 2012. The options granted are American (style) options that may be exercised at any time before the expiry date of the option. The options' fair value was valued at the date of issue and recorded immediately as an expense.

During 2012 all options were forfeited and as of 31 December 2012 there were no outstanding options.

Note 11. 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 63,990 has been paid related to pension for parent company during year ended 2012 (year ended 2011: NOK 56,218). Pension arrangements in Russian subsidiaries are represented by social insurance contributions.

Note 12. Asset retirement obligation

(Thousand NOK)	
As at 1 January 2011	8,226
Additional provision recognized	1,251
Increase resulting from changes in estimates	1,569
Reductions arising from payments	-423
Unwinding of discount	623
Effect of translation	-380
As at 31 December 2011	10,866
Decrease resulting from changes in estimates	-1,082
Unwinding of discount	707
Effect of translation	-169
As at 31 December 2012	10,342

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 2012 discount rate used to calculate liabilities was 6.8 percent (as at 31 December 2011 discount rate used was 7.4 percent), is an actual pre-tax rate, the application of which the Group considers reasonable in the current economic situation in the 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 13. Earnings per share

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Loss for the period	-88,583	-103,604
Total comprehensive income	-81,162	-103,967
Weighted average number of ordinary shares - basic	64,081,336	53,980,011
Effect of warrants attached to bond	-	54,438
Effect of stock options	-	200,200
Weighted average number of ordinary shares - diluted	64,081,336	54,234,649
Loss per ordinary share - basic	-1.38	-1.92
Loss per ordinary share - diluted	-1.38	-1.91
Total comprehensive income per share - basic	-1.27	-1.93
Total comprehensive income per share - diluted	-1.27	-1.92

Note 14. 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) and shareholders (Note 10).

In 2011 Waterford Finance & Investment Ltd (shareholder of the Company) issued a Bridge Loan facility of USD 7.6 million to the Company, with a fixed interest rate of 16% and an arrangement fee of 2%. The loan was repaid in 2011.

In 2012 Waterford Finance & Investment Ltd (shareholder of the Company) provided another financing to the Company under the loan agreement. The initial amount of the loan was USD 7.6 million at a fixed interest rate of 16% p.a. The loan initially was due on 4 April 2013. The loan facility was increased to USD 10.5 million in January 2013; the repayment date was agreed as 1 February 2014. At the same time the lender was provided the right to convert the outstanding loan and accrued interest into Company's shares at any time until full repayment. The change in the loan terms was approved by the General Assembly on 24 January 2013. See also Note 19 for subsequent events transactions.

No other significant transactions with related parties took place in year ended 2012 or 2011.

Note 15. 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 for 2012:

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 1,638,500 of freestanding subscription rights (warrants) to specified Directors and designated persons affiliated with the Company (non-Directors) in the first half of 2011. These freestanding subscription rights lapsed during 2011 due to non-fulfilment of conditions.

The Group also makes use of share options programs which are described in Note 10. On 7 June 2012 the warrant guidelines were approved with respective amounts of warrants to the Board members at the General meeting of the Company, however, due to non fulfilment of the work program no warrants were issued.

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(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Type of remuneration		
Salaries	14,909	11,176
Share option program	-	2,182
Social security tax	2,588	2,465
Other benefits	58	242
Other cost	6	94
Total employees' remuneration	17,561	16,159

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

(Thousand NOK)	Title	From	To	Salary	Remuneration	Other expenses
Year ended 31 December 2012						
Alexey Kruzhdov	CEO	01.01.12	31.12.12	-	-	-
Roman Krotov	General Director in Orenburg	01.01.12	31.12.12	313	409	-
Nikolai Zateev	General Director in Ukhta	01.01.12	31.12.12	320	431	-
Nikolay Piskun	Managing Director	01.01.12	31.12.12	-	989	-
Espen Glende	COO	01.01.12	31.08.12	728	312	8
Frederick M Ponsonby	Chairman	01.01.12	31.12.12	-	210	-
Katherine Støvring	Board member	01.01.12	05.06.12	-	116	17
Einar Lyche	Board member	01.01.12	31.10.12	-	115	-
Mari Tjømmæ	Board member				57	-
Total				1,361	2,639	25

(Thousand NOK)	Title	From	To	Salary	Remuneration	Other expenses
Year ended 31 December 2011						
Alexey Kruzhdov	CEO	01.01.2011	31.12.2011	-	-	-
Roman Krotov	General Director in Orenburg	01.01.2011	31.12.2011	208	75	-
Nikolai Zateev	General Director in Ukhta	01.01.2011	31.12.2011	272	42	-
Nikolay Piskun	Managing Director	01.01.2011	31.12.2011	-	728	-
Jørn Barkenæs	CFO	01.01.2011	30.06.2011	676	18	-
Espen Glende	COO	01.01.2011	31.12.2011	1,352	24	149
Frederick M Ponsonby	Chairman	01.01.2011	31.12.2011	237	-	-
Einar Lyche	Board member	20.07.2010	31.12.2011	-	253	6
Total				2,745	1,140	155

The Group has 69 employees as of year-end of 2012 (70 employees as of year-end 2011).

Note 16. Auditors' fee

All amounts exclude VAT and expressed in thousand NOK.

Year ended 31 December 2012	Audit	Audit related	Other services	Tax related	Total
Norway	543	174	-	-	717
Outside Norway	-	702	-	-	702
Total	543	876	-	-	1,419

Year ended 31 December 2011	Audit	Audit related	Other services	Tax related	Total
Norway	167	92	372	65	696
Outside Norway	888	-	272	-	1,160
Total	1,055	92	644	65	1,856

The accompanying notes are an integral part of these consolidated financial statements

Note 17. 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. The initial loan of MUS\$ 7.6 was increased by MUS\$ 2.9 and expiration date extended to February 2014. The Group's ability to repay or refinance the loan represents a risk.

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. There is also additional credit risk related to payment of the gas sold to Komiregiongas, which the only buyer of gas from the Group's subsidiary OOO Geotekhnologiya.

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 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 2012 (31 December 2011: 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 18. Commitments and Contingencies

Licence compliance. As per the license 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 terms as of 31 December 2012:

Company	License	Expiry date	Compliance situation
OOO Geotekhnologiya	Middle Sedyelskoye field production license	27.02.2030	In compliance
	Middle Sedyelskoye exploration license	31.12.2013	In breach
	Suskinaelskoye field	15.12.2031	In breach
	West Ukhtinskaya	31.01.2023	In breach
OOO Veselovskoe	Nikiforovskoye	31.12.2015	In breach
	Voinskoye	31.12.2032	In breach
	Besedinskoye	30.04.2032	In breach
	Veselovskoye	31.12.2018	In compliance
	Khersonskoye	31.12.2012	The Company has decided not to maintain the

The Company has continued the process to execute its license obligations. The Company considers the risk of losing the licenses as low as action is being taken to fulfil the obligations.

The Middle Sedyelskoye exploration license expires at the end of 2013 year. The Company will prepare and escalate all necessary documents for prolongation the license. According to Russian mineral resources legislation the Company should submit the documents six months before the expire date. As per the same procedure the Company successfully prolonged Voinskoye and Besedinskoye licenses this year.

Note 19. Subsequent events

On 7 January 2013 the Company entered into an amendment to the existing loan agreement with Waterford Finance & Investment Ltd. The loan facility increased to USD 10.5 million, the repayment date was agreed as 1 February 2014. The lender has the right to convert the outstanding loan and accrued interest into Company's shares at any time until full repayment.

Cyprus and the Eurogroup (together with the International Monetary Fund) reached an agreement on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion. The programme aims to address the exceptional challenges that Cyprus is facing and restore the viability of the financial sector, with the view of restoring sustainable growth and sound public finances over the coming years. The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below € 100.000 in accordance with EU legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatization. The Eurogroup requested the Cypriot authorities and the Commission, in liaison with the European Central Bank, and the International Monetary Fund to finalize the Memorandum of Understanding in April 2013 which will then be followed by the formal approval by the Board of Directors of the European Stability Mechanism as well as the completion of national procedures by Eurozone member states.

The Company's cash held with banks affected from the above Eurogroup decision amounted to US\$165,858 as at 26 March 2013. Based on the information available until the date of issue of the financial statements 37.5% or US\$13,453 will be converted into equity share capital of Bank of Cyprus and an additional 22.5% is "frozen" and may also be used partly or fully to issue new Class A shares.

On 22 March 2013, the House of Representatives voted legislation relating to capital controls affecting transactions executed through banking institutions operating in Cyprus. The extent of the capital controls will be decided by the Minister of Finance and the Governor of the Central Bank of Cyprus. The impact on the Company's operations of these capital controls will be affected by the extent and duration of such capital controls.

Note 20. Reserves (unaudited)

The Group's reserve volumes have been estimated as of 31.12.2011 by independent consultants in accordance with guidelines developed by the Society of Petroleum Engineers (SPE) in May 2012. The table below summarizes the Group's reserves by the field and the type of license as of 31 December 2012:

Exploration fields	Expiry date	License type	P1+P2		Production		P1+P2	
			Proven& Probable		in 2012		Proven& Probable	
			1 January 2012				31 December 2012	
			Oil	Gas	Oil	Gas	Oil	Gas
			MMbbl	MMbbl	MMbbl	MMboe	MMbbl	MMbbl
Nikiforovskoye	31.12.2015	Production	7.5	0.7	0.06	-	7.5	0.7
Besedinskoye	30.04.2032	Production	3.1	0.2	-	-	3.1	0.2
Voinskoye	31.12.2032	Production	0.8	-	-	-	0.8	-
Veselovskoye	31.12.2018	Production	-	-	-	-	-	-
West Uhtinskoye	31.12.2023	Production	-	-	-	-	-	-
Middle						0.25	-	1.25
Sedyelskoye	27.02.2030	Production	-	1.5	-	-	-	-
Suskniaelskoye	15.12.2031	Production	-	0.7	-	-	-	-
TOTAL			11.4	3.1	0.06	0.25	11.4	2.85

The Group's reserves as of 31 December 2012 were not audited by independent consultants.

In April 2010 the Group started production of gas on Middle Sedyelskoye field and extracted 12.6 million m³ (79,000 boe) for the year ended 2010. For the year 2011 22.6 million m³ (142,000 boe) and for the year 2012 39.8 million m³ (250,000 boe) were produced respectively.

In 2009 the Group started production of oil on Nikiforovskoye field and extracted 60,000 boe. In 2010 40,000 boe were produced. In 2011 and in 2012 the Group's oil production was 50,000 boe and 63,000 respectively.

Most of the licenses also include contingent and prospective resources as well as 3P reserves which might mature to proved & probable reserves at a later stage.

Proved Reserves. Proved Reserves are those quantities of petroleum, which by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations.

Probable Reserves. Probable Reserves are those additional Reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

Possible Reserves. Possible Reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recoverable than Probable Reserves.

1P = Proved Reserves

2P = Proved and Probable Reserves

3P = Proved, Probable and Possible Reserves

Contingent Resources. Those quantities of petroleum estimated as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered commercially recoverable due to one more constraints.

Aladdin Oil & Gas Company
Income Statement for the year ended 31 December 2012
(in thousand NOK unless noted otherwise)

(Thousand NOK)	Note	Year ended 31 December 2012	Year ended 31 December 2011
OPERATING REVENUE AND OPERATING EXPENSES			
Revenue from intercompany services		6,026	10,233
General and administrative expenses	2	-7,306	-12,873
Impairment of loans to Group companies	3	-118,423	-86,000
Operating loss		-119,703	-88,640
Interest income from Group companies	3	21,261	30,403
Interest income	3	29	170
Foreign exchange gain	3	3,377	1,216
Interest expense	3	-3,718	-1,743
Foreign exchange loss	3	-218	-
Other finance expense	3	-	-915
Financial items, net	3	20,731	29,131
Loss before income tax		-98,972	-59,509
Income tax (expense) / benefit		-	-
Total comprehensive loss for the year		-98,972	-59,509


Aladdin Oil & Gas Company
Statement of Financial Position as at 31 December 2012
(in thousand NOK unless noted otherwise)

(Thousand NOK)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Tangible fixed assets			
Fixtures and fittings		-	2
Total tangible fixed assets		-	2
Financial non-current assets			
Investments in group companies	7	-	-
Other non-current assets		-	301
Total financial non-current assets		-	301
Total non-current assets		-	303
Current assets			
Accounts receivable and prepayments		259	6
Loans to Group Companies	8	131,784	174,906
Cash and Cash equivalents	9	911	11,474
Total current assets		132,954	186,386
TOTAL ASSETS		132,954	186,689
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholders' equity			
Paid-in capital			
Share capital	10	16,020	256,325
Other paid-in capital		70,434	-
Total paid-in capital		86,454	256,325
Retained earnings			
Retained earnings and other reserves		-	-70,899
Total retained earnings		-	-70,899
TOTAL SHAREHOLDERS EQUITY		86,454	185,426

Aladdin Oil & Gas Company
Statement of Financial Position as at 31 December 2012
(In thousand NOK unless noted otherwise)


(Thousand NOK)	Note	31 December 2012	31 December 2011
Liabilities			
Current liabilities			
Short-term loans		45,916	-
Interest		-	-
Accounts payable and accruals		464	934
Other taxes and withholdings		59	249
Other payables		61	80
Total current liabilities		46,500	1,263
TOTAL LIABILITIES		46,500	1,263
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		132,954	186,689

London, June 11, 2013



Frederick Matthew Thomas Ponsonby

Chairman of the Board



Guzel Mouksinova

Board Member

Board Member



Mikhail Alyautdinov

Board Member

Board Member



Alexey Kruzhkov

Chief Executive Officer

Chief Executive Officer

Aladdin Oil & Gas Company ASA
Statement of Cash Flows for the year ended 31 December 2012
(in thousand NOK unless noted otherwise)

(Thousand NOK)	Note	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/loss before income tax		-98,972	-59,509
Interest income from Group Companies		-21,261	-30,403
Interest expense		3,718	1,743
Interest income		-29	-170
Foreign exchange gain/loss		-3,159	-1,214
Effect of share option programme		-	2,182
Impairment		118,423	86,000
Depreciation of property, plant and equipment		-	21
Other finance expense		-6,000	913
Operating cash flows before working capital changes and income tax paid		-7,280	-438
Change in accounts receivable and prepayments		-224	-
Change in other assets		304	-
Change in accounts payable and accruals		2,664	-3,871
Change in other taxes payable		-190	249
Net cash generated by operating activities		-4,726	-4,059
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to subsidiaries		-48,035	-67,102
Net cash used in investing activities		-48,035	-67,102
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		42,198	-
Net proceeds from share issues		-	81,174
Interest received		-	170
Interest paid		-	-1,743
Repayment of borrowings		-	-
Foreign exchange		-	301
Net cash generated by financial activities		42,198	79,902
Change in cash and cash equivalents		-10,563	8,741
Cash and cash equivalents at the beginning of the period		11,474	2,733
Cash and cash equivalents at the end of the period		911	11,474

Aladdin Oil & Gas Company ASA
Statement of Changes in Equity for the year ended 31 December 2011
(In thousand NOK, unless noted otherwise)

(Thousand NOK)	Note	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Retained earnings	Total equity
As at 1 January 2011		175,151	318,835	23,211	517,197	-355,618	161,579
Transfer to retained earnings		-	-318,835	-23,211	-342,046	342,046	-
Share issues	10	81,174	-	-	81,174	-	81,174
Effect of share option program		-	-	2,182	2,182	-	2,182
Profit for the period		-	-	-2,182	-2,182	-57,327	-59,509
As at 31 December 2011		256,325	-	-	256,325	-70,899	185,426

	Note	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Retained earnings	Total equity
As at 1 January 2012		256,325	-	-	256,325	-70,899	185,426
Reduction in share capital	10	-240,305	-	169,816	-70,489	70,489	-
Loss for the period		-	-	-	-	-98,972	-98,972
Allocation of other paid-in capital to retained earnings		-	-	-99,382	-99,382	99,382	-
As at 31 December 2012		16,020	-	70,434	86,454	0	86,454

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 Bryggetorget 1, 0250 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. There is as at the date of these financial statements a reasonable expectation that the Group will have adequate resources 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. Thus the going concern basis of accounting has been adopted in preparing the financial statements.

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 recognized 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 recognized 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 recognized 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 recognized 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 Year ended 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 10 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 recognized 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.

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

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Employees' remuneration	2,581	6,298
Consulting costs	2,564	4,340
Business trip expenses	128	424
Rent	409	522
Bank charges	121	147
Communication services	103	188
Representative expenses	-	5
Insurance	-	124
Depreciation	2	21
Other administrative expenses	1,398	806
Total general and administrative expenses	7,306	12,873

Note 3. Finance costs

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Interest income from Group companies	21,261	30,403
Interest income	29	170
Foreign exchange gain	3,377	1,216
Interest expense	-3,718	-1,743
Foreign exchange loss	-218	-
Other finance expense	-	915
Total finance costs	20,731	29,131

Impairment of investments in subsidiaries during year ended 2012 of MNOK 118.4 is related to impairment of the subsidiary Larchbay Traders & Consultants Ltd.

Note 4. Auditors' fee

All amounts exclude VAT.

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Statutory audit – Deloitte	543	590
Other attestation services – other auditors	174	299
Other attestation services - Deloitte	-	35
Other attestation services - other auditors	-	86
Total audit fee	717	1,010

Note 5. Employees' remuneration

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	2,196	3,273
Options	-	2,182
Social security tax	318	507
Other benefits	61	242
Other staff cost	6	94
Total employees' remuneration	2,581	6,298

Also refer to Note 15 in the Consolidated Financial Statements. Aladdin Oil & Gas ASA had 1 employee at the end of 2012 (4 employees as of the end of 2011).

Note 6. Tax expense

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011
Tax expense		
Loss for the period	-98,972	-59,509
Permanent differences	113,164	86,167
Change in temporary differences	-3	-42,103
Tax base	14,189	-15,445
Increased / - Utilized tax losses carried forward from prior years	-14,189	15,445
Tax payable	-	-

(Thousand NOK)	Year ended 31 December 2012	Year ended 31 December 2011	Change
Basis for deferred tax			
Receivables	-	-	-
Other	11	14	-3
Total temporary differences	11	14	-3
Loss carried forward	19,596	33,785	-14,189
Total basis for deferred tax asset	19,607	33,799	-14,192
Deferred tax liability (Russia)	5,490	9,464	-3,974
Deferred tax asset (Russia)	-5,490	-9,464	3,974
Net deferred tax	-	-	-
Deferred tax asset not recognized in the consolidated balance sheet	-	-	-

Note 7. Investments in Group Companies

Company	Date of acquisition	Registered office	Voting share / Ownership	Cost price (MNOK)	Equity 31.12.12 (MNOK)	Profit / -loss 12m2012
Larchbay Traders & Consultants Ltd.	18.07.2006	Cyprus	100%	153.2	-53.0	-20.4
Stikito Limited	06.04.2006	Cyprus	100%	0.1	-35.5	-10.0
Aladdin Oil & Gas (Cyprus) Ltd.	12.03.2007	Cyprus	100%	0.1	-0.04	0.0

For the shares in Larchbay Traders & Consultants Ltd, an impairment loss of MNOK 75 in 2009 and MNOK 78.2 in 2010 was recognized. Remaining book value of shares in subsidiaries is zero.

Note 8. Loans to Group Companies

(Thousand NOK)	Larchbay Traders & Consultants Ltd.	Stikito Limited	Total
Book Value 31.12.2010	127,809	35,593	163,402
Additional loans issued	51,246	46,259	97,505
Impairment 2011	-86,000		-86,000
Book Value 31.12.2011	93,055	81,852	174,907
Additional loans issued	48,471	26,829	75,300
Impairment 2012	-71,558	-46,865	-118,423
Book Value 31.12.2012	69,968	61,816	131,784

Note 9. Cash and cash equivalents

(Thousand NOK)	31 December 2012	31 December 2011
Cash at bank	911	11,337
Restricted cash	-	137
Total cash and cash equivalents	911	11,474

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

Note 10. Share capital

Refer to Note 10 in the Consolidated Financial Statements.

Note 11. Related party transactions

Most significant related party transactions are disclosed in Note 14 in the Consolidated Financial Statements.

Note 12. Subsequent events

Refer to Note 19 in the Consolidated Financial Statements.



Deloitte AS
Karenslyst allé 20
Postboks 344 Nydalen
NO-0403 Oslo
Norway

Tel: +47 22 27 00 00
Fax: +47 22 27 50 00
www.deloitte.no

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 of the parent company and the financial statements of the Group. The financial statements of the parent company and the financial statements of the Group comprise the statement of financial position as at December 31, 2012, income statement, the statements of changes in equity and cash flow statement 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.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Aladdin Oil & Gas Company ASA and of the Group as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to the Norwegian accounting act § 3-9.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a UK limited liability partnership, and its network of member firms, each of which is a legally separate and independent entity. None of these entities is authorised to issue any form of audit opinion or to provide any other form of assurance or advisory services.

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Emphasis of matter

Without qualifying our opinion:

- We draw attention to Note 1 in the financial statements for the Group, Note 1 in the financial statements for the parent company and the report from the Board of Directors. The company is operating at a loss and is dependent on new equity or other financing in order to meet its obligations, develop its assets and continue as a going concern. This financing is currently not in place.
- We draw attention to note 18 in the financial statements of the Group regarding non-compliance with the subsurface license terms and lease expiration. It is not possible to predict whether the company will be successful in remediating the non-compliance and prolonging the license terms. A negative outcome for some or all of the licenses could materially affect the Group's and the Parent's ability to generate sufficient cash flows to recover the carrying amount of the non-current assets and loans to group companies presented in the financial statements.

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.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 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.

Oslo, June 11, 2013
Deloitte AS

Mette Herdlevær
State Authorised Public Accountant (Norway)