



Annual Report  
**2009**

**Aladdin** | Oil & Gas  
Company ASA

# Annual Report 2009

- 3** Chairman's Statement AGM
- 4** Corporate governance and responsibility
- 5** Board of Directors Report
- 8** Income statement
- 9** Balance sheet
- 12** Changes in equity
- 14** Cash flow
- 15** Notes to the financial statements
- 43** Auditors Report
- 48** Contacts

# CHAIRMAN'S STATEMENT AGM

28th February 2011

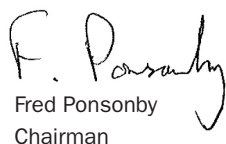
**Dear fellow shareholder,**

Aladdin Oil & Gas ASA (Aladdin) is an independent Norwegian oil and gas exploration and production company with its assets in Russia. The company has been through turbulent times over the last two years and has now emerged stronger, better financed and with a clear work programme. Aladdin's work programme is aimed at increasing both oil and gas production together with its reserves base through seismic acquisition and drilling. Aladdin has continued to focus its efforts in Orenburg and Ukhta. In Orenburg Aladdin has five production licences and currently produces oil, in Ukhta Aladdin has two production licences, one exploration licence and currently produces gas. This all adds up to a solid production and reserves base with significant exploration upside.

The financial position of the group has been significantly strengthened by the conversion of the Company's bonds to shares in July of 2010 plus a loan to finance the initial stages of the newly developed work programme. Aladdin now benefits from the strong support of a strategic shareholder with the ambition and vision to build a significant oil and gas producer in Russia.

The newly established board has spent a lot of time putting in place strong governance structures plus investors' protection compliant with Norwegian legislation. The board has international oil company experience and the senior management in Aladdin is now mostly based in Russia. We believe this combination of changes will best enable Aladdin to take advantage of the opportunities available with its assets.

The company's focus for 2011 is summarised in the presentation recently posted on the company website. In addition to this the company will continue to assess new venture opportunities in Russia where we believe there are many undervalued assets. 2011 will be an exciting year for Aladdin's shareholders and we hope you continue to support the group.

  
Fred Ponsonby  
Chairman

# CORPORATE GOVERNANCE AND RESPONSIBILITY

Aladdin Oil & Gas Company ASA aims to comply with The Norwegian Code of Practice for Corporate Governance, regulating the division of roles between shareholders, board of directors and executive management beyond the requirements of the legislation. The Code of Practice is intended to strengthen confidence in companies and to enhance the greatest possible value creation over time in the best interests of shareholders, employees and other stakeholders.

The company has implemented several of the practices, especially related to the composition of the board of directors and the corporate assembly, independence, the work of the board of directors, internal control, financial reporting and information and communications. Exemplifying the latest, Aladdin Oil & Gas emphasizes openness and equal treatment of all participants in the securities market. Thus, the company informs the market through the Norwegian Securities Dealers Association news feed and the company's web page. In addition, all information is presented both in Norwegian and English, in order to avoid discrimination of any shareholder.

As a young company, Aladdin Oil & Gas Company is in the process of further building up structures and processes, enabling full compliance with the Code of Practices.

Aladdin strongly recognizes the importance of active involvement in developing the local community in the areas where we operate. We are aware that our ability to develop, grow and perform is not only dependent upon our organization but also upon the local community surrounding our operations. Consequently Aladdin strives to utilize our resource base in a best possible way to engage and commit resources for developing the local community.

# BOARD OF DIRECTORS' REPORT

## OPERATIONS

Aladdin Oil & Gas Company (Aladdin) is an independent Norwegian exploration- and production company engaged in development and operation of oil and natural gas properties in Russia. The Company owns the three operating entities OOO Geotekhnologiya, ZAO Orneftegaz and OOO Veselovskoe. Geotekhnologiya is located in the Timan Pechora region and owns one production license (West Ukhtinskoye) and one exploration license (Middle Sedolskoye). Company head office is located in Ukhta. Orneftegaz is located in the Volga-Ural region and holds one exploration license (Bogdanovskoye) expected to expire 31. December 2010. Company head office is located in Orenburg. OOO Veselovskoye holds five production licenses located in the Orenburg area, in close proximity to the Bogdanovskoye license. Company head office is located in Orenburg. Aladdin group headquarter is located in Oslo, Norway.

The company's goal remains to become a significant producer of oil and gas in Russia and the former Soviet Union

## HIGHLIGHTS 2009

2009 was again a challenging year for the Group. Venatino Trading Limited did in year 2008 subscribe for shares with gross proceeds in the amount of NOK 155 million but has failed to pay more than NOK 78.4 million. Last payment was received in July 2009. In order to secure capital a number of subsequent equity issues were performed with payments of NOK 13.9 million for the balance of the year and NOK 48.7 million in year 2010. The financial uncertainty combined with being underfinanced in relation to the planned operational activity lead to production target not being met. However, the planned 100 % acquisition of OOO Veselovskoe, owning five licenses, for a total consideration of USD 3.2. Million including debt and acquisition costs was made May 2010. Since August 2009 three wells in the license Nikiferovskoye have been producing approximately 175-250 bbl pr day.

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

The Group has continued its focus on developing the gas licenses in Ukhta. The gas production commenced in April 2010 and reached an average production of 112 thousand cubic meters per day by December 2010.

The Company has not met all its license obligations and anticipates further breaches before the situation is remediated. The Bogdanovskaya exploration license has expired and the Company has decided not to apply for extension of the

license due to limited potential. The Company has written off the license and related assets in the annual accounts for 2009. The Board of Directors considers the risk for losing the remaining licenses as minimal as the necessary actions for maintaining these are either in progress or planned remediated within a few months. The Company is in addition applying for extension of time limits where appropriate. The Company has decided to abandon the Khersonskoe license due to the production prospects not being satisfactory.

At the end of the year, the company's licenses had a total of 36,2 mboe verified P50 SPE (Society of Petroleum Engineers) classified reserves. In addition, the company has reported resources not yet SPE verified, through the WU17 structure and the interesting gas discovery in structure 14 on the MS license.

Please refer to Note 16 for further detail on activities undertaken in 2010.

## FINANCIAL STATEMENTS 2009

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

Consolidated 2009 Group operating revenues amounted to NOK 6.4 million, and the Group had a negative comprehensive income for the year of NOK 193.4 million. The parent company, Aladdin Oil & Gas Company ASA, had a net loss in 2009 of NOK 255.1. On the consolidated level the increased losses relative to 2008 are largely related to increased impairments from NOK 14.0 million in 2008 to NOK 70,1 million in 2009, of which the impairment of the Bogdanovskaya license constitutes NOK 33.3 million (Note 17), and increased other financial costs from a positive NOK 23.3 million in 2008 to an expense of NOK 59,9 million in 2009. Exchange differences from foreign operations as shown under comprehensive income is negative with NOK 8,6 million versus negative NOK 8.9 million for 2008. This expense is in 2009 mainly related to not realize currency losses on inter-company loans. The production targets not met because of Venatino's not fulfilling its equity-issue obligations has resulted in higher fixed costs relative to development and production than planned.

At the year-end of 2009, the Group had total equity of NOK 59,7 million, which is equal to an equity ratio of 26,9 %. Available cash and cash equivalents at year end 2009 were NOK 11 million. Total capital at the end of the year was NOK 228,1 million. The Group's non-current interest-bearing debt at the year end 2009 was NOK 62.5 million, compared to NOK 55.2 million at year end 2008 (Note 9). The Group's short term debt as of 31.12.09 amounted to NOK 86.6 million, compared to 67.3 million in 2008. The Group's net cash flow from operations amounted to minus NOK 121,9 million. The Groups total investments were NOK 27.7 million in 2009. Please refer to Note 2 for details on acquisition of OOO Veselovskoe. New equity paid in was NOK 92.1 million.

#### 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 2009. In 2009 the sickness absenteeism was 2.7 % for Aladdin.

#### RESEARCH & DEVELOPMENT ACTIVITIES

The Aladdin Group has not undertaken any research- and development (R&D) activities in 2009.

#### GENDER EQUALITY

Out of the 119 employees in the Group as of year-end 2009, 16 are women. Women represent 42,8% of the board members in Aladdin. The company is trying to recruit women to group management positions. Women are well represented in the group. There are no significant differences in employee benefits between men and women.

#### ANTI DISCRIMINATION

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

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

#### THE EXTERNAL ENVIRONMENT

Aladdin Oil & Gas Company ASA is through its subsidiaries OOO Geotekhnologiya, OOO Veselovskoe and ZAO Orneftegaz an operator of the group's oil fields in Russia. During drilling, the responsibility for the well may be transferred to a subcontractor (drilling company) which holds full responsibility for the operations and any reporting to Russian authorities until the well is finished. When a well is finished and ready for being

put in production, the responsibility of the well is transferred back to the operating entities. The Board is very aware of the importance in finding industrial solutions protecting the external environment and ensuring the companies co-existence with other important industries. The company upholds the laws and regulations applying in Russia at all time. No environmental incidents have been reported for 2009.

#### FINANCIAL RISK

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

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

As to liquidity, the Group is in a development phase, and the access to necessary funds is considered a risk factor with regards to the future funding of the company, which is planned to be covered through a combination of loans and equity. The current financing and production plans allow us to say those necessary funds are to be available for the Group in the nearest future. Our plan is to get enough funds to operate during the next 12 months. At the same time we plan to reach breakeven point for the whole group in 2011, so the liquidity risk is to be minimised.

Further information on financial instruments and risks are provided in Note 9 and 10.

#### OPERATIONAL RISK

Aladdin is exposed to operational and technical risk during drilling and production activities on the company's licenses in Russia. Technical risk inhered in the operations as well as risk of equipment being delayed and contractors failing operations may cause delays of operations. Similar cost can increase due to the high level of activity and pressure in the industry. In shallow areas low pressure is a technical challenge.

Aladdin's exploration license Middle Sedolskoye expires in 2011, however the company will apply for extension of the license in due time. There are always operation risks associated with such extension processes for Aladdin as for other operators in Russia. Aladdin fails to be in compliance with all license obligations which may cause additional risk related to its licenses. See notes 17 and 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. However; Russian authorities has now realized that the high taxation has reduced the level of investments and the growth rate. Strong signals from Kremlin gives reason to believe that the level of taxation is more likely to decrease than increase especially for smaller fields.

#### BUSINESS ETHICS

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

#### CORPORATE GOVERNANCE

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

#### GOING CONCERN

As of date the Group is lack of cash to finance its operations. The board's intention is to maintain the company as a going concern. In this respect the Group has obtained a bridge loan in the amount of USD 5.0 million from its biggest shareholder and raise up to USD 20.0 millions in new equity or similar financing arrangement during first half 2011. These plans are subject to the shareholders' approval. Therefore there is some risk that the Group will not continue as a going concern.

#### OUTLOOK

The Company's goal for the oil production in Orenburg during 2011 is to increase the production up to 720 barrels per day through re-activating three wells on the Veselovskoe license and further development of the licenses Voinskoe, Besedinskoe and Nikiferovskoe. Said development consists mainly of conducting seismic programs and subsequent side-tracking's. Secondly a change of lifting system is planned.

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

The financing of these operations is expected to be a combination of debt- and equity issues as outlined under going concern above.

#### PARENT COMPANY ACCOUNTS AND THE ALLOCATION OF PROFIT FOR THE YEAR

The profit and loss account for the parent company Aladdin Oil & Gas Company ASA showed a loss for the year of NOK 255.1 million. The Board suggests the loss is allocated to other equity. Unrestricted equity at 31.12.2009 amounts to NOK 0.

Oslo, Norway, 11. February 2011



Frederick Matthew Thomas  
Ponsonby  
Chairman of the Board



Mikhail Alyautdinov  
Board Member



Alexey Kruzhkov  
Chief Executive Officer



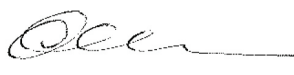
Einar Lyche  
Board Member



Katherine Hatlen Støving  
Board Member



Artur Rastrogin  
Board Member



Ann Elizabeth Seabrook  
Board Member



Ekaterina Zhdan  
Board Member

## INCOME STATEMENT

Norwegian Kroner	ASA 2009	ASA 2008	Notes	Group 2009	Restated Group 2008
Operating Revenues	-	-	8	6 423 438	2 216 633
<b>Total Revenues</b>	<b>-</b>	<b>-</b>		<b>6 423 438</b>	<b>2 216 633</b>
Production Expenses	-	-		(12 398 435)	(17 599 320)
Personnel Expenses	(7 783 510)	(8 998 239)	4,5	(14 740 289)	(16 848 362)
Other Operating Expenses	(8 586 686)	(7 510 596)	11	(25 963 657)	(22 458 923)
<b>Total Operating Expenses</b>	<b>(16 370 196)</b>	<b>(16 508 835)</b>		<b>(53 102 381)</b>	<b>(56 906 604)</b>
<b>Operating Income (Loss)</b>	<b>(16 370 196)</b>	<b>(16 508 835)</b>		<b>(46 678 943)</b>	<b>(54 689 971)</b>
Depreciation	(30 250)	-	11	(2 862 001)	(8 936 819)
Impairment	(182 320 368)	-	6	(70 077 840)	(14 000 000)
<b>Depreciation and impairment</b>	<b>(182 350 618)</b>	<b>-</b>		<b>(72 939 841)</b>	<b>(22 936 819)</b>
Interest From Group Companies	32 291 856	20 295 182		-	-
Interest Income	4 661 884	1 642 942		4 667 256	1 643 432
Other Financial Income	463 097	1 000 894		594 503	4 813 921
Interest Expenses	(16 162 271)	(18 564 000)		(16 275 415)	(18 669 292)
Other Financial Expenses	(77 594 374)	(131 771)	3	(59 896 448)	23 294 671
<b>Net Financial Items</b>	<b>(56 339 808)</b>	<b>4 243 247</b>		<b>(70 910 105)</b>	<b>11 082 732</b>
<b>Income (Loss) Before Tax</b>	<b>(255 060 622)</b>	<b>(12 265 588)</b>		<b>(190 528 889)</b>	<b>(66 544 058)</b>
Tax Expense (Income)	-	-	13	5 763 438	6 710 093
<b>Net Income (Loss)</b>	<b>(255 060 622)</b>	<b>(12 265 588)</b>		<b>(184 765 451)</b>	<b>(59 833 966)</b>
Foreign exchange				(8 606 649)	(8 972 572)
<b>Total comprehensive income</b>				<b>(193 372 099)</b>	<b>(68 806 538)</b>
Number of shares parent company			7	42 165 582	19 402 222
<b>Earnings per share</b>			<b>14</b>	<b>(4.38)</b>	<b>(3.08)</b>
Diluted number of shares parent company				50 523 082	27 759 722
<b>Diluted Earnings per share</b>			<b>14</b>	<b>(3.66)</b>	<b>(2.16)</b>



## BALANCE SHEET

Norwegian Kroner					Restated	Restated
	ASA	ASA	Notes	Group	Group	Group
	2009	2008		2009	2008	01.01.2008
<b>Assets</b>						
Goodwill	-	-	12	37 674 001	66 075 407	-
Licenses	-	-	2,12,16, 17	94 252 891	132 126 477	239 417 072
Capitalized Exploration Expenses	-	-	12	56 717 839	41 058 780	30 331 916
Deferred tax assets	-	-	13	-	1 057 175	-
<b>Total Intangible Assets</b>	<b>-</b>	<b>-</b>		<b>188 644 731</b>	<b>240 317 840</b>	<b>269 748 988</b>
Production facilities in development	-	-		-	-	-
Machines and Equipment	39 930	70 180	11	12 057 769	14 788 932	11 385 394
<b>Total Tangible Assets</b>	<b>39 930</b>	<b>70 180</b>		<b>12 057 769</b>	<b>14 788 932</b>	<b>11 385 394</b>
Share in subsidiaries	78 201 911	154 046 765	3	-	-	-
Loan to group companies	112 788 781	191 248 713	6	-	-	-
Other long term receivables	350 195	161 497		350 195	161 497	-
<b>Total Financial Assets</b>	<b>191 340 887</b>	<b>345 456 975</b>		<b>350 195</b>	<b>161 497</b>	<b>-</b>
<b>Total Non-current Assets</b>	<b>191 380 817</b>	<b>345 527 155</b>		<b>201 052 695</b>	<b>255 268 269</b>	<b>281 134 382</b>
Inventories	-	-		8 105 500	17 637 726	3 425 424

## BALANCE SHEET

Trade receivables	-	544 718		7 354 163	11 882 207	7 467 369
Other Receivables	575 660	-		639 700	-	-
Cash and Bank Deposit	9 793 136	4 249 360		10 977 211	5 967 650	44 454 305
<b>Total Current Assets</b>	<b>10 368 796</b>	<b>4 794 078</b>		<b>27 076 574</b>	<b>35 487 584</b>	<b>55 347 099</b>
<b>Total Assets</b>	<b>201 749 613</b>	<b>350 321 233</b>		<b>228 129 269</b>	<b>290 755 852</b>	<b>336 481 481</b>
<b>Equity and Liabilities</b>						
Share Capital	5 770 061	2 261 768	7	5 770 061	2 261 768	1 661 820
Share Premium Reserve	297 825 890	227 270 213		297 825 890	227 270 213	174 583 934
Other Equity	40 519 848	22 511 486		40 519 848	22 511 486	18 563 406
<b>Total Paid-in capital</b>	<b>344 115 799</b>	<b>252 043 467</b>		<b>344 115 799</b>	<b>252 043 467</b>	<b>194 809 160</b>
Other equity	-	-		-	-	-
Retained earnings	(267 326 210)	(12 265 588)		(284 417 970)	(110 249 626)	(31 690 722)
<b>Total Retained earnings</b>	<b>(267 326 210)</b>	<b>(12 265 588)</b>		<b>(284 417 970)</b>	<b>(110 249 626)</b>	<b>(31 690 722)</b>
<b>Total Equity</b>	<b>76 789 590</b>	<b>239 777 879</b>		<b>59 697 829</b>	<b>141 793 841</b>	<b>163 118 438</b>
<b>Liabilities</b>						
Pension Liabilities	-	-		-	-79	71 069
Deferred Tax	-	-	13	18 313 213	26 425 316	57 436 207
Other Liabilities	-	-		-	-	-
<b>Total Provisions</b>	<b>-</b>	<b>-</b>		<b>18 313 213</b>	<b>26 425 237</b>	<b>57 507 276</b>
<b>Non-current liabilities</b>						
Bonds	62 488 046	55 233 866	9	62 488 046	55 233 866	100 086 791
Liabilities to financial institutions	-	-		989 074	-	-
<b>Total non-current Liabilities</b>	<b>62 488 046</b>	<b>55 233 866</b>		<b>81 790 333</b>	<b>81 659 103</b>	<b>157 594 067</b>

## BALANCE SHEET

<b>Short term liabilities</b>						
Bonds	49 622 735	48 322 292	9	49 622 735	48 322 292	-
Trade Creditors	4 757 296	929 559		22 979 131	11 227 070	2 025 446
Tax payable	344 259	-		344 259	-	2 649 738
Public Duties Payable	155 534	1 033 936		1 028 650	3 113 621	-
Other Current Liabilities	7 592 153	5 023 701		12 666 331	4 639 926	11 093 792
<b>Total Current Liabilities</b>	<b>62 471 977</b>	<b>55 309 488</b>		<b>86 641 106</b>	<b>67 302 909</b>	<b>15 768 975</b>
<b>Total Liabilities</b>	<b>124 960 023</b>	<b>110 543 354</b>		<b>168 431 440</b>	<b>148 962 012</b>	<b>173 363 044</b>
<b>Total Equity and Liabilities</b>	<b>201 749 612</b>	<b>350 321 233</b>		<b>228 129 269</b>	<b>290 755 852</b>	<b>336 481 481</b>

Oslo, Norway, 11. February 2011

  
 Frederick Matthew Thomas  
 Ponsonby  
 Chairman of the Board

  
 Mikhail Alyautdinov  
 Board Member

  
 Alexey KruzHKov  
 Chief Executive Officer

  
 Einar Lyche  
 Board Member

  
 Katherine Hatlen Støvring  
 Board Member

  
 Artur RastrogIn  
 Board Member

  
 Ann Elizabeth Seabrook  
 Board Member

  
 Ekaterina Zhdan  
 Board Member

## CHANGE IN EQUITY

### Statement of changes in equity - Group

Norwegian kroner	Notes	Share capital	Share premium	Other paid in capital	Other equity	Total equity
<b>Equity 1.1.08</b>		<b>1 661 820</b>	<b>174 583 934</b>	<b>18 563 406</b>	<b>(16 451 994)</b>	<b>178 357 166</b>
Correction previous years error		-	-	-	(15 238 728)	(15 238 728)
<b>Restated Equity 1.1.08</b>		<b>1 661 820</b>	<b>174 583 934</b>	<b>18 563 406</b>	<b>(31 690 722)</b>	<b>163 118 438</b>
Foreign exchange		-	-	-	(8 972 572)	(8 972 572)
Capital increase		599 948	57 596 078	-	-	58 196 026
Issue Expenses		-	(4 909 799)	-	-	(4 909 799)
Granted options		-	-	3 948 080	-	3 948 080
Net income (loss)		-	-	-	(59 833 966)	(59 833 966)
<b>Equity 31.12.08</b>		<b>2 261 768</b>	<b>227 270 213</b>	<b>22 511 486</b>	<b>(100 497 260)</b>	<b>151 546 207</b>
Correction previous years error		-	-	-	(9 752 367)	(9 752 367)
<b>Restated Equity 31.12.08</b>		<b>2 261 768</b>	<b>227 270 213</b>	<b>22 511 486</b>	<b>(110 249 626)</b>	<b>141 793 841</b>
<b>Equity 1.1.09</b>		<b>2 261 768</b>	<b>227 270 213</b>	<b>22 511 486</b>	<b>(110 249 626)</b>	<b>141 793 841</b>
Foreign exchange		-	-	-	(8 606 649)	(8 606 649)
Capital increase	7	3 508 293	70 555 678	699 600	-	74 763 571
Unregistered capital increase		-	-	17 308 762	-	17 308 762
Acquisition	2	-	-	-	19 203 755	19 203 755
Net income (loss)		-	-	-	(184 765 451)	(184 765 451)
<b>Equity 31.12.09</b>		<b>5 770 061</b>	<b>297 825 891</b>	<b>40 519 848</b>	<b>(284 417 970)</b>	<b>59 697 830</b>

## CHANGE IN EQUITY - GROUP

### Statement of change in equity - Company

Norwegian kroner	Notes	Share capital	Share premium	Other paid in capital	Other equity	Total equity
<b>Equity 1.1.08</b>		<b>1 661 820</b>	<b>174 583 934</b>	<b>18 563 406</b>	<b>0</b>	<b>194 809 160</b>
Capital increase		599 948	64 951 869	3 921 344	(12 265 588)	57 207 573
Granted options		-	-	26 736	-	26 736
Net income (loss)		-	(12 265 590)	-	-	(12 265 590)
						0
<b>Equity 31.12.08</b>		<b>2 261 768</b>	<b>227 270 213</b>	<b>22 511 486</b>	<b>(12 265 588)</b>	<b>239 777 879</b>
<b>Equity 1.1.09</b>		<b>2 261 768</b>	<b>227 270 213</b>	<b>22 511 486</b>	<b>(12 265 588)</b>	<b>239 777 879</b>
Capital increase	7	3 508 293	70 555 678	699 600	-	74 763 571
Unregistered capital increase				17 308 762	-	17 308 762
Net income (loss)		-	-	-	(255 060 622)	(255 060 622)
<b>Equity 31.12.09</b>		<b>5 770 061</b>	<b>297 825 890</b>	<b>40 519 848</b>	<b>(267 326 210)</b>	<b>76 789 590</b>

## CASHFLOW

Norwegian Kroner					Restated
	ASA	ASA	Notes	Group	Group
Cash Flow (unaudited)	2009	2008		2009	2008
<b>Cash flows from operating activities</b>					
Profit before taxes	(255 060 622)	(12 265 588)		(190 528 889)	(66 544 058)
Depreciation and amortization	30 250	-	11	2 862 001	22 936 819
Impairment	257 320 368	-	6	70 077 840	-
<b>Changes in assets and liabilities</b>					
Trade and other receivables	544 718	502 586		3 888 344	(4 414 838)
Other current assets	(575 660)	-		9 532 226	(14 212 302)
Other non-current assets	(188 698)	-		-	(161 497)
Trade and other payables	3 827 737	(635 235)		(9 667 091)	9 201 624
Other current liabilities	2 034 309	1 129 287		(8 026 405)	(5 989 984)
<b>Net cash flows from operating activities</b>	<b>7 932 402</b>	<b>(11 268 950)</b>		<b>(121 861 974)</b>	<b>(59 184 236)</b>
<b>Cash flow from investing activities</b>					
Capitalized development costs	-	-		(15 659 059)	(25 871 511)
Loans to subsidiaries	(99 795 693)	(170 953 531)		-	-
Purchase of fixed and intangible assets	-	(42 730)	11	(1 271 705)	(11 164 551)
Acquisition of businesses, net of cash acquired	-	-	2	(10 743 000)	-
<b>Net cash flow from investing activities</b>	<b>(99 795 693)</b>	<b>(170 996 261)</b>		<b>(27 673 764)</b>	<b>(37 036 062)</b>
<b>Cash flow from financing activities</b>					
Net proceeds from share issues	92 072 333	53 946 027		92 072 333	53 946 027
Proceeds from borrowing	8 554 623	-		8 554 623	-
Repayment of borrowing	-	-		-	-
<b>Net cash flow from financing activities</b>	<b>92 072 333</b>	<b>53 946 027</b>		<b>100 626 956</b>	<b>53 946 027</b>
Effect of foreign exchange rate changes	3 219 889	89 230 185		53 918 342	3 656 042
Net increase/(decrease) in cash and cash equivalents	209 042	(128 319 184)		(48 908 781)	(42 274 271)
Cash and cash equivalents at beginning of period	4 249 360	43 338 359		5 967 650	44 585 879
<b>Cash and cash equivalents at the end of period</b>	<b>9 793 136</b>	<b>4 249 360</b>		<b>10 977 211</b>	<b>5 967 650</b>

# NOTES TO THE FINANCIAL STATEMENT

## **Note 1 Accounting policies and effect of new accounting standards**

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

The financial statements have been prepared in accordance with the Norwegian Accounting Act §3-9 and the rules for simplified IFRS passed by the Norwegian Finance Ministry January 21, 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. The financial statements were approved by the board of directors on 11 February 2011.

Sale of petroleum products is recognized as income at the time of delivery; when the risk is transferred to the customers according to the contractual agreements. Income from oil producing fields is presented net after deduction of royalties.

Current assets and short term liabilities consist of receivables and payables due within one year. Current assets are valued at below cost and fair value. Short term liabilities are recognized at nominal value.

Monetary items in a foreign currency are converted to NOK using the exchange rate applicable on the balance sheet date. Receivables and payables which are hedged are recognized at the exchange rate of the hedge contract with exception for the interest which is recognized and classified as interest income/expense.

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 different receivables. For the remaining receivables, a general provision is estimated based on expected loss.

Excess value on the purchase of operations that cannot be allocated to identifiable assets or liabilities on the acquisition date is classified in the balance sheet as goodwill. Goodwill is recognized at cost less any accumulated impairment losses. Goodwill is not depreciated, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Licenses, exploration fields and property, plant and equipment is recognized in the balance sheet at cost reduced by accumulated depreciation and any devaluations. Licenses are depreciated according to the production unit method.

Cost of exploration and development of the oil and gas activities is accounted for according to the successful efforts method. Costs of acquiring licenses and drilling of exploration wells are capitalized. Costs without identifiable future economic benefits such as geological and geophysical costs, costs of dry exploration wells are expensed. Capitalized costs and production facilities are depreciated over their useful economic lives and devaluated if future economic benefits of the assets are not present.

The company has issued two loans with warrants. The loans have been recognized according to the amortized cost principle and the effective interest method.

Financial derivatives are recognized at fair value and as assets or liabilities depending on the value. Typical derivatives for the company are future contracts for sale of gas, put options for oil or currency SWAPS. Changes in fair value of the derivatives are recognized in the income statement for the period.

Stock options issued to employees are measured at fair value at the time granted. The cost is expensed over the vesting period. Inventories consist of crude oil and are recognized at lower of production cost and net realizable value. Production costs include raw material, salaries and certain administrative costs. Net realizable value is the estimated sales price which can be achieved in normal operations, reduced by the estimated cost of sales.

The tax expense consists of payable taxes and changes to deferred tax. Deferred tax/tax assets are calculated on all taxable temporary differences at the end of the financial year. Tax increases and decreases that are temporary differences which reverse or may reverse in the same period are offset. Net deferred tax asset are recognized to the extent that it is reasonable that the company can utilize the deferred tax asset.

The parent company's accounting principles have been used in the group consolidated statements. The assets and liabilities of foreign subsidiaries are converted into NOK at the exchange rate at the balance sheet date. The results and cash flows of foreign subsidiaries are converted into NOK using average rates of exchange. Foreign exchange adjustments arising when the opening net assets and the profits for the year for foreign subsidiaries are translated into NOK are booked to equity. The purchase method implies that the purchase price of the subsidiaries is eliminated against the equity of the subsidiary at the time of purchase. For further explanations of the accounting principles used, please see the notes to the different accounting items.

**Approved IFRSs and IFRICs with future implementation impact, not implemented at the balance sheet date:**

- Revised IFRS 3 *Business Combinations (2008)*
- Change to IAS 27 *Consolidated and separate Financial Statements (2008)*
- Change to IFRS 2 *Group Cash-settled Share-based Payment Transactions*
- IFRS 9 *Financial instruments*
- IAS 24 (revised) *Related Party Disclosures*
- Change to IAS 32 *Classification of Rights Issues*
- Change to IAS 39 *Eligible Hedged Items*
- IFRIC 12 *Service Concession Arrangements*
- Change to IFRIC 14 *IAS 19 Prepayments of a Minimum Funding Requirement*



- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a foreign operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customer*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

## Note 2 Business combinations

Aladdin Oil & Gas Company has acquired the company ZAO Veselovskoye LLC during 2009. It has not been any other changes in the group's structure compared to 2008.

ZAO Veselovskoye LLC was acquired 5 May 2009. The purchase price allocation has been determined preliminary.

Statement of financial position at date of acquisition adjusted for fair value (Norwegian kroner)	Carrying value at date of acquisition	Fair value adjustments	Fair value at date of acquisition
	-	3 580	3 580
Licenses	-	19 204	19 204
Fixed assets	4 146	-	4 146
Current assets	3 082	-	3 082
<b>Total assets</b>	<b>7 228</b>	<b>22 784</b>	<b>30 012</b>
Equity	(8 461)	19 204	10 743
		- -	
Interest bearing loans and credits	15 689	-	15 689
Deferred tax	-	3 580	3 580
<b>Total equity and liabilities</b>	<b>7 228</b>	<b>19 204</b>	<b>26 432</b>
	-		
Acquisition cost (incl. Transaction cost)	10 743		
Carrying amount of assets	(8 461)		
<b>Fair value adjustment allocated to licenses</b>	<b>19 204</b>		

Fair value adjustments are allocated to licenses. The company has not received sufficient information to prepare pro forma information required by IFRS 3.

The allocation has been determined provisionally.

### Note 3 Subsidiaries

Company	Parent company	Owners share	Country	Share capital
Larchbay Traders & Consultants Ltd.	Aladdin Oil & Gas Company ASA	100%	CYP	EUR 8.550
Aladdin Oil & Gas (Cyprus) Ltd.	Aladdin Oil & Gas Company ASA	100%	CYP	EUR 10.000
Stikito Limited	Aladdin Oil & Gas Company ASA	100%	CYP	EUR 11.777
Norgesveien S.L.	Aladdin Oil & Gas Company ASA	100%	ESP	EUR 3.000
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	RUS	RUB 10.000
OOO KOMI Drilling	Larchbay Traders & Consultants Ltd.	100%	RUS	RUB 10.000
ZAO YuK Perspektiva	Aladdin Oil & Gas Cyprus Ltd.	100%	RUS	RUB 10.000
ZAO Orneftegaz	ZAO YuK Perspektiva	100%	RUS	RUB 2.500.000
OOO Veselovskoye	Stikito Limited	100%	RUS	RUB 10.000

Aladdin Oil & Gas Company ASA has recognized impairment of the shares in Larchbay Traders and Consultants Ltd with NOK 75 million. The amount is included in other financial expenses.

\* Norgesveien S.L. was sold in 2010. The sale has not resulted in a gain or loss.

### Note 4 Employees, remuneration etc

	Company		Group*	
	2009	2008	2009	2008
Salaries	5 154 549	7 692 261	10 662 840	12 521 500
Other benefits	1 519 860	38 389	1 656 744	38 389
Employers tax	870 124	935 330	2 181 728	956 484
Other staff cost	238 977	332 259	238 977	332 259
<b>Total employers cost</b>	<b>7 783 510</b>	<b>8 998 239</b>	<b>14 740 289</b>	<b>13 848 632</b>
Average number of employees	6	6	119	124

\* Salary for the group has been expensed. Salary directly related to well or projects are capitalized in the balance sheet.

## 2009

Remuneration to related parties	Title	from	to	Salary/Fees	Expenses	Consulting fees
Hans Axel Jahren	CEO	01.01.2009	31.05.2009	577 960	28 584	-
Hans Axel Jahren	VP business development	01.06.2009	31.12.2009	591 500	-	-
Pål Nedrelid	CEO	01.06.2009	15.11.2009	658 221	410	-
Einar Askvig	CEO	15.11.2009	31.12.2009	115 000	-	-
Jørn Barkenæs	CFO	01.09.2009	31.12.2009	243 333	-	-
Espen Glende	COO	01.01.2009	31.12.2009	1 124 960	63 785	-
Einar Askvig	Chairman Board	01.01.2009	31.12.2009	50 000	67 885	848 236
Cecilie D. Simonsen	member Board	01.01.2009	26.05.2009	37 500	-	-
Samuel L. Kværnes	member Board	01.01.2009	31.12.2009	50 000	-	-
Inger F. Strass	member	01.01.2009	31.12.2009	50 000	-	-
<b>Total</b>				<b>3 498 474</b>	<b>160 664</b>	<b>848 236</b>

At 15 December 2009 there was made changes in the company's management. Following differing views on the company's strategy, the board and CEO Pål Nedrelid, agreed that he should resign from his position. Chairman Einar Askvig was constituted as the company's CEO from the same date. Einar Askvig received a remuneration of NOK 57 500 per month for the first 3 months and thereafter NOK 115 000 per month, in addition direct expenses for travel, hotel, subsistence and communication. If the agreement is terminated by the company Einar Askvig is entitled to one year's fee if the termination is based on other than employment of new CEO or gross misconduct by Einar Askvig.

Auditors fee	Company		Group	
	2009	2008	2009	2008
Statutory audit	218 013	230 000	2 445 374	811 646
Other attestation services	92 187	75 000	92 187	75 000
Other services	109 275	315 000	109 275	315 000
Tax advice	57 500	40 000	57 500	40 000
<b>Total</b>	<b>476 975</b>	<b>660 000</b>	<b>2 704 336</b>	<b>1 241 646</b>

2008 Remuneration to related parties	Company		
	CEO	Chairman of the board	Board members
Salary	1 295 570	-	-
Board fee	-	50 000	25 000
Consulting fee	-	1 051 515	58 545
Expensed covered	20 375	61 982	25 457
<b>Total</b>	<b>1 315 945</b>	<b>1 163 497</b>	<b>109 002</b>

## Note 5 Pension arrangement

The parent company is required to have pension arrangements after the Mandatory Service Pension Act.

The parent company's pension arrangement is in accordance with the requirements in the Act

In the foreign companies there are no pension arrangements.

## Note 6 Related parties/Receivable and payable group companies

<b>Intercompany receivables 2009</b>	<b>Long term receivables</b>	<b>Short term receivables</b>	<b>Total intercompany receivables</b>
Aladdin Oil & Gas Company ASA	291 044 406	-	291 044 406
Larchbay Traders and Consultants Ltd	98 811 395	455 435	99 266 830
Aladdin Oil & Gas (Cyprus) Ltd	78 086 121	-	78 086 121
Stikito Ltd	5 868 278	-	5 868 278
YUK Perspektiva	8 391 871	1 158 624	9 550 495
OOO Geotechnologia	123 205	763	123 968
ZAO Orneftegaz	4 586 053	4 586 053	9 172 106
OOO KOMI Drilling	-	719 226	719 226
OOO Veselovskoye	-	2 877 011	2 877 011
<b>Total</b>	<b>486 911 329</b>	<b>9 797 112</b>	<b>496 708 441</b>

Aladdin Oil & Gas Company ASA has recognized an impairment loss related to intercompany receivables of NOK 178 million in 2009.

<b>Intercompany payables 2009</b>	<b>Long term payables</b>	<b>Short term payables</b>	<b>Total internal payables</b>
Larchbay Traders and Consultants Ltd	91 706 360	-	91 706 360
Stikito Ltd	20 401 242	455 435	20 856 677
Aladdin Oil & Gas (Cyprus) Ltd	185 759 898	-	185 759 898
OOO Geotechnologia	98 665 559	9 006 942	107 672 501
YUK Perspektiva	12 872 646	26 319	12 898 965
ZAO Orneftegaz	66 956 833	308 416	67 265 249
OOO KOMI Drilling	124 036	-	124 036
OOO Veselovskoye	10 424 755	-	10 424 755
<b>Sum</b>	<b>486 911 329</b>	<b>9 797 112</b>	<b>496 708 441</b>

	Long term receivables	Short term receivables	Total intercompany receivables
<b>Intercompany receivables 2008</b>			
Aladdin Oil & Gas Company ASA	191 248 713	-	191 248 713
Larchbay Traders and Consultants Ltd	82 099 380	-	82 099 380
Aladdin Oil & Gas (Cyprus) Ltd	79 838 584	-	79 838 584
Stikito Ltd	-	-	-
YUK Perspektiva	-	-	-
OOO Geotechnologia	-	352 058	352 058
ZAO Orneftegaz	-	-	-
<b>Total</b>	<b>353 186 677</b>	<b>352 058</b>	<b>353 538 735</b>

	Long term payables	Short term payables	Total internal payables
<b>Intercompany payables 2008</b>			
Larchbay Traders and Consultants Ltd	49 110 870	-	49 110 870
Stikito Ltd	350 974	-	350 974
Aladdin Oil & Gas (Cyprus) Ltd	141 028 418	-	141 028 418
OOO Geotechnologia	82 099 380	-	82 099 380
YUK Perspektiva	15 341 688	352 058	15 693 746
ZAO Orneftegaz	65 255 347	-	65 255 347
<b>Total</b>	<b>353 186 677</b>	<b>352 058</b>	<b>353 538 735</b>

## Note 7 No of shares, shareholders etc

### Issuance of new share capital

Aladdin Oil & Gas Company ASA has during 2009 had 16 capital increases and issued 35.082.918 shares. Of these 8.472.918 were issued at NOK 7,70 per share and 26.610.000 were issued at NOK 0,50 per share. Of this 1.378.200 was issued through the conversion of debt and issued at NOK 0,50 per share. Gross capital increase paid in 2009 was NOK 77.857.369.

In 2010 Aladdin Oil and Gas Company ASA has increased its share capital. See note 16 for addition information. No of shares at 20 December is 1.751.511.862.

<b>Company's 20 largest shareholders:</b>	<b>Account</b>	<b>Country</b>	<b>No of shares</b>	<b>Ownership %</b>
WATERFORD FINANCE AND INVESTMENT LTD*		GUERNSEY	911 960 977	52,06 %
CITIBANK N.A. NEW YOR A/C LAKESHORE INT. BU*	NOM	CAYMAN ISLANDS	122 431 724	6,99 %
MP PENSJON		NORWAY	79 224 667	4,52 %
ANDOSKIN, VLADIMIR		RUSSIA	64 112 800	3,66 %
TOLLEFSEN, IVAR ERIK		NORWAY	54 119 048	3,09 %
HVEEM, PAAL		NORWAY	50 658 696	2,89 %
BANK OF NEW YORK MEL BNY GCM CLIENT ACCOUNT	NOM	GERMANY	50 369 824	2,88 %
HAADEM INVEST AS		NORWAY	47 040 217	2,69 %
FAIRVIEW FINANCE & INVESTMENT LTD		VIRGIN BRITISH ISLANDS	21 375 150	1,22 %
SIX SIS AG ACCOUNT 2	NOM	SWITZERLAND	19 866 977	1,13 %
SIX SIS AG S/A TELFOR INTERVEST		VIRGIN BRITISH ISLANDS	17 130 000	0,98 %
BAAL, ROGER FRANCIS VAN		NETHERLANDS	16 012 976	0,91 %
HAGEN, LARS		NORWAY	14 553 693	0,83 %
ADVANCED CONTROL ENG		NORWAY	14 131 366	0,81 %
FYFFE, GEORGINA CAMPBELL		GREAT BRITAIN	12 422 000	0,71 %
BANK OF NEW YORK MEL S/A CHEVIOT CAPTITAL		GREAT BRITAIN	9 999 000	0,57 %
STORMSKJOLD TALL AS		NORWAY	9 845 652	0,56 %
SKEIE ALPHA INVEST AS		NORWAY	9 605 810	0,55 %
TOTENKOPF AS C/O BJØRN BREIEN		NORWAY	9 525 652	0,54 %
<b>20 largest shareholder at 20 December 2010</b>			<b>1 534 386 229</b>	<b>87,6 %</b>
Other			217 125 633	12,4 %
<b>Total no of shares 20 December 2010</b>			<b>1 751 511 862</b>	<b>100,0 %</b>

\* The 27.12.2010 Waterford Finance and Investment Ltd purchased 122.431.724 shares from CITIBANK N.A. NEW YORK A/C LAKESHORE INT BU. After this Waterford Finance and Investment Ltd has 1.034.392.701 representing a ownership of 59,07 %.

The company has one class of share and all shares have the same voting rights. Par value is NOK 0,10.

There has been issued 2.177.500 warrants with the loan of NOK 37,5 million with an calculated strike of NOK 18,90. In connection with the loan of NOK 50,0 million there has been issued 3.000.000 warrants with calculated strike of NOK 2,20. The latter are issued in August 2009. There has been calculated an updated strike in co-operation with Norsk Tillitsmann in accordance with the dilution terms in the loan agreements.

It has been agreed to establish an option program for the company's board members and other that have provided benefits to the company.

In 2009 there was granted new option to a number of executives and key personnel. The option program covers a period of up to 36 months from grant date. The options can be settled in one or more transactions during the period.

	No	Strike	Lapses within
Espen Glende	800 000	1.00	05.10.2012
Hans-Axel Jahren	800 000	1.00	05.10.2012
Einar Askvig	540 000	1.00	05.10.2012
Niclas Biørnstad	200 000	1.00	05.10.2012
Sverre Monsen	200 000	1.00	05.10.2012
Geir Ytreland	120 000	1.00	05.10.2012
Lena Hansen	50 000	1.00	05.10.2012
Sergei Sorokin	75 000	1.00	05.10.2012
Luis Diaz Martinez	75 000	1.00	05.10.2012
Philip Vorobyrov	120 000	1.00	05.10.2012
Knut Tollefsen	40 000	1.00	05.10.2012
Rudolf Stäger	40 000	1.00	05.10.2012
Samuel Kvernes	40 000	1.00	05.10.2012
Inger Flesland Strass	40 000	1.00	05.10.2012
Anne Johanne Botterud	40 000	1.00	05.10.2012
<b>Total</b>	<b>3 180 000</b>		

#### Options:

(The calculations of the option prices are made using the Ross, Cox and Rubinstein's (1979) option pricing formula).

In October 2009 the company allotted 3.180.000 to management. The new option agreements replace all previously entered into option agreements. Based on a strike price and market price of NOK 0,55 at the time of allotment the value per options is NOK 0,22. Total value is NOK 699.600. After inclusion of employer's tax of 14,10 % total costs is NOK 798.000 (rounded to nearest thousand).

In the valuation there has been used, based on the assumption of positive development in the share value that all option holders choose to exercise the options on their due date. Annualized volatility in the company's share price is approximately 185 % estimated based on daily end prices as stated on the OTC-listen from 10.04.2007 to 09.04.2010. The volatility is therefore measured over a period almost equal to the option period. It is difficult to find volatility for comparable companies. The volatility for AOG has been significant. The management has used a reasonable estimate for volatility that will be between calculated volatility and a normalized interval in the coming three years period and considers 100 % as reasonable estimate. Based on the fact that the company is in a start-up phase it has been assumed that there will not be paid dividend in the period. Discount rate is 3,1 %. Estimated option value is sensitive to changes in volatility.

IFRS 2 requires that the costs are charged the financial statements, and distributed over the period of which the option is earned. This period expires when all the options can be executed. In this case, all the options can be executed immediately upon issue, and thus all the options are earned at the time of issue. This implies that the entire cost regarding the options is recorded in the financial statements in 2008, including the social security tax.

*The following can be summed up at the expiry of the old option plan:*

- Old options are re-estimated to real value at time of expiry.
- New options are priced at real value at the time of issue, which in this case corresponds to the time of expiry of the existing options.
- The difference between real value of new and old shares at this point in time shall be booked as a cost in the financial statements.

The result of controlling and testing old options to real value at the time of expiry show them to be virtually worthless. The difference is therefore set to zero and the real value of the new options is booked fully.

### Note 8 Sales incomes by geography

Sales in 2009 for the group is are only done in the Russian market to local refineries.

### Note 9 Financial instruments

Financial liabilities	Company	Carrying amount		Fair value	
		2009	2008	2009	2008
<b>Long-term debt</b>					
Bond	Aladdin Oil & Gas Company ASA	62 488 046	55 233 866	62 488 046	55 233 866
<b>Total</b>		<b>62 488 046</b>	<b>55 233 866</b>	<b>62 488 046</b>	<b>55 233 866</b>
<b>Short-term debt</b>					
Bond	Aladdin Oil & Gas Company ASA	49 622 735	48 322 292	49 622 735	48 322 292
<b>Total</b>		<b>49 622 735</b>	<b>48 322 292</b>	<b>49 622 735</b>	<b>48 322 292</b>

Aladdin Oil & Gas Company ASA purchased on bond debt in 2007 at par value 5 million.

Interest on the bond loan of NOK 50 million, NOK 3.250.000 with ordinary due date 10 December 2009, was deferred to 10 March 2010. This was done by adding the interest to a new (unsecured) bond loan (coupon 18 % p.a). As part of the terms the coupon on the ordinary bond loan was increased with 5 % p.a. to 18 % p.a. from 10 December 2009 until the additional bond loan has been repaid. The Company's proposal was approved by the bond owners 8 December 2009.



## **Note 10 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 financial instrument in connection with management of financial risk management.

### **Credit risk**

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

### **Liquidity risk**

The company and the groups liquidity risk relates to the possibility for future access to necessary funding.

### **Interest risk**

The loan portfolio has fixed interest terms.

### **Foreign exchange risk**

The company and group are exposed to the development in foreign exchange rates and is both a direct and indirect economic risk for the company and the group. There has not been entered into any agreement to manage the risk as at 31.12.09.

### **Operation risk**

The company and the group is exposed to operational and technical risk from drilling and production in connection with the licenses in Russia. Technical risk inherent in the operations and risk of delays in delivering of equipment and non-performance from sub-contractors may delay the production. The group is exposed to raw materials price risk, but has not used any financial instrument to manage the risk.

## Note 11 Fixed assets

	Company	Group
<b>Carrying value 01.01.09</b>	<b>70 180</b>	<b>14 788 932</b>
Business combinations	-	3 652 068
Additions	-	1 271 705
Disposals	-	(150 800)
Foreign exchange	-	(2 612 911)
Carrying value 01.01.09	70 180	16 948 994
Accumulated depreciation 1.1.09	-	2 156 465
Disposals	-	(127 250)
Depreciation	30 250	2 862 010
Accumulated depreciation 31.12.09	30 250	4 891 225
Carrying value 31.12.09	39 930	12 057 769
Depreciation rates		10-50%
Depreciation method		Unchanged
	<b>Company</b>	<b>Group</b>
<b>Carrying value 01.01.08</b>	<b>-</b>	<b>14 195 086</b>
Restatement carrying value 01.01.08	-	(2 809 692)
Restated carrying value 01.01.08	-	11 385 394
Additions	70 180	1 283 035
Disposals	-	-
Carrying value 01.01.08	70 180	12 668 429
Accumulated depreciation 1.1.08	-	-
Depreciation	-	2 156 465
Accumulated depreciation 31.12.08	-	2 156 465
Carrying value 31.12.09	70 180	10 511 964
Restatement carrying value 31.12.08	-	4 276 968
Restated carrying value 31.12.08	70 180	14 788 932
Depreciation rates		10-50%
Depreciation method		Unchanged

## Note 12 Intangible assets

	Licenses	Capitalized exploration expenses	Goodwill	Total
Restated carrying value 01.01.09	132 126 477	41 058 780	66 075 407	239 260 664
Additions	-	42 574 227	-	42 574 227
Business combinations	19 203 755	146 942	3 579 657	22 930 354
Disposals	-	-	-	-
Impairment	(29 357 904)	(17 306 751)	(19 348 443)	(66 013 098)
Foreign exchange	(27 719 437)	(9 755 359)	(12 632 621)	(50 107 417)
<b>Carrying value 31.12.2009</b>	<b>94 252 891</b>	<b>56 717 839</b>	<b>37 674 001</b>	<b>188 644 731</b>

Each year the company assesses if there indicators of impairment related to the company's intangible assets. Regardless if there are indicators of impairment impairment test is carried out for goodwill.

Main assumptions	Geotechnologia	Orneftegaz	Veselovskoe	Total
WACC	22.9 %	25.3 %	22.9 %	
Oil price (USD) 1)	71-74	71-74	71-74	
Cash flow period	2010-2029	2010-2029	2010-2029	
<b>Impairment:</b>				
Licenses		(29 357 904)	-	(29 357 904)
Goodwill	(15 465 676)	(3 882 767)	-	(19 348 443)
<b>Total</b>	<b>(15 465 676)</b>	<b>(33 240 671)</b>	<b>-</b>	<b>(48 706 347)</b>

The license in Orneftegaz expired 31 December 2010 and in connection with this the board has considered the profitability of the field and concluded that it is not profitable to continue the development of the Bogdanovskaya field. The Board therefore decided that there should not be applied for an extension of the development license for the Bogdanovskaya field. As a consequence of this the impairment loss related to licenses and goodwill has been recognized.

- 1) Local domestic price is 60% of market price.

	Licenses	Capitalized exploration expenses	Goodwill	Total
Carrying value 31.12.07	239 417 072	30 331 916	-	269 748 988
Additions	-	-	-	-
Reclassification from goodwill	(73 851 225)	-	73 851 225	-
Disposals	-	-	-	-
Foreign exchange	(42 778 097)	-	-	(42 778 097)
Restated carrying value 31.12.07	122 787 750	30 331 916	73 851 225	269 748 988
Carrying value 01.01.08	122 787 750	30 331 916	73 851 225	226 970 891
Additions	-	40 484 541	-	40 484 541
Disposal	-	-	-	-
Impairment	-	(8 936 819)	(14 000 000)	(22 936 819)
Foreign exchange	9 338 727	(5 676 211)	6 224 182	9 886 698
Carrying value 31.12.2008	132 126 477	56 203 427	66 075 407	254 405 311
Restatement carrying value 2008	-	(15 144 647)	-	(15 144 647)
Restated carrying value 31.12.08	132 126 477	41 058 780	66 075 407	239 260 664

Changes in the composition of intangible assets are due to changes in fair value in the final purchase price allocation.

Based on impairment test recoverable amount for goodwill was considered to be lower than carrying value as at 31.12.08. Following this an impairment loss of NOK 14.000.000 was recognized for goodwill in 2008.

\*Rights have not been depreciation in 2008 and 2009 as the group uses the production unit method and production has been minimal in 2008 and 2009. \*Development expenses are not depreciated as all carrying amounts are considered to be at fair value at 31.12.09.

## Note 13 Tax expense

### Company

<b>Tax expense</b>	<b>2009</b>	<b>2008</b>
Net income (loss)	(255 060 622)	(12 265 588)
Permanent differences	41 259	952 181
Change in temporary differences	250 883 020	-
Share of result NOKUS companies	(222 008 692)	(19 758 333)
<b>Tax basis</b>	<b>(226 145 035)</b>	<b>(31 071 740)</b>
<b>Tax payable</b>	<b>-</b>	<b>-</b>

<b>Tax expense</b>		
Tax payable	-	-
Change in deferred tax	-	-
<b>Tax expense</b>	<b>-</b>	<b>-</b>

<b>Basis for deferred tax</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
Fixed assets	-	5 460	(5 460)
Impairment shares in subsidiaries	75 000 000	-	75 000 000
Impairment loans	182 320 368	-	182 320 368
Fair value adjustment loans	11 954	6 443 842	(6 431 888)
<b>Total temporary differences</b>	<b>257 332 322</b>	<b>6 449 302</b>	<b>250 883 020</b>
Loss carried forward NOKUS companies	115 939 873	31 992 871	83 947 002
Loss carried forward	28 275 950	24 139 607	4 136 343
<b>Deferred tax asset</b>	<b>91 564 303</b>	<b>11 764 182</b>	<b>79 800 122</b>
Deferred tax asset not recognized in the balance sheet	<b>91 564 303</b>	<b>11 764 182</b>	

**Group**

<b>Tax expense</b>	<b>2009</b>	<b>2 008</b>
Net income (loss)	(190 528 888)	(67 821 296)
Permanent differences	42 972 837	952 181
		(5 285
Change in temporary differences*	107 963 381	059)
<b>Tax basis</b>	<b>(39 592 670)</b>	<b>(72 154 174)</b>
<b>Tax payable</b>	<b>0</b>	<b>(5 285 059)</b>

<b>Tax expense</b>	<b>2009</b>	<b>2008</b>
Tax payable	0	0
Change in deferred tax	5 763 438	0
<b>Tax expense</b>	<b>0</b>	<b>0</b>

**Basis for deferred tax**

	<b>2009</b>	<b>2008</b>	<b>Change</b>
Fair value adjustments**	(94 252 891)	(132 126 477)	37 873 586
Fixed assets	70 077 840	5 460	70 072 380
Fair value adjustment loans	11 954	(6 443 842)	6 455 796
Other changes group	-	6 438 381	(6 438 381)
<b>Total temporary differences</b>	<b>(24 163 097)</b>	<b>(132 126 478)</b>	<b>107 963 381</b>
<b>Loss carried forward</b>	<b>63 732 277</b>	<b>24 139 607</b>	<b>39 592 670</b>
<b>Basis deferred tax</b>	<b>39 569 180</b>	<b>(107 986 871)</b>	<b>147 556 051</b>
Deferred tax fair value adjustments	(18 262 482)	(26 425 316)	8 162 834
Deferred tax Russia	(50 732)	-	(50 732)
Deferred tax asset Russia	-	1 057 175	(1 057 175)
<b>Net deferred tax</b>	<b>18 313 213)</b>	<b>(25 368 141)</b>	<b>7 054 928</b>
Deferred tax not recognized in the balance sheet	<b>26 764 414</b>	<b>4 827 921</b>	

\* Change in deferred tax relates to change of tax rate in Russian from 24 % to 20 %.

Effective tax rate in Russia is 20 % and has been used to calculate deferred tax.

\*\* Deferred tax related to identified fair value adjustments in connection with the acquisition of companies in Russia.

## Note 14 Earnings per share

Basis for calculation of earnings per share	2009	Restated 2008
<b>Net income</b>	(184 765 451)	(59 833 966)
<b>Number of shares parent company</b>	42 165 582	19 402 222
Effect of warrants related to bonds	5 177 500	5 177 500
Effect of options	3 180 000	3 180 000
Diluted number of shares parent company	50 523 082	27 759 722
<b>Earnings per share</b>		
Ordinary	(4.38)	(3.08)
Diluted	(3.66)	(2.16)

## Note 15 Restated income statement and statement of financial position

In connection with the audit of the financial statements for 2009 there were identified errors in the reported amounts for 2007 and 2008. As a consequence of this the income statement and statement of financial position for 2008 as well as opening statement of financial position 1 January 2008 has been restated. The changes in the statements and the changes are presented below.

	Group 2008	Restatement	Restated 2008
<b>Income statement</b>			
Operating Revenues	2 250 744	(34 111)	2 216 633
<b>Total Revenues</b>			
<b>Total Revenues</b>	<b>2 250 744</b>	<b>(34 111)</b>	<b>2 216 633</b>
Production costs	(21 084 279)	3 484 959	(17 599 320)
Personnel expenses	(13 838 696)	(3 009 666)	(16 848 362)
Depreciation	(23 072 359)	135 540	(22 936 819)
Other operating expenses	(21 131 986)	(1 326 937)	(22 458 923)
<b>Total operating expenses</b>	<b>(79 127 320)</b>	<b>(716 103)</b>	<b>(79 843 423)</b>
<b>Operating result</b>	<b>(76 876 576)</b>	<b>(750 214)</b>	<b>(77 626 790)</b>
Interest income	1 656 308	(12 876)	1 643 432
Other financial income	4 899 085	(85 164)	4 813 921
Interest expense	(18 669 292)	-	(18 669 292)
Other financial expenses	21 169 178	2 125 493	23 294 671
<b>Net financial items</b>	<b>9 055 279</b>	<b>2 027 453</b>	<b>11 082 732</b>
Profit (loss) before tax	(67 821 297)	1 277 239	(66 544 058)
Tax expense	5 900 241	809 852	6 710 093
<b>Net income (loss)</b>	<b>(61 921 056)</b>	<b>2 087 090</b>	<b>(59 833 966)</b>

<b>Statement of financial position 31 December 2008</b>	<b>Group 2008</b>	<b>Restatement</b>	<b>Restated 2008</b>
<b>Non-current assets</b>			
Goodwill	66 075 407	-	66 075 407
Licenses	132 126 477	-	132 126 477
Capitalized exploration expenses	71 524 774	(30 465 994)	41 058 780
Deferred tax	4 717 263	(3 660 088)	1 057 175
<b>Total intangible assets</b>	<b>274 443 921</b>	<b>(34 126 081)</b>	<b>240 317 840</b>
<b>Fixed assets</b>			
Production equipment	6 717 390	1 467 276	8 184 666
Machinery	6 604 266	-	6 604 266
<b>Total fixed assets</b>	<b>13 321 656</b>	<b>1 467 276</b>	<b>14 788 932</b>
Other long-term receivables	161 497	-	161 497
<b>Total other long-term receivables</b>	<b>161 497</b>	<b>-</b>	<b>161 497</b>
<b>Total non-current assets</b>	<b>287 927 074</b>	<b>(32 658 805)</b>	<b>255 268 269</b>
<b>Current assets</b>			
Inventory	6 337 710	11 300 016	17 637 726
Trade and other receivables	23 580 104	(11 697 897)	11 882 207
Cash and bank	6 129 855	(162 205)	5 967 650
<b>Total current assets</b>	<b>36 047 669</b>	<b>(560 086)</b>	<b>35 487 584</b>
<b>Total assets</b>	<b>323 974 743</b>	<b>(33 218 891)</b>	<b>290 755 852</b>
<b>Equity and liabilities</b>			
Share capital	2 261 768	-	2 261 768
Share premium	227 270 213	-	227 270 213
Other paid in capital	22 511 486	-	22 511 486
<b>Total paid-in-capital</b>	<b>252 043 467</b>	<b>-</b>	<b>252 043 467</b>
Retained earnings	(87 345 622)	(22 904 004)	(110 249 626)
<b>Total other equity</b>	<b>(87 345 622)</b>	<b>(22 904 004)</b>	<b>(110 249 626)</b>
<b>Total equity</b>	<b>164 697 845</b>	<b>(22 904 004)</b>	<b>141 793 841</b>
<b>Long term liabilities</b>			
Pension liabilities	18 806	(18 885)	-79
Deferred tax	29 549 636	(3 124 320)	26 425 316
Other liabilities	-	-	-
<b>Total liabilities</b>	<b>29 568 442</b>	<b>(3 143 205)</b>	<b>26 425 237</b>



Bond	55 233 866	-	55 233 866
<b>Total long-term liabilities</b>	<b>55 233 866</b>	<b>-</b>	<b>55 233 866</b>
<b>Short-term liabilities</b>			
Bond	48 322 292		48 322 292
Trade payable	16 837 497	(5 610 427)	11 227 070
Tax and duties	3 134 834	(21 213)	3 113 621
Other short-term liabilities	6 179 967	(1 540 041)	4 639 926
<b>Total short-term liabilities</b>	<b>74 474 590</b>	<b>(7 171 681)</b>	<b>67 302 909</b>
<b>Total liabilities</b>	<b>129 708 456</b>	<b>(7 171 681)</b>	<b>122 536 775</b>
<b>Total equity and liabilities</b>	<b>323 974 743</b>	<b>(33 218 891)</b>	<b>290 755 852</b>

<b>Statement of financial position 1 January 2008</b>	<b>Group 2008</b>	<b>Restatement</b>	<b>Restated 2008</b>
<b>Non-current assets</b>			
Goodwill	-	-	-
Licenses	239 417 072	-	239 417 072
Capitalized exploration expenses	45 653 263	(15 321 347)	30 331 916
Deferred tax	-	-	-
<b>Total intangible assets</b>	<b>285 070 335</b>	<b>(15 321 347)</b>	<b>269 748 988</b>
Production equipment	4 961 135	(110 438)	4 850 697
Machinery	6 534 697	-	6 534 697
<b>Total fixed assets</b>	<b>11 495 832</b>	<b>(110 438)</b>	<b>11 385 394</b>
Other long-term receivables	-	-	-
<b>Total other long-term receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total non-current assets</b>	<b>296 566 167</b>	<b>(15 431 785)</b>	<b>281 134 382</b>
<b>Current assets</b>			
Inventory	4 670 957	(1 245 533)	3 425 424
Trade and other receivables	9 642 575	(2 175 206)	7 467 369
Cash and bank	44 585 879	(131 574)	44 454 305
<b>Total current assets</b>	<b>58 899 411</b>	<b>(3 552 312)</b>	<b>55 347 099</b>
<b>Total assets</b>	<b>355 465 578</b>	<b>(18 984 097)</b>	<b>336 481 481</b>

<b>Equity and liabilities</b>			
Share capital	1 661	-	1 661
	820		820
Share premium	174 583 934	-	174 583 934
Other paid in capital	18 563 406	-	18 563 406
<b>Total paid-in-capital</b>	<b>194 809 160</b>	<b>-</b>	<b>194 809 160</b>
Retained earnings	(16 451 994)	(15 238 728)	(31 690 722)
<b>Total other equity</b>	<b>(16 451 994)</b>	<b>(15 238 728)</b>	<b>(31 690 722)</b>
<b>Total equity</b>	<b>178 357 166</b>	<b>(15 238 728)</b>	<b>163 118 438</b>
Long term liabilities			
Pension liabilities	71 069	-	71 069
Deferred tax	57 460 097	(23 890)	57 436 207
Other liabilities	-	-	-
<b>Total liabilities</b>	<b>57 531 166</b>	<b>(23 890)</b>	<b>57 507 276</b>
Bond	100 086 791	-	100 086 791
<b>Total long-term liabilities</b>	<b>100 086 791</b>	<b>-</b>	<b>100 086 791</b>
Short-term liabilities			
Bond	-	-	-
	5 682		2 025
Trade payable	565	(3 657 119)	446
	2 673		2 649
Tax and duties	859	(24 121)	738
	11 134		11 093
Other short-term liabilities	031	(40 240)	791
<b>Total short-term liabilities</b>	<b>19 490 455</b>	<b>(3 721 480)</b>	<b>15 768 975</b>
<b>Total liabilities</b>	<b>177 108 412</b>	<b>(3 745 369)</b>	<b>173 363 043</b>
<b>Total equity and liabilities</b>	<b>355 465 578</b>	<b>(18 984 097)</b>	<b>336 481 481</b>

## Note 16 Post balance sheet events

4 January 2010: AOGC has received USD 1, 8 million in a capital increase of NOK 0,50 per share, at a syndicate led by Lakeshore International Management Inc., and received guaranties of USD 4 million in a capital increase of up to 10 million planned to be done in January . The capital increase was registered 16.3.2010. The capital increase the guarantee should cover has not been done.

3 February y 2010: OOO Geotechnologia has completed the gas equipment on structure #1 on the MS-license, and required gas test have been analyzed and fulfils the requirements for the pipeline. The gas equipment is ready to connect to the pipeline and the work with the connection will be completed by an external company. Preparation for the connection has been started.

26 February y 2010: AOGC yesterday closed a capital increase of USD 6, 9 million in new equity at par value of NOK 1 per share. See also 23 March. This capital increase was not carried through as the largest shareholder did not pay.

1 March 2010: OOO Geotechnologia has completed a successful connection the local gas pipeline for delivery of the gas from the MS-license. As previously announced OOO Geotechnologia has entered into an agreement with the local gas distribution company, Komiregiongas, for delivery of gas.

8 March 2010: OOO Geotechnologia has started test production and testing of the gas measurement unit. As previous announced the company as carried out a successful connection to the gas pipeline and has now commenced test production of gas for sale. This is done in connection with mercaptan testing of the measurement unit.

9 March 2010: OOO Geotechnologia has been granted a 20 year production license for the gas field №1 on the MS- license in Ukhta in Komi Republic, Russia.

18 March 2010: Bond owners in AOGC have voted yes to the company's propose to restructure the bond loan. The proposal includes deferral of settlement date and reduction of the interest rate for a period for the three bond loans. As a consequence of this the subscription of new equity was not carried out.

19 March 2010: t OOO Geotechnologia will start gas production and sale the first coming Monday at 08.00 - Ukhta time. OOO Geotechnologia has entered into an agreement with a local distribution company about delivery of gas. The company has previously this month completed a successful connection to the gas pipeline and will from Monday 22 March start production and sale.

23 March 2010: In February AOGC carried out a capital increase of NOK 41 million due for payment yesterday. In connection with the capital increase in AOGC in February of 41 million shares one of the subscribers Telfor Intervest Ltd. (Telfor). Telfor has not fulfilled its subscription obligations and paid the subscribed amount within the due date. AOGC is in contact with Telfor and is working with several parties about alternative solutions.

19 April 2010: AOGC has had a capital increase towards Highmoor Business Corporation Ltd. of NOK 50 million and the company can carry out the previously approved capital increase. The company has now secured financing NOK 50 million of par value NOK 0,50 per share. The subscribers that have fulfilled their obligations have been offered similar conditions as HBC.

22 April 2010: The payment date for AOGC's capital increase of NOK 50 million towards mot Highmoor Business Corporation Ltd. (HBC) was yesterday, 21 April; AOGC has not received the payment for the share increase and considers HBC to be in breach of the terms.

28 April 2010: AOGC have today held meetings with its bond owners. During the information meeting, there was an offer from a British investment company, Waterford, to acquire the bond loans issued by AOGC. Parts of the bond loans have been acquired by WF. If Waterford receives acceptance of the offer from the majority of the bond, they will subscribe in a capital increase of 93 million shares, NOK 46, 5 million. In addition they will also subscribe in a capital increase of NOK 30 million to the same share price in the next phase.

4 May 2010: AOGC was due to pay interest on the bonds on Monday 3 May of NOK 7, 5 million. AOGC is in contact with the bond owners for restructuring of the debt. The company and the bond owners are working on alternative restructuring solutions.

19 May 2010: There has today been held bond owner meeting for 2 of the bond loans in AOGC and an interest payment due 2 May has been postponed to 31 July 2010. In addition the bond owners have given the company the possibility to use get short term debt with due date prior to the bond loan. This relates to the bond loans ISIN NO 0010040032.8 - The 2009 Bond and ISIN NO001036650.3 - The 2011 Bond.

28 May 2010: AOGC decided in GM 19 May to have a increase in share capital of NOK 30 million. The deadline for subscribing was yesterday 16.00. In total share for NOK 12, 7 million was subscribed. As the capital increase was not fully subscribed the company is working on other alternative. A decision for a directed capital increase at the EGM 20 July 2010

8 June 2010: Operational update

In Ukhta, AOGC received a production license for the gas field on the MS license valid to 2030. The exploration licenses for the remaining MS block that was valid until 30.07.2010 has been extend to the end of 2011. The company has been given the following work program in the period:

- 200km seismic
- 250km reprocessing of seismic incl. the 200km above
- drilling of 4 wells.

The gas production has been temporarily stopped due to necessary adjustments, where a valve and wellhead has been changed. The company is also using the time to prepare well no 2 ready for production. The facility has well during start-up, without significant problems with the imported Canadian equipment. For well no 3 the company will attempt squeeze-job as it problems with segmentation of the well. If successful, well in 3 will be ready for production in Q3. The work on starting up well no 2 and 3 has delayed due to the financial distress of the company.

The company is planning drilling of prospect 20 just south of the gas field as soon as financing is available.

In Orenburg field development plans are approved for Nikiferovskoye and Voinskoye licenses. Both are production licenses. The production continues in Nikiferovskoye from well 91 and 61 between 200 and 250 barrels per day. Well 83 is planned to be converted to water injection well as the experience from the production last year indicates that injection is required to develop the field and maintain a high degree of extraction. The Fracking-program has been stopped due to lack of financing. Sidetrack of well 96 on Voinskoye license is planned as the first activity when financing allows. It is expected that the production in Orenburg can be increased immediately as soon as the investment can be done.

9 June 2010: A bond owner meeting was held 8 June 2010 for one of the bond loans and the companying was given a delay in paying interest for an undefined period. This gives the company to continue its work refinancing. All bond loans now have stopped paying interest. The last loan of NOK 50 million also has a deferral with NOK 5.000.000 that was due on the same date as the interest 10 June 2010.

16 June 2010: Torjer Halle is appointed CEO in Aladdin Oil & Gas Company ASA.

4 July 2010: Aladdin Oil & Gas Company ASA requests Norsk Tillitsmann to call for a meeting with the bond owners to convert the bond debt to shares.

20 July 2010 Aladdin Oil & Gas Company ASA holds EGM. In this the financial restructuring was decided and a fully subscribed capital increase of minimum NOK 30 million. The EGM also elected a new board consisting of; Fred Ponsonby (chairman), Kirill Dragun, Mark Bond, Yekaterina Zhdan, Michael Alyautdinov, Alexey Kruzhkov, Ewa Popiolek and Katrine H. Støvring. The EGM also decided to convert all bond debt and unpaid interest to share.

4 August 2010 Aladdin Oil & Gas Company ASA carried out a capital increase of NOK 32 million, and a conversion of debt of all the bond debt. and other loans totaling NOK 140 million. The company's share capital is after this NO 174.083.186, 20 and 1.740.831.862 shares.

27 October Aladdin Oil & Gas Company ASA appointed Alexey Kruzhkov as CEO. Following this Torjer Halle will not start as CEO.

2 November 2010 Aladdin Oil & Gas Company ASA holds EGM. The EGM elected a new board consisting of: Fred Ponsonby (Chairman), Mikhail Alyautdinov, Einar Lyche, Pavel Semenyuta, Artur Rastrogin, Kathrine Hatlen Støvring, Ekaterina Zhdan and Ann Elizabeth Seabrook.

8. December 2010 Aladdin Oil & Gas Company ASA announces that founder Hans-Axel Jahren, leaves the company on 1 January 2011.

15 December 2010 The board has decided not to extend the license for the Bogdanovskaya area in Orenburg-region. The licenses dated, 26 July 2010, was issued to Orneftegaz to assess potential existence of oil and gas. See also note 12.

23 December 2010 Lakeshore International Buyout Fund Limited sold its share in AOGC to Waterford Finance & Investment Limited. Waterford Finance & Investment Limited now owns 59,07% in AOGC. See note 7. Mr. Pavel Semenyuta with drawn from the board of AOGC.

17 January 2011 Aladdin Oil & Gas Company ASA receives bridge financing of USD 5 million from the main shareholder, Waterford Finance & Investment Ltd. The board in Aladdin 14 January approved a bridge loan facility USD 5 million USD from Waterford Finance & Investment Ltd. The loan is for 6 months.

#### Note 17 Non-compliance license requirements

The Company is partially in breach and anticipated breach with license obligations as of the date of signing the annual accounts for 2009.

Company	License	Compliance situation
OOO Geotechnologia	Middle Sedolskaya	In compliance.
	West Ukhtinskaya	Drilling of 3 wells within 31 December 2010 will not be performed.
ZAO Orneftegaz	Bogdanovskaya	The license is expired.
OOO Veselovskoe	Besedinskoe	In compliance post time limit.
	Khersonskoe	The Company has decided not to maintain the license.
	Nikiferovskoe	The required observation wells for monitoring groundwater will not be drilled within 31 December 2010.
	Veselovskoe	Re-estimate of reserves and recuperation of one well not performed.
	Voinskoe	Production rates are not met.

The impact on year 2009 accounts from the loss of the Bogdanovskaya license is for the mother company NOK 178,255,626 in loans to subsidiaries, while in the consolidated accounts is written off license value of NOK 29,357,904 and goodwill of NOK 3,882,767.

If the licenses in OOO Geotechnologia were to be returned to the government as of 31.12.2009 the combined investment and loan amount to be written off in the mother company as of is NOK 245,450,492, while in the consolidated accounts license value of NOK 76,520,022 and goodwill of NOK 123,431,516 would have to be written off. In addition it may be net impact from saleable assets and trade creditors.

If the licenses in OOO Veselovskoe were to be returned to the government as of 31.12.2009 the loan amount to be written off in the mother company as of is NOK 20,525,198, while in the consolidated accounts is written off license value of NOK 76,520,022 and goodwill of NOK 123,431,516. No value is recorded for the Khersonskoe license. In addition it may be net impact from saleable assets and trade creditors.

### **Note 18 Going concern**

As of date the Group is lack of cash to finance its operations. The board's intention is to maintain the company as a going concern. In this respect the Group has obtained a bridge loan in the amount of USD 5.0 million from its biggest shareholder and raise up to USD 20.0 millions in new equity or similar financing arrangement during first half 2011. These plans are subject to the shareholders' approval. Therefore there is some risk that the Group will not continue as a going concern.

### **Note 19 Preserves (not revised)**

#### **Description of reserves**

#### **West Ukhtinskoye & Middle Sedolskoye Licenses:**

Høydalsvik Petroconsult has on request from Aladdin Oil and Gas Company ASA provided the company with a reserves report of the West Ukhtinskoye (WU) & Middle Sedolskoye (MS) licenses belonging to OOO Geotechnologia. The calculations are based on 2D seismic mapping on the MS license as well as well data from well 3A (oil) and 1A (1C (gas)). Logs and test data (only (1A/1C) were available. Well 2A has not been tested and test results and additional information may change the reserves.

HPC Consulting updated the gas reserves on structure #1 autumn 2008 after drilling and testing of well 1C. This led the gas reserves increasing somewhat. Subsequent to this the wells 7A and 14A been drilled and both have indicated hydro carbons (14 A tested gas). An updated report will include these structures and the total gas reserves are expected to increase.

For the WU license only well data are available like logs and test reports from the wells 2, 5 and 12. The WU license is a production license, while the MS license is an exploration license which is valid until 31.07.2010. OOO Geotechnologia has started the conversion process based on the gas discovery 1A. There is limited operational risk associated with the conversion process. After 31.12.2009 OOO Geotechnologia has been allotted production license until year 2030 for gas field #1 and the exploration license is extended until the end of year 2011 for the remaining license. Geotechnologia may also apply for an extension of the exploration license. An updated reserves report is planned prepared during 2011.

**Veselovskoye licenses:**

AOGC has a reserve report for the licenses Voinskoye, Nikiferovskoye and Besidinskoye. Since then the company has received and localized more new information that may change the reserve numbers. There is a risk that the Besidinskoye- reserve is less than stated in the reserve report. The company will aim to update all reserve reports related to the Veselovskoye license during 2011.

A preliminary reserve report for the Veselovskoye license has been prepared, but not included in the table below. This report concludes with 8.5 million barrels of 2P reserves. New information indicates that this may be a conservative estimate. A complete report for the Veselovskoye license is planned prepared in 2011. As the company has not complied with all the license commitments there is a risk that the authorities may recall or terminate the licenses. See note 17.



Table - Reserves split by geography, project, field or asset.

Reserves						
Developed assets						
Pr. 31.12.2009	1P / P90					2P / P50
	Oil (mdbl)	Gas (bcm)	mboe	Interest %	Net mboe	Oil equiv (mdbl)
Middle Sedolskoye gass		0,198	1,25	100	1,25	
Nikiferovskoye	4,10			100	4,1	
Totalt					5,35	
Ikke utviklede reserver						
Pr. 31.12.2009	1P / P90					2P / P50
	Oil (mdbl)	Gas (bcm)	mboe	Interest %	Net mboe	Oil equiv (mdbl)
Middle Sedolskoye olje				100		3,6
Nikiferovskoye				100		7,5
Voinskoye			1	100	1	1,8
Besidinskoye			1,35	100	1,35	4,5
Middle Sedolskoye gass		0	0	100	0,00	2,9
West Ukhtinskoye	0		0	100	0,00	15,9
Totalt					2,35	36,2
Totale reserver						
Pr. 31.12.2009	1P / P90					2P / P50
	Oil (mdbl)	Gas (bcm)	mboe	Interest %	Net mboe	Oil equiv (mdbl)
Middle sedolskoye olje			0	100		3,6
Nikiferovskoye			4,1	100	4,1	7,5
Voinskoye			1	100	1	1,8
Besidinskyoye			1,35	100	1,35	4,5
Middle Sedolskoye gass	0	0,198	1,2	100	1,25	2,9
West Ukhtinskoye	0	0	0	100	0,00	15,9
Total					7,70	36,2

**Management discussion and analysis:**

Even though assessment of reserves and resources have been carried out by qualified third parties, the results with contain inherent uncertainty and risk. The numbers are on the best estimate and future development may lead to changes in the results presented in the reserves report. In addition all categories of reserves and resources are subject to an annual audit as more data becomes available through progress in the drilling programs. The reserves in Aladdin Oil & gas Company is located in Russia and registered in accordance with the laws and regulations that apply in Russia. The tax regime in Russia is progressive so that Aladdin is not materially exposed to fluctuations in the oil price. Management is of the opinion that oil fields will be profitable also at oil prices significantly lower than the average in 2009.



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

## AUDITOR'S REPORT FOR 2009

This report replaces our previously issued report, dated 01.07.2010, issued at the due date for releasing the annual financial statements as set forth in the Norwegian legislation.

We have audited the annual financial statements of Aladdin Oil & Gas Company ASA as of 31 December 2009, showing a loss of NOK 255.060.622 for the parent company and a loss of NOK 184.765.451 for the Group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity, and the accompanying notes. The rules of the Norwegian Accounting Act and good accounting practice in Norway have been applied to produce the parent's financial statements. International Financial Reporting Standards as adopted by the EU have been applied to produce the group accounts. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

With the exception of the subjects discussed in the paragraph below, we conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants (Den norske Revisorforening). These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

The annual financial statements of OOO Veselovskoye for 2008, which has been consolidated into the group financial statements of Aladdin Oil & Gas Company ASA, was not audited by us, and due to inadequate documentation, it has not been possible for us to verify parts of the opening balance for 2009.

The company has not prepared documentation for consolidation and significant balance sheet items as required by the Norwegian Bookkeeping Act.

In our opinion,

- the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the parent company as of 31 December 2009, the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway.
- the group accounts, except for the possible effects of the matter described in the fourth paragraph, are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2009, the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

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- the company's management, except for the inadequate preparation of documentation of consolidation and significant balance sheet items, has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway.
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Without qualifying our opinion, we draw attention to conditions indicating the existence of material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. We refer to further descriptions in the financial statements and the Board of Director's report.

Further, we emphasize that the financial statements were not issued within the due date set forth in the Norwegian legislation.

Oslo, 11 February 2011  
BDO AS

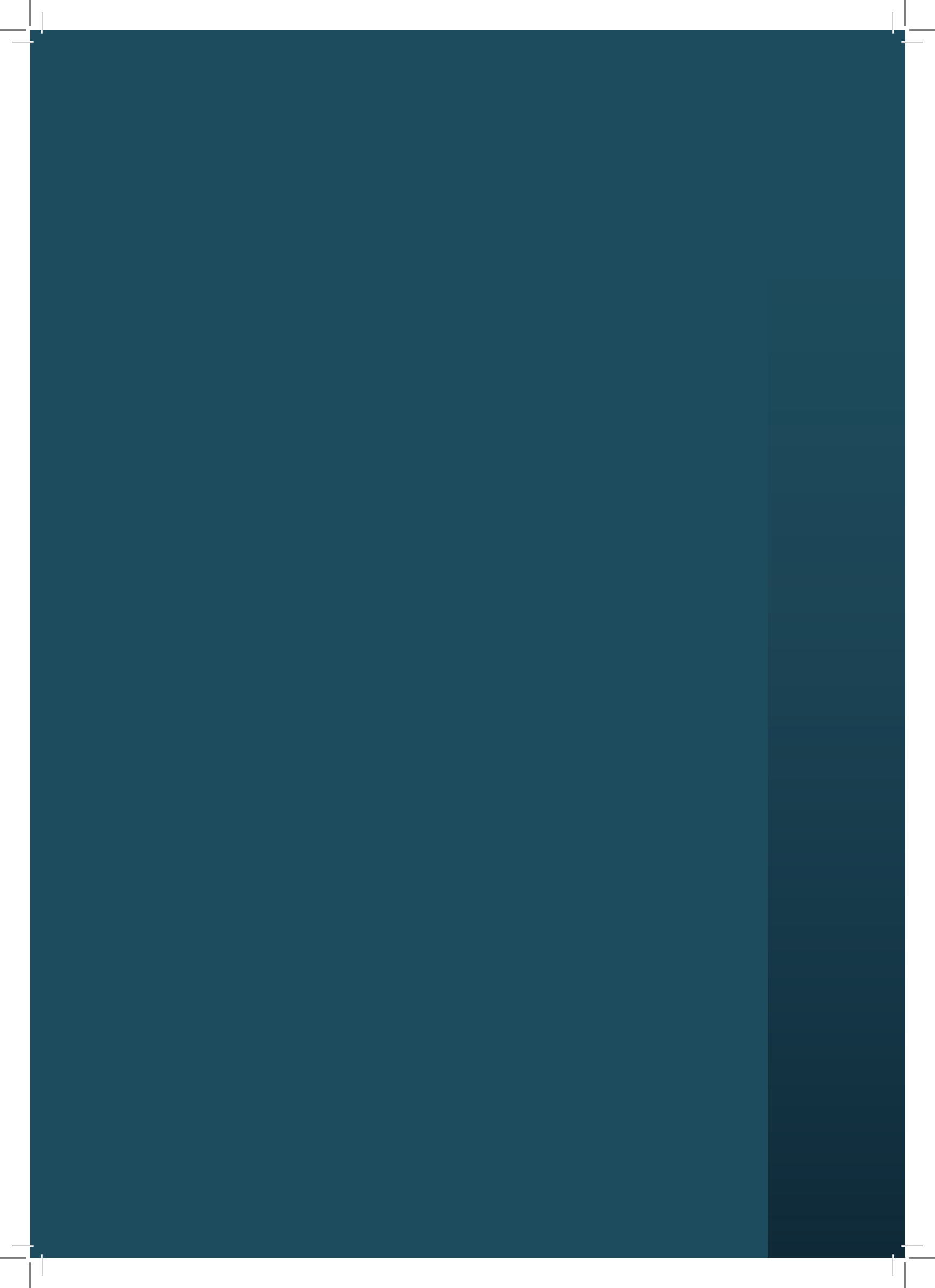
Trond-Morten Lindberg  
*State Authorized Public Accountant*

Note: This translation from Norwegian has been prepared for information purposes only.

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