ARACA ENERGY 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 2013

Contents

BOARD OF DIRECTORS' REPORT

Operations

Araca Energy ASA (hereinafter, "Araca Energy ASA" 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 owned throughout 2013 two entities OOO Geotechnologia and OOO Veselovskoe, 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.

In 2014 the Company changed its name into Araca Energy ASA. The previous name was Aladdin Oil & Gas Company ASA.

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

Highlights 2013

In 2013 Geotechnologia drilled well 14a in Middle-Sedelskoe field.

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.

Financial statements 2013

Araca Energy ASA 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 2013.

During the preparation, and audit of the 2013 Financial Statements, the Company has been denied access to financial information and documentation for the subsidiary OOO Veselovskoe which was sold as part of the sale of the subsidiary Stikito Ltd. in February 2014 (see Note 19 to the Financial Statements). Further, it is reasonable doubts as to the validity of deals with certain subcontractors of OOO Geotechnologia. Based on this, the Board of Directors' have been unable to determine whether any adjustments should have been made to the Consolidated Financial Statements or to the Company Financial Statements of Araca Energy ASA. Adjustments that should have been made to the Financial Statements of the subsidiaries, if any, may have an effect on the calculation of impairment of investments in- and loans to subsidiaries in the Company Financial Statements of Araca Energy ASA. However, the Board of Directors are not aware of any such adjustments that should have been made, and thus has found that despite of the uncertainty, the Financial Statements presented are the best that can be prepared.

Consolidated year ended 2013 Group operating revenues amounted to MNOK 38.4 compared to MNOK 31.8 in year ended 2012. For the period ended 31 December 2013 the Group incurred a loss of MNOK 23 (year ended 2012: MNOK 88.6). The loss is reduced compared to year ended 2012 due to increase in revenue and reduction in general and administrative costs.

The Group's net working capital is negative with MNOK 78.4 (2012: MNOK negative 55.2). Available cash and cash equivalents as at 31 December 2013 were MNOK 0.5. The Group's current interest-bearing debt at the reporting period ended 31 December 2013 was MNOK 71.8.

As at 31 December 2013, the Group had total assets of MNOK 142.1. The Group had total capital of MNOK 142.1. Total equity amounted to MNOK 26.9, which is equal to an equity ratio of 19%.

The Group's net cash flow from operations amounted to minus MNOK 6.7. 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 2013. The Group's total capital investments were MNOK 7 for year ended 31 December 2013.

The parent Company, Araca Energy ASA, had a net loss for year ended 31 December 2013 of MNOK 59.6 mainly caused by impairment of MNOK 75.5.

Board of directors and key management personnel changes

During 2013 there were the following changes in the Board of directors: 19 February 2013 Gouzel Mouksinova was appointed to the Board; 21 March 2013 Linda Dowding resigned from the Board. There were no changes in key management in 2013.

Gender equality

Out of the estimated 62 employees in the Group as of year-end 2013, estimated 15 are women. Women are represented in the board members in Araca Energy ASA. 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 Araca Energy ASA 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 2013.

Research & development activities

The Group has not undertaken any research and development (R&D) activities in year ended 2013.

Anti-discrimination

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

The external environment

Araca Energy 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 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 the year ended 2013 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 loans are in USD and this represents a currency risk. The functional and presentation currency for Araca Energy 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.

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 limit the Group's overall exposure to this risk. A substantial or extended decline in oil price would have a material adverse effect. 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. In February 2014 the Group settled the debt from Waterford Finance and Investment Ltd in the amount of USD 11,065,652. Upon completion of the ongoing deal with Levant Energy ltd. and changes in shareholder structure the Board of directors expect the necessary financing to cover company liquidity needs will be secured.

In February 2014 the Company transferred wholly-owned shares in Stikito ltd. (including 100% share in Veselovskoe LLC) in exchange for offsetting outstanding loan from Waterford Finance and Investment Ltd.

Operational risk

Araca Energy ASA 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. Exploration Middle Sedyelskoye licence was extended in 2014. There are operational risks associated with such extension processes for Araca Energy ASA as well as for other operators in Russia. Araca Energy ASA 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. Oil companies in Russia have been subject to high taxation over the last years. Mineral extraction tax (NDPI) was increased starting from July 2013 with introducing new formula for natural gas producers.

Business ethics

Araca Energy ASA has adopted a policy that all activities and operations are to be conducted in a professional and safe manner, without injuries to humans or environmental damage. Training and exercises are important measures to achieve this. Araca Energy ASA supports honesty and trustful relationships with our business partners as well as the local community where we operate and has zero tolerance for corruption. When the fact of irregularities took place in Geotechnololgia the responsible Management of subsidiary in Russia was dismissed.

Going Concern

The Board of Directors stresses there are uncertainties related to obtaining future financing and thereby the Groups ability to continue as going concern. The Board of Directors expect with approval of transaction with Levant Energy Ltd. necessary funds will be available for the Company and the Group will continue as going concern.
On that basis, the Board of Director's are delivering these accounts as going concern and the financial statements have been prepared based on the going concern assumption.

Outlook

The Group have not reached 2013 goals due to lack of financing and deterioration of market conditions, However, the management are focused on attracting new financing and restructuring the business to achieve positive EBITDA.

The Company are in the process of approving the deal with Levant Energy Limited, which owns 27.5% of the issued share capital of Timan Oil and Gas Plc, which is a UK incorporated independent oil and gas exploration and production company with its main assets in the Timan-Pechora region of Western Russia and the Caspian basin. Araca Energy ASA plan to acquire the stake in Timan Oil and Gas Plc. in exchange for the issue of new ordinary shares of the Company and subsequent investment of USD 35,000,000. Following the acquisition the Company plan a complete reengineering creating a new structure.

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

The profit and loss account for the parent company Araca Energy ASA showed a loss for year ended 31 December 2013 of MNOK 59.60 due to impairment of MNOK 75.5. Unrestricted equity at 31 December 2013 amounts to NOK 0.

Oslo, December 10, 2014

Atle Torbjørn Karlsvik (Chairman if the Board) | Annar Bjørn Ursin-Holm

Monica Malm | Henrik Wold (CEO)

Araca Energy ASA
Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

(Thousand NOK)	Note	Year ended 31 December 2013	Year ended 31 December 2012
OPERATING REVENUE AND OPERATING EXPENCES			
Revenue		38,347	31,804
Production costs	3	-18,448	-21,284
Gross profit		**19,899**	**10,520**
Exploration cost expensed		-249	-18,814
Salaries	15	-12,267	-17,561
General and administrative expenses	4	-7,130	-11,408
Operating loss before depreciation and impairment		**253**	**-37,263**
Ordinary depreciation	6	-7,661	-7,566
Impairment	6	-15,843	-35,714
Operating loss		**-23,251**	**-80,543**
FINANCIAL INCOME AND FINANCIAL EXPENCES			
Interest income		20	30
Interest expenses		-9,039	-4,663
Foreign exchange gain / (loss), net		11,102	-6,989
Other financial income / (expense)		-2,264	2,796
Financial items, net		**-181**	**-8,826**
Loss before income tax		**-23,432**	**-89,369**
Income tax benefit	5	415	786
Loss for the period		**-23,017**	**-88,583**
Other comprehensive income			
Effect of translation to presentation currency		-10,269	7,421
Other comprehensive income for the year, net of tax		**-10,269**	**7,421**
Total comprehensive income for the year		**-33,286**	**-81,162**
Weighted average number of ordinary shares - basic	13	64,081,336	64,081,336
Weighted average number of ordinary shares - diluted	13	64,081,336	64,081,336
Loss per ordinary share - basic	13	-0,36	-1.38
Loss per ordinary share - diluted	13	-0,36	-1.38
Total comprehensive income per share - basic	13	-0,52	-1.27
Total comprehensive income per share - diluted	13	-0,52	-1.27

(Thousand NOK)	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets			
Licenses	6	100,421	102,821
Exploration and evaluation assets	6	1,966	9,323
Total intangible assets		**102,387**	**112,144**
Tangible fixed assets			
Oil and gas property	6	30,727	33,086
Other property, plant and equipment	6	2,564	1,066
Total tangible fixed assets		**33,291**	**34,152**
Total non-current assets		**135,678**	**146,296**
Current assets			
Inventories	9	3,324	782
Trade receivables	8	1,477	1,719
Other receivables	8	1,150	2,400
Cash and cash equivalents	7	530	2,107
Total current assets		**6,481**	**7,008**
TOTAL ASSETS		**142,158**	**153,304**
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholder's equity			
Paid-in capital			
Share capital	10	16,020	16,020
Other paid-in capital		70,434	70,434
Total paid-in capital		**86,454**	**86,454**
Retained earnings			
Effect of translation to presentation currency		-11,040	-771
Retained earnings and other reserves		-48,530	-25,513
Total retained earnings		**-59,570**	**-26,284**
TOTAL EQUITY		**26,884**	**60,170**

(Thousand NOK)	Note	31 December 2013	31 December 2012
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	5	20,084	20,576
Assets retirement obligation	12	10,342	10,342
Total provision for liabilities and charges		**30,426**	**30,918**
Current liabilities			
Short-term loans	14	71,775	50,773
Trade accounts payable		6,715	4,688
Other taxes payable		3,500	3,667
Other payables		2,858	3,088
Total current liabilities		**84,848**	**62,216**
TOTAL LIABILITIES		**115,274**	**93,134**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**142,158**	**153,304**

Oslo, December 10, 2014

Atle Torbjørn Karlsvik (Chairman if the Board)	Annar Bjørn Ursin-Holm
Monica Malm	Henrik Wold (CEO)

(Thousand NOK)	Note	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**-23,432**	**-89,369**
Depreciation	6	7,661	7,566
Impairment	6	15,843	35,714
Gain from disposal of other assets		-	4
Finance expense, net		9,034	4,632
Foreign exchange loss, net		-11,103	6,989
Other		2,443	-1,265
Operating cash flows before working capital changes and income tax paid		**446**	**-35,729**
Working capital changes		-7,124	12,742
Net cash used in operating activities		**-6,678**	**-29,358**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation assets and oil and gas properties		-7,005	-26,029
Net cash used in investing activities		**-7,005**	**-26,029**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	14	12,027	42,198
Net cash generated by financial activities		**12,027**	**42,198**
Foreign exchange losses on cash balances		80	-538
Change in cash and cash equivalents		**-1,576**	**-13,727**
Cash and cash equivalents at the beginning of the period	**7**	**2,106**	**15,834**
Cash and cash equivalents at the end of the period	**7**	**530**	**2,107**

Araca Energy ASA
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 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**
As at 1 January 2013		**16,020**	**-**	**70,434**	**86,454**	**-771**	**-25,513**	**60,170**
Loss for the period		-	-	-	-	-	-23,017	**-23,017**
Effect of translation to presentation currency		-	-	-	-	-10,269	-	**-10,269**
As at 31 December 2013		**16,020**	**-**	**70,434**	**86,454**	**-11,040**	**-48,530**	**26,884**

Note 1. Accounting policies and effect of new accounting standards

Araca Energy 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.

In 2014 the Company changed its name into Araca Energy ASA. The previous name was Aladdin Oil & Gas Company ASA.

Basis of preparation and going concern. These consolidated financial statements of Araca Energy 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 2013.

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 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 2013	31 December
Exchange rate as at reporting date		
Russian Roubles/NOK	5,45	5.453
Russian Roubles/USD	32,73	30.373
NOK/USD	6,14	5.582
Average exchange rate		
Russian Roubles/NOK	5,32	5.323
Russian Roubles/USD	31,85	31.074
NOK/USD	5,88	5.817

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.

Critical accounting judgements. The preparation of consolidated financial statements in conformity with IFRS requires the Group management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Information about areas of judgment and key sources of uncertainty and estimation is contained in the accounting policies and / or the notes to the consolidated financial statements.

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Net realizable value of inventories

In determining the net realizable value of inventories, the Group estimates the selling prices, based on published market rates, cost of completion and cost to sell. To the extent that future events impact the saleability of inventory these provisions could vary significantly.

Estimated reserves, resources and exploration potential

Reserves are estimates of the amount of product that can be extracted from the Group's properties, considering both economic and legal factors. Calculating reserves and estimates requires decisions on assumptions about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, prices and exchange rates.

Impairment of licences, property, plant and equipment

For the purpose of determining the recoverable amount of assets or cash generating units, estimates are made of the discount rate. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, restoration and rehabilitation costs and future capital expenditures. The Group management is required to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the asset may be impaired and the impairment would be recognized in the consolidated income statement.

Expected economic lives of, estimated future operating results

In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the well in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable reserves.

In assessing the life of a well for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction.

New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.

- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The amendments are likely to increase the Group's trade and other receivables from and trade and other payables to certain counterparties because it is unlikely that the Group will meet the criteria for offsetting. In particular, the current bankruptcy legislation in Russia does not allow offsetting if this has impact on the succession of settlements determined by the law. However, the impact has not yet been quantified.
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted. It is expected that the new standard will not have a significant impact on Group's consolidated financial statements.
- IFRIC 21 Levies provides guidance on accounting for levies in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 Income taxes, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.
- IFRS 9 Financial Instruments is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments that result in accounting changes for presentation, recognition or measurement purposes will come into effect for annual periods beginning after 1 January 2014.

The Group has not yet analyzed the likely impact of the improvements on its financial position or performance.

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 2013			
Larchbay Traders & Consultants Ltd.	Araca Energy ASA	100%	Cyprus
Aladdin Oil & Gas (Cyprus) Ltd.	Araca Energy ASA	100%	Cyprus
Stikito Limited	Araca Energy ASA	100%	Cyprus
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	Russia
ZAO YuK Perspectiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia
31 December 2012			
Larchbay Traders & Consultants Ltd.	Araca Energy ASA	100%	Cyprus
Aladdin Oil & Gas (Cyprus) Ltd.	Araca Energy ASA	100%	Cyprus
Stikito Limited	Araca Energy ASA	100%	Cyprus
OOO Geotechnologia	Larchbay Traders & Consultants Ltd.	100%	Russia
ZAO YuK Perspectiva	Aladdin Oil & Gas Cyprus Ltd.	100%	Russia
OOO Veselovskoye	Stikito Limited	100%	Russia

Note 3. Production costs

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Mineral tax	11,668	10,695
Repair and maintenance	2,641	4,560
Technical services	1,510	1,934
Materials and supplies	1,121	2,933
Transportation services	520	611
Other cost of sales	988	551
Total cost of sales	**18,448**	**21,284**

Note 4. General and administrative expenses

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Taxes other than income tax	1,930	1,599
Consulting costs	1,169	3,465
Rent	979	1,346
Business trip expenses	204	1,152
Allowance for doubtful debts	-99	612
Other administrative expenses	2 947	3,234
Total general and administrative expenses	**7 130**	**11,408**

Note 5. Income tax

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Tax payable	-77	-1,772
Change in deferred tax	492	2,558
Tax benefit	**415**	**786**

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

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Loss before income tax	**-20,647**	**-89,369**
Theoretical tax benefit at tax rate 28% applicable to Parent Company	5,781	25,023
Effect of tax rates in different jurisdictions	-3,302	-9,670
Unrecognised deferred tax assets	346	-9,514
Permanent difference related to Cyprus Companies	-598	-3,016
Permanent difference related to Russian Companies	-103	-774
Other unrecognised deferred income tax asset movements	-1,709	-1,264
Total income tax benefit	**415**	**786**

(Thousand NOK) **Temporary differences**	Year ended 31 December 2013	Year ended 31 December 2012	Change
Licenses	100,421	102,821	-2,401
Total temporary differences	**100,421**	**102,821**	**-2,401**
Basis deferred tax	**100,421**	**102,821**	**-2,401**
Deferred tax liability (Russia)	-20,084	-20,576	492
Net deferred tax	**-20,084**	**-20,576**	**492**
Deferred tax asset not recognized in the consolidated statement of financial position	**30,468**	**34,427**	**-3,958**

As of 31 December 2013 the Group has total taxable losses carried forward of MNOK 230.4, which MNOK 34.2 in Russia that expires in ten years and MNOK 196.2 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 2013	Year ended 31 December 2012
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 non-current assets	Total
Cost					
Opening balance as at 1 January 2013	**195,467**	**49,193**	**71,703**	**6,266**	**322,629**
Additions	-	4,518	1,205	971	**6,694**
Disposals	-	-	-	-37	**-37**
Effect of translation to presentation currency	-	48	2,119	924	**3,091**
Closing balance as at 31 December 2013	**195,467**	**53,759**	**75,027**	**8,124**	**332,377**
Accumulated depreciation (including impairment)					
Opening balance as at 1 January 2013	**-92,646**	**-39,870**	**-38,617**	**-5,200**	**-176,333**
Charge for the period	-156	-	-7,189	-316	**-7,661**
Impairment	-4,706	-11,137	-	-	**-15,843**
Effect of translation to presentation currency	2,462	-786	1,506	-44	**3,138**
Closing balance as at 31 December 2013	**-95,046**	**-51,793**	**-44,300**	**-5,560**	**-196,699**
Net book value as at 31 December 2013	**100,421**	**1,966**	**30,727**	**2,564**	**135,678**

(Thousand NOK)	Licenses	Exploration and evaluation assets	Oil and gas properties	Other non-current assets	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**

Oil and gas properties. The management of the company analyzed the reserves and made an impairment review at each reporting date.

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 2013:

Key assumptions used in the cash flow testing	**Year ended 31 December 2013**
Information used	Actual operating results for the year and cash-flow projections
Forecast period	2014 - 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 2013 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	84,796
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 1 prospects was impaired by MNOK 4.7 in the 12 months 2013 accounts due to dry wells drilled on the prospects

As of 31 December 2013 the book value of production licenses was MNOK 13.2 (as of 31 December 2012: MNOK 13.2) and the book value of exploration licenses was MNOK 87.2 (as of 31 December 2012: MNOK 89.6). The main part of the book value for exploration licenses relate to the Middle Sedyelskoye exploration license which is expiring as at 31.12.2014. 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 2013 additional impairment was made in respect of Middle Sedyelskoye gas field with the total value MNOK 11.1.

Note 7. Cash and cash equivalents

(Thousand NOK)	**31 December 2013**	**31 December 2012**
Cash at bank	521	2,102
Cash on hand	9	5
Total cash and cash equivalents	**530**	**2,107**

Note 8. Accounts receivable and prepayments

(Thousand NOK)	31 December 2013	31 December 2012
Trade receivables	1,477	1,719
Advances to suppliers and prepayments	1,410	1,570
Allowances for doubtful debts	-866	-1,259
VAT recoverable and prepaid	404	436
Prepaid taxes	1	1,369
Other receivables	201	284
Total accounts receivable and prepayments	**2,627**	**4,119**

Note 9. Inventories

(Thousand NOK)	31 December 2013	31 December 2012
Materials and supplies	767	691
Finished goods	2,557	91
Total inventories	**3,324**	**782**

Note 10. Share capital

	31 December 2013	31 December 2012
Number of issued ordinary shares	64,081,336	64,081,336
Par value (in NOK)	0.25	0.25

Fully paid-in ordinary share capital

	Number of shares registered	Number of shares unregistered
Balance at 31 December 2011	**64,081,336**	**200,200**
Balance at 31 December 2012	**64,081,336**	**200,200**
Balance at 31 December 2013	**64,081,336**	**200,200**

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 2013:

	Number of shares	Country	% of ownership
Waterford Finance And Investment ltd.	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	1,445,854	UK	2%
Tollefsen	1,352,977	Norway	2%
Andoskin	1,323,916	Russia	2%
Citibank Na London Branch	1,470,101	UK	2%
Haadem Invest As	1,173,506	Norway	2%
Bank Of New York Mellon Sa/Nv	249,975	Belgium	0.4%
Fairview Finance & Investment Ltd.	782,450	The British Virgin Islands	1%
Six Sis Ag	267,926	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	0.4%
Stormskjold Regnskap As	246,142	Norway	0%
Totenkopf As	238,142	Norway	0%
Subtotal	**57,391,144**		**90%**
Other shareholders	6,690,192		10%
Total issued shares as of 31 December 2013	**64,081,336**		**100%**

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. Pension arrangements in Russian subsidiaries are represented by social insurance contributions.

Note 12. Asset retirement obligation

(Thousand NOK)	
As at 31 December 2011	**10,866**
Decrease resulting from changes in estimates	-1,062
Unwinding of discount	707
Effect of translation	-169
As at 31 December 2012	**10,342**
Decrease resulting from changes in estimates	-944
Unwinding of discount	692
Effect of translation	252
As at 31 December 2013	**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 2013 discount rate used to calculate liabilities was 7.4 percent (as at 31 December 2012 discount rate used was 6.8 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 2013	Year ended 31 December 2012
Loss for the period	-23,017	-88,583
Total comprehensive income	-33,286	-81,162
Weighted average number of ordinary shares - basic	**64,081,336**	**64,081,336**
Effect of warrants attached to bond	-	-
Effect of stock options	-	-
Weighted average number of ordinary shares - diluted	**64,081,336**	**64,081,336**
Loss per ordinary share - basic	-0.359	-1.38
Loss per ordinary share - diluted	-0.359	-1.38
Total comprehensive income per share - basic	-0,52	-1.27
Total comprehensive income per share - diluted	-0,52	-1.27

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 2012 Waterford Finance & Investment Ltd (shareholder of the Company) provided bridge loan financing to the Company. The initial amount of the loan was USD 7.6 million at a fixed interest rate of 16% p.a. 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.

No other significant transactions with related parties took place in year ended 2013 or 2012.

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 2013:

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.

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.

(Thousand NOK) **Type of remuneration**	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Salaries	10,513	14,909
Social security tax	1,754	2,588
Other benefits	-	58
Other cost	-	6
Total employees' remuneration	**12,267**	**17,561**

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

(Thousand NOK)	**Title**	**From**	**To**	**Salary**	**Remuneration**	**Other expenses**
Year ended 31 December 2013						
Alexey Kruzhkov	CEO	01.01.12	31.12.12	-	-	-
Nikolai Zateev	General Director in Ukhta	01.01.13	31.12.13	474		-
Nikolay Piskun	Managing Director	01.01.13	31.12.13	579		-
Total				**1,053**		

(Thousand NOK)	**Title**	**From**	**To**	**Salary**	**Remuneration**	**Other expenses**
Year ended 31 December 2012						
Alexey Kruzhkov	CEO	01.01.12	31.12.12	-	-	-
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 Tjømøe	Board member				57	-
Total				**1,361**	**2,639**	**25**

The Group has estimated 62 employees as of year- end of 2013 (69 employees as of year-end 2012).

Note 16. Auditors' fee

All amounts exclude VAT and expressed in thousand NOK.

Year ended 31 December 2013	Audit	Audit related	Other services	Tax related	Total
Norway	289	-	-	-	289
Outside Norway	-		-	-	
Total	**289**		**-**	**-**	**289**

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**

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 debt from Waterford Finance & Investment Ltd. was increased up to MNOK 66.3. 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 Geotechnologiya.

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 2013 (31 December 2012: 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 2013:

Company	License	Expiry date	Compliance situation
OOO Geotechnologia			

	Middle Sedyelskoye field production license	27.02.2030	In compliance
	Middle Sedyelskoye exploration license	31.12.2014	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	30.04.2033	In breach
	Veselovskoye	31.12.2018	In compliance
	Khersonskoye	31.12.2012	The Company has decided not to maintain the license

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 2014 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

Sale of assets

On 04 February 2014 the Company sign Settlement agreement with Nouvos International S. A. to transfer wholly-owned shares in Stikito ltd. (including 100% share in Veselovskoe LLC holding oil and gas exploration licenses in Orenburg) and intercompany receivable in the amount of USD 20,236,171, in exchange for offsetting outstanding loan from Waterford Finance and Investment Ltd in the amount of USD 11,065,652. The Group received the gain for the transaction of sale Stikito ltd. shares in the amount of NOK 28.1 million.

Convertible debt and capital increase

Araca Energy ASA as the borrower entered into Convertible Loan Agreement on 15 May 2014 with a number of individual lenders in the amount of USD 775,000 at the rate of 5% p.a. with warrants attached as below.

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USD 351,000 of the loan, plus interest was converted to equity in November 2014. A total of 9,025,634 shares were issued for a capital increase of NOK 2,256,408.50.

Warrants

At subscription of the Convertible Loan, the lenders were given the right to subscribe for 24 subscription rights (warrants) per 1 USD loan given. 18,600,000 warrants were granted giving the holders the right to subscribe for the Company shares at par value.

On 29 August 2014 at Extraordinary General Meeting it was resolved that the Company issued 10,000,000 freestanding subscription rights (warrants) each of which gives the holder a right to subscribe to one new share at a par value of NOK 0.25 against payment equal to a share price of NOK 0.75.

The Company issued warrant to specific members of the Board of Directors and the Chief Executive Officer:

- John Richard Shaw (Chairman) 2,000,000 subscription rights;
- Annar Bjorn Ursin-Holm (Director) 2,000,000 subscription rights;
- Stine Fjell (Director) 2,000,000 subscription rights;
- Victor Edeki Ikechukwu Patrick Okoh (Director) 2,000 000 subscription rights; and
- John Skajem (Chief Executive Officer) 2,000,000 subscription rights.

None of these subscription rights has been exercised yet.

Planned acquisition and share issue

The Company has signed sale and purchase agreement with Levant Energy Limited which owns 27.5% of the issued share capital of Timan Oil and Gas Plc, which is a UK incorporated independent oil and gas exploration and production company with its main assets in the Timan-Pechora region of Western Russia and the Caspian basin.

Araca Energy ASA acquire the stake in Timan Oil and Gas Plc. in exchange for the issue of new 624,930,051 ordinary shares of the Company representing 90.7% of the enlarged issued share capital in total amount of USD 194,978,176 as consideration.

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 2013:

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 2013:

			P1+P2 Proven& Probable 1 January 2013	**Production in 2013**	**P1+P2 Proven& Probable 31 December 2013**
Exploration fields	**License**				
Nikiforovskoye	31.12.2015	Production			
Besedinskoye	30.04.2032	Production			
Voinskoye	31.12.2032	Production			
Veselovskoye	31.12.2018	Production			
West Uhtinskoye	31.12.2023	Production			
Middle Sedyelskoye	27.02.2030	Production			
Suskniaelskoye	15.12.2031	Production			
TOTAL					

The Group’s reserves as of 31 December 2013 were not audited by independent consultants.

For the year 2013 the Group extracted 40,9 million m3 of gas (257,200 boe) and for the year 2012 39.8 million m3 (250,000 boe) of gas on Middle Sedyelskoye field.

In 2013 the Group's oil production was 80.600 boe (2012: 63,000) on Nikiforovskoye field.

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 date 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.

(Thousand NOK)	Note	Year ended 31 December 2013	Year ended 31 December 2012
OPERATING REVENUE AND OPERATING EXPENSES			
Revenue from intercompany services		6,015	6,026
General and administrative expenses	2	-2,210	-7,306
Impairment of loans to Group companies	3	-75,450	-118,423
Operating loss		**-71,645**	**-119,703**
Interest income from Group companies	3	25,100	21,261
Interest income	3	3	29
Foreign exchange gain	3	23	3,377
Interest expense	3	-8,329	-3,718
Foreign exchange loss	3	-4,722	-218
Other finance expense	3	-	-
Financial items, net	**3**	**12,075**	**20,731**
Loss before income tax		**-59,570**	**-98,972**
Income tax (expense) / benefit		-	-
Total comprehensive loss for the year		**-59,570**	**-98,972**

(Thousand NOK)	Note	31 December 2013	31 December 2012
ASSETS			
Current assets			
Accounts receivable and prepayments		111	259
Loans to Group Companies	8	93,374	131,784
Cash and Cash equivalents	9	203	911
Total current assets		**93,688**	**132,954**
TOTAL ASSETS		**93,688**	**132,954**
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholders' equity			
Paid-in capital			
Share capital	10	16,020	16,020
Other paid-in capital		70,434	70,434
Total paid-in capital		**86,454**	**86,454**
Retained earnings			
Retained earnings and other reserves		-59,570	-
Total retained earnings		**-59,570**	**-**
TOTAL SHAREHOLDERS EQUITY		**26,884**	**86,454**
Liabilities			
Current liabilities			
Short-term loans	13	66,272	45,916
Accounts payable and accruals		457	464
Other taxes and withholdings		32	59
Other payables		43	61
Total current liabilities		**66,804**	**46,500**
TOTAL LIABILITIES		**66,804**	**46,500**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**93,688**	**132,954**

Oslo, December 10, 2014

Atle Torbjørn Karlsvik (Chairman if the Board)

Annar Bjørn Ursin-Holm

Monica Malm

Henrik Wold (CEO)

(Thousand NOK)	Note	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/loss before income tax		**-59,570**	**-98,972**
Interest income from Group Companies		-25,100	-21,261
Interest expense		8,329	3,718
Interest income		-3	-29
Foreign exchange gain/loss		-4,745	-3,159
Effect of share option programme		-	-
Impairment		75,450	118,423
Depreciation of property, plant and equipment		-	-
Other finance expense		3,445	-6,000
Operating cash flows before working capital changes and income tax paid		**-2,194**	**-7,280**
Change in accounts receivable and prepayments		151	-224
Change in other assets		-	304
Change in accounts payable and accruals		-25	2,664
Change in other taxes payable		-27	-190
Net cash generated by operating activities		**-2,095**	**-4,726**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans to subsidiaries		-10,640	-48,035
Net cash used in investing activities		**-10,640**	**-48,035**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		12,027	42,198
Net cash generated by financial activities		**12,027**	**42,198**
Change in cash and cash equivalents		**-708**	**-10,563**
Cash and cash equivalents at the beginning of the period		**911**	**11,474**
Cash and cash equivalents at the end of the period		**203**	**911**

Araca Energy ASA
Statement of Changes in Equity for the year ended 31 December 2013
(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 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	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Retained earnings	Total equity
As at 1 January 2013		**16,020**	**-**	**70,434**	**86,454**	**0**	**86,454**
Loss for the period		**-**	**-**	**-**	**-**	-59,570	**-59,570**
As at 31 December 2013		**16,020**	**-**	**70,434**	**86,454**	**-59,570**	**26,884**

Note 1. Accounting policies and effect of new accounting standards

Araca Energy ASA is a public limited company incorporated in Norway. The company's main office is located in Bryggetorget 1, 0250 Oslo.

In 2014 the Company changed its name into Araca Energy ASA The previous name was Aladdin Oil & Gas Company ASA.

Basis of preparation. These financial statements of Araca Energy 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.

Critical accounting judgements. The preparation of the financial statements in conformity with IFRS requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from those estimates. Information about areas of judgment and key sources of uncertainty and estimation is contained in the accounting policies and / or the notes to the financial statements.

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Measurement of investments into subsidiaries

Investments into subsidiaries are accounted for at cost less impairment. 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. As of 31 December 2013 the full amount of investments into Company's subsidiaries is impaired.

Measurement of loans into subsidiaries

Loans to subsidiaries are accounted for at amortised cost less impairment. 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.

Note 2. General and administrative expenses

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Employees' remuneration	672	2,581
Consulting costs	580	2,564
Business trip expenses	14	128
Rent	113	409
Bank charges	84	121
Communication services	28	103
Depreciation	-	2
Other administrative expenses	719	1,398
Total general and administrative expenses	**2,210**	**7,306**

Note 3. Finance costs

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Interest income from Group companies	25,100	21,261
Interest income	3	29
Foreign exchange gain	23	3,377
Interest expense	-8,329	-3,718
Foreign exchange loss	-4,722	-218
Total finance costs	**12,075**	**20,731**

Impairment of investments in subsidiaries during year ended 2013 of MNOK 75.5 is related to impairment of the subsidiary Larchbay Traders & Consultants Ltd. and Stikito Ltd.

Note 4. Auditors' fee

All amounts exclude VAT.

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Statutory audit – Deloitte	289	543
Other attestation services – other auditors	-	174
Total audit fee	**289**	**717**

Note 5. Employees' remuneration

(Thousand NOK)	Year ended 31 December 2013	Year ended 31 December 2012
Salaries	598	2,196
Social security tax	85	318
Other benefits	-11	61
Other staff cost	-	6
Total employees' remuneration	**672**	**2,581**

Also refer to Note 11 and Note 15 in the Consolidated Financial Statements. Araca Energy ASA had 1 employee at the end of 2013 (1 employees as of the end of 2012).

Note 6. Tax expense

(Thousand NOK) **Tax expense**	Year ended 31 December 2013	Year ended 31 December 2012
Loss for the period	-59,570	-98,972
Permanent differences	75,450	113,164
Change in temporary differences	-	-3
Tax base	**15,880**	**14,189**
Increased / - Utilized tax losses carried forward from prior years	-15,880	-14,189
Tax payable	**-**	**-**

(Thousand NOK) **Basis for deferred tax**	Year ended 31 December 2013	Year ended 31 December 2012	Change
Other receivables		11	-11
Total temporary differences		**11**	**-11**
Loss carried forward	**3,716**	**19,596**	**-15,880**
Total basis for deferred tax asset	**3,716**	**19,607**	**-15,891**
Deferred tax liability (Russia)	1,040	5,490	-4,449
Deferred tax asset (Russia)	-1,040	-5,490	4,449
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 31.12.13 (MNOK)	Profit / -loss 12m2013
Larchbay Traders & Consultants Ltd.	18.07.2006	Cyprus	100%	153.2	-62,9	-4,4
Stikito Limited	06.04.2006	Cyprus	100%	0.1	-41,5	-1,6
Aladdin Oil & Gas (Cyprus) Ltd.	12.03.2007	Cyprus	100%	0.1	-0,09	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 31.12.2011	**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**
Additional loans issued	20,833	16,206	37,040
Interest accrued	16,968	8,133	25,101
Impairment 2013	-65,944	-9,506	-75,450
	24,858	**68,516**	
Book Value 31.12.2013			**93,374**

Note 9. Cash and cash equivalents

(Thousand NOK)	31 December 2013	31 December 2012
Cash at bank	203	911
Restricted cash	-	-
Total cash and cash equivalents	**203**	**911**

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. Financial risk management

The Company is exposed to credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk for the financial instruments the Company has. The Company does not use derivative financial instruments in connection with management of financial risk management. The debt from Waterford Finance & Investment Ltd. was increased up to MNOK 66.3. The Group's ability to repay or refinance the loan represents a risk. In 2014 the loan was repaid, refer to Note 19 in the Consolidated Financial Statements.

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

Liquidity risk. Most of financial liabilities of the Company is short-term. The Company 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 takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company does not have a policy of hedging interest rate risk.

Currency risk. The Company is exposed to the fluctuations in foreign exchange rates. The Company has not been entered into any hedge agreement to manage the risk as of 31 December 2013 (31 December 2012: same).

Operation risk. The Company is 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 Company is exposed to risk of changes in raw material prices but did not use any financial instruments to manage the risk.

Note 13. Subsequent events

Refer to Note 19 in the Consolidated Financial Statements. The transaction of sale Stikito ltd. shares had nil result for the Parent Company in 2014.