

INDEPENDENT OIL & RESOURCES PLC
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2013

INDEPENDENT OIL & RESOURCES PLC

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

CONTENTS	PAGE
Board of Directors and other corporate information	1
Report of the Board of Directors	2 - 3
Independent Auditor's Report	4 - 5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Statement of Changes in Equity	8
Cash Flow Statement	9
Notes to the consolidated Financial Statements	10 - 33

INDEPENDENT OIL & RESOURCES PLC

BOARD OF DIRECTORS AND OTHER CORPORATE INFORMATION

Board of Directors

Jan Egil Moe, Chairman
Anastasia Dimosthenous, Director
Foula Francis, Director

Company Secretary

Fidelius Management Services Limited

Independent Auditors

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
Nicosia Tower Centre
36 Byron Avenue
PO Box 21656
1511 Nicosia, Cyprus

Registered office

27 Spyrou Kyprianou
Limassol
4001, Cyprus

Bankers

SpareBank 1 SR-Bank
DNB

Registration number

HE319278

INDEPENDENT OIL & RESOURCES PLC

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited consolidated financial statements of Independent Oil & Resources PLC (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2013.

Principal activities

The principal activities of the Group, which are unchanged from last year, are the holding and trading of investments.

The operation in Malawi consist of a coal mine and a mineral sands license. The coal mine is now fully operational. However, due to limited available mining area resulting from a disagreement with local villagers, the operations have been suspended since November 2013. The matter has now been resolved and operations will resume in May this year, following the end of the rainy season.

The mineral sands license was cancelled in 2013 by the Malawian Ministry of Mines due to inactivity. The Group has disputed the cancellation, and is having a dialogue with the Ministry for reinstating the license.

The Company's administrative office is in Limassol, Cyprus.

Independent Oil & Resources PLC is listed on the OTC list on the Oslo Stock Exchange under the ticker code IOTA. Following the relocation to Cyprus, the Company changed its ISIN no. from NO 001 0248065 to CY 010 4270919.

Review of current position, future developments and significant risks

The Group's development to date, financial results and position as presented in the financial statements are not considered satisfactory and the Board of Directors is making an effort to reduce the Group losses.

Future development

The Company is the largest shareholder in Petrolia SE, and its development is consequently largely linked to the development of Petrolia SE.

Redomiciliation

During 2013 the Company has relocated from Norway to Cyprus. The relocation process was initiated through a resolution which was passed at the annual meeting in 2012. On 14 February 2013 the Company obtained a temporary registration in the Cyprus Registrar of Companies (a continuation of Independent Oil & Resources ASA). Furthermore, on 17 April 2013 the Company was registered for dissolution with the Norwegian Register of Business Enterprises. The Company was struck off from the register in Norway on 25 July 2013. Finally, the Company was permanently registered in the Cyprus Registrar of Companies on 12 August 2013.

The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in note 26 of the consolidated financial statements.

Going concern basis

The Group incurred a loss of NOK40,431,320 during the year ended 31 December 2013, but, as at that date its current assets exceeded its current liabilities by NOK115,794,975. The financial statements have been prepared on a going concern basis. The basis for this is the Group's solid equity and the evaluation of future market outlook.

Results

The Group's results for the year are set out on page 6.

Share capital

There were no changes in the share capital of the Company during the year.

In February 2013 the Company obtained permission from the Norwegian Ministry of Trade and Industry, to make use of the Public Limited Companies Act § 4-24 2 paragraph, to carry out a compulsory acquisition of shares from shareholders whose shares had a total value not exceeding NOK 500. A total of 2.497.283 shares were acquired from 5.563 shareholders. Following the acquisition the company had 779 shareholders. The purchase price was NOK0,10 per share.

INDEPENDENT OIL & RESOURCES PLC

REPORT OF THE BOARD OF DIRECTORS

Board of Directors

The members of the Company's Board of Directors as at 31 December 2013 and at the date of this report are presented on page 1. All of them were members of the Board of Directors throughout the year ended 31 December 2013.

In accordance with the Company's Articles of Association, Foula Francis presently member of the Board, retires and being eligible offer herself for re-election.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Corporate Governance

The Board believes that good corporate governance creates growth and lasting value for the benefit of shareholders, employees and other stakeholders. The Board work to build trust in the Company of all groups of stakeholders, based on the principles enshrined in the Norwegian Code of Practice for Corporate Governance. In its work, the Board emphasize on equal treatment of all shareholders, expertise in the Company's governing bodies, independent auditors and that Company information at any time gives a correct view on operation. The Board ensures that the Company always has sufficient equity taking into account the strategy, objectives and risk. Ethical guidelines are contained in a separate policy to ensure high standards of integrity and business practices in general.

Independent Auditors

The independent auditors, Ernst & Young Cyprus Limited, who have been appointed by the Company during the year in replacement of Ernst & Young AS (Norway), have signified their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting of the Company.

By order of the Board of Directors,



.....
Jan Egil Moe
Chairman

Limassol, 16 April, 2014



Independent Auditor's Report

To the Members of Independent Oil & Resources PLC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Independent Oil & Resources PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.



Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

A handwritten signature in blue ink, appearing to read 'Stavros Pantzaris', is located above the printed name.

Stavros Pantzaris
Certified Public Accountant and Registered Auditor
for and on behalf of
Ernst & Young Cyprus Limited
Certified Public Accountants and Registered
Auditors

Nicosia, 16 April, 2014

INDEPENDENT OIL & RESOURCES PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	2013 NOK	2012 NOK
Revenue	5	5,632,255	6,808,557
Dividend income	20	1,516,723	562,092
Interest income	20	7,006,000	5,462,465
Staff costs	10	(3,239,593)	(4,238,202)
Other direct expenses		(4,781,564)	(5,404,800)
Depreciation and impairment	14	(2,968,746)	(3,780,628)
Other income	6	6,761,690	3,967,979
Net (loss)/profit from investing activities	7	(8,724,541)	16,172,447
Administration and other expenses	8	(8,140,728)	(7,392,482)
Operating (loss)/profit	9	(6,938,504)	12,157,428
Finance income	11	341,136	654,549
Finance costs	11	(103,961)	(92,028)
Net loss from foreign exchange transactions		(24,042,366)	(35,418,600)
Share of results of associates before tax	16	(9,687,625)	(35,343,527)
Loss before tax		(40,431,320)	(58,042,178)
Tax	12	-	-
Net loss for the year		(40,431,320)	(58,042,178)
Other comprehensive income			
Share of profit from associates	16	4,820,701	-
Other comprehensive income for the year		4,820,701	-
Total comprehensive loss for the year		(35,610,619)	(58,042,178)
Net loss for the year attributable to:			
Equity holders of the parent		(28,601,055)	(41,995,885)
Non-controlling interests		(11,830,265)	(16,046,293)
Net loss for the year		(40,431,320)	(58,042,178)
Loss per share attributable to equity holders of the parent	13	(0.03)	(0.04)

The notes on pages 10 to 33 form an integral part of these consolidated financial statements.

INDEPENDENT OIL & RESOURCES PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Note	2013 NOK	2012 NOK
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,419,860	5,237,184
Investment in associate companies	16	98,406,469	87,329,124
Available-for-sale financial assets	17	7,218,550	12,646,740
Other asset		70,289	305,671
		<u>107,115,168</u>	<u>105,518,719</u>
Current assets			
Inventories	18	1,267,449	1,423,416
Trade and other receivables	19	5,001,405	3,173,825
Financial assets at fair value through profit or loss	20	100,666,097	89,785,749
Cash at bank and in hand	21	11,964,002	26,931,971
		<u>118,898,953</u>	<u>121,314,961</u>
Total assets		<u>226,014,121</u>	<u>226,833,680</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	22	23,962,846	23,962,846
Share premium		22,423,767	22,423,767
Treasury shares		(870,429)	(620,701)
Translation reserve		23,214,860	(3,022,220)
Retained earnings		149,681,899	173,462,253
		218,412,943	216,205,945
Non-controlling interests		2,104,379	3,460,525
Total equity		<u>220,517,322</u>	<u>219,666,470</u>
Non-current liabilities			
Borrowings	23	2,322,532	2,073,217
Provisions for other liabilities and charges		70,289	-
		<u>2,392,821</u>	<u>2,073,217</u>
Current liabilities			
Trade and other payables	24	3,094,437	5,092,877
Borrowings	23	9,184	691
Current tax liabilities	12	357	425
		<u>3,103,978</u>	<u>5,093,993</u>
Total liabilities		<u>5,496,799</u>	<u>7,167,210</u>
Total equity and liabilities		<u>226,014,121</u>	<u>226,833,680</u>

On 16 April, 2014 the Board of Directors of Independent Oil & Resources PLC authorised these consolidated financial statements for issue.


 Jan Egil Moe
 Chairman


 Anastasia Dimosthenous
 Director


 Foula Francis
 Director

The notes on pages 10 to 33 form an integral part of these consolidated financial statements.

INDEPENDENT OIL & RESOURCES PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to equity holders of the Company					Total NOK	Non-controlli ng interests NOK	Total NOK
	Share capital NOK	Share premium NOK	Treasury shares NOK	Translation reserve NOK	Retained earnings NOK			
Balance at 1 January 2012	23,962,846	22,423,767	(620,701)	-	215,458,138	261,224,050	5,388,461	266,612,511
Comprehensive income								
Net loss for the year	-	-	-	-	(41,995,885)	(41,995,885)	(16,046,293)	(58,042,178)
Transactions with owners								
Increase of share capital of subsidiary	-	-	-	-	-	-	3,920,932	3,920,932
Exchange difference	-	-	-	(3,022,220)	-	(3,022,220)	10,197,425	7,175,205
Balance at 31 December 2012/ 1 January 2013	23,962,846	22,423,767	(620,701)	(3,022,220)	173,462,253	216,205,945	3,460,525	219,666,470
Comprehensive income								
Net loss for the year	-	-	-	-	(28,601,055)	(28,601,055)	(11,830,265)	(40,431,320)
Other comprehensive income for the year	-	-	-	-	4,820,701	4,820,701	-	4,820,701
	-	-	-	-	(23,780,354)	(23,780,354)	(11,830,265)	(35,610,619)
Transactions with owners								
Increase of share capital of subsidiary	-	-	-	-	-	-	2,467,092	2,467,092
Buy back of shares	-	-	(249,728)	-	-	(249,728)	-	(249,728)
Exchange difference	-	-	-	26,237,080	-	26,237,080	8,007,027	34,244,107
Balance at 31 December 2013	23,962,846	22,423,767	(870,429)	23,214,860	149,681,899	218,412,943	2,104,379	220,517,322

Share premium is not available for distribution.

The number of treasury shares as at 31 December 2013 amounted to 27.325.323 (2012: 24.828.040 shares).

The notes on pages 10 to 33 form an integral part of these consolidated financial statements.

INDEPENDENT OIL & RESOURCES PLC

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2013

	Note	2013 NOK	2012 NOK
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(40,431,320)	(58,042,178)
Adjustments for:			
Depreciation of property, plant and equipment	14	2,968,746	3,780,628
Exchange difference arising on the translation of non current assets in foreign currencies		26,462,469	40,187,406
Share of loss from associates	16	9,687,625	35,343,527
Loss from the sale of investments in subsidiaries	7	4,296,700	-
Profit from the sale of investments in associated undertakings	7	-	(10,091,924)
Fair value gains on financial assets at fair value through profit or loss	7	(4,100,349)	(6,080,523)
Impairment charge - available-for-sale financial assets	7	8,528,190	-
Charge to profit or loss for provisions		70,289	775,329
Dividend income	20	(1,516,723)	(562,092)
Interest income	11,20	(7,347,136)	(6,117,014)
Interest expense	11	80,490	64,136
Reversal of impairment of investments in associates	6	(6,761,690)	(3,967,979)
Impairment charge on receivables	19	1,067,269	-
Cash flows used in operations before working capital changes		(6,995,440)	(4,710,684)
Decrease in inventories		155,967	2,953,000
(Increase)/decrease in trade and other receivables		(2,894,849)	1,565,000
(Decrease)/increase in trade and other payables		(1,998,440)	1,543,000
Cash flows (used in)/from operations		(11,732,762)	1,350,316
Interest received		6,780,000	5,462,405
Dividends received		1,516,723	562,092
Net cash flows (used in)/from operating activities		(3,436,039)	7,374,813
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment	14	(90,862)	(8,030,184)
Payment for purchase of available-for-sale financial assets	17	(3,100,000)	-
Payment for purchase of financial assets at fair value through profit or loss	20	(56,508,216)	(20,616,948)
Payment for purchase of investments in associated undertakings	16	(4,522,887)	(65,202,000)
Proceeds from sale of financial assets at fair value through profit or loss	20	49,954,217	16,094,291
Interest received		341,136	654,549
Purchase of treasury shares		(249,728)	-
Minority share of equity increase in subsidiary		2,467,092	3,920,932
Net cash flows used in investing activities		(11,709,248)	(73,179,360)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		249,315	2,073,217
Interest paid		(80,490)	(64,136)
Net cash flows from financing activities		168,825	2,009,081
Net decrease in cash and cash equivalents		(14,976,462)	(63,795,466)
Cash and cash equivalents:			
At beginning of the year		26,931,280	90,726,746
At end of the year	21	11,954,818	26,931,280

The notes on pages 10 to 33 form an integral part of these consolidated financial statements.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

1. Corporate information

Country of incorporation

Independent Oil & Resources PLC (the "Company") was initially incorporated in Norway on 14 October, 1991, and on 14 February, 2013 the Company was redomiciliated in Cyprus as a limited liability company under the Cyprus Companies Law, Cap. 113. The redomiciliation was done as a continuity in accounting terms. Its registered office is at 27 Spyrou Kyprianou, Limassol, 4001, Cyprus.

Independent Oil & Resources PLC is listed on the OTC list on the Oslo Stock Exchange under the ticker code IOTA. Following the relocation to Cyprus, the Company has changed its ISIN no. from NO 001 0248065 to CY 010 4270919.

Principal activities

The principal activities of the Group, which are unchanged from last year, are the holding and trading of investments.

The operation in Malawi consist of a coal mine and a mineral sands license. The coal mine is now fully operational. However, due to limited available mining area resulting from a disagreement with local villagers, the operations have been suspended since November 2013. The matter has now been resolved and operations will resume in May this year, following the end of the rainy season.

The mineral sands license was cancelled in 2013 by the Malawian Ministry of Mines due to inactivity. The Group has disputed the cancellation, and is having a dialogue with the Ministry for reinstating the license.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113. These consolidated financial statements have been prepared under the historical cost convention as modified by the valuation of financial assets at fair value through profit or loss.

Going concern basis

The Group incurred a loss of NOK40,431,320 during the year ended 31 December 2013, but, as at that date its current assets exceeded its current liabilities by NOK115,794,975. The financial statements have been prepared on a going concern basis. The basis for this is the Group's solid equity and the evaluation of future market outlook.

2.2 Changes in accounting policies and disclosures

During the current year the Group adopted all the new and revised IFRSs and International Accounting Standards (IAS), which are relevant to its operations and are effective for accounting periods commencing on 1 January 2013.

The adoption of these Standards did not have a material effect on the consolidated financial statements.

2.3 Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

Standards issued but not yet effective (continued)

(i) Issued by the IASB and adopted by the European Union

- *IAS 27 Separate Financial Statements (Revised) (effective for annual periods beginning on or after 1 January 2014)*
- *IAS 28 Investments in Associates and Joint Ventures (Revised) (effective for annual periods beginning on or after 1 January 2014)*
- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)*
- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)*
- *IFRS 12 Disclosures of Investments in Other Entities (effective for annual periods beginning on or after 1 January 2014)*
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (effective for annual periods beginning on or after 1 January 2014)*
- *Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (effective for annual periods beginning on or after 1 January 2014)*
- *Amendment to IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)*
- *Recoverable Amount Disclosures for Non Financial Assets (Amendments to IAS 36) (effective for annual periods beginning on or after 1 January 2014)*
- *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014)*

(ii) Issued by the IASB but not yet adopted by the European Union

- *IFRS 9 Financial Instruments – Classification and Measurement (tentatively effective for annual periods beginning on or after 1 January 2018)*
- *IFRIC Interpretation 21 –Levies (effective for annual periods beginning on or after 1 January 2014)*
- *IAS 19 Defined Benefit Plans: Employee Contributions (Amendments) (effective for annual periods beginning on or after 1 July 2014)*
- *Annual Improvements to IFRSs 2010–2012 Cycle (effective for annual periods beginning on or after 1 July 2014)*
- *Annual Improvements to IFRSs 2011–2013 Cycle (effective for annual periods beginning on or after 1 July 2014)*
- *IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016)*

The above are expected to have no significant impact on the Group's consolidated financial statements when they become effective.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements unless otherwise stated.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in "Investments in associates". Goodwill on acquisitions of investments in joint ventures is included in "investments in joint ventures".

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Revenue recognition

Revenues earned by the Group are recognised on the following bases:

Sale of coal

Revenue arising from sale of coal is only recognized when the customer acknowledges receipt of the coal. An invoice will only be raised once the customer has received the coal.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Dividend income

Dividend income is recognised when the right to receive payment is established.

Debtors and provisions for bad debts

Bad debts are written off to profit or loss and a specific provision is made, where it is considered necessary. No general provision for bad debts is made. Trade debtors are stated after deducting the specific provision for bad and doubtful debts, if any.

Finance income

Finance income includes interest income which is recognised based on an accrual basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currency translation

(1) Functional and presentation currency

Items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in NOK, which is the Group's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Tax

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

Plant and machinery	%
	25

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss of the year in which it is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans receivable

Loans originated by the Group by providing money directly to the borrower are categorised as loans receivable. They are initially measured at the fair value of cash consideration given to originate those loans as is determined by reference to market rates of interest at origination date and are subsequently measured at amortised cost. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Investments

The Group classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

- *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held at fair value through profit or loss and those designated at fair value through profit or loss at inception. A financial asset is classified in the held at fair value through profit or loss category if acquired principally for the purpose of generating a profit from short-term fluctuations in price. Assets in this category are classified as current assets if they are either held at fair value through profit or loss or are expected to be realised within twelve months from the reporting date.

- *Available-for-sale financial assets*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless Management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Regular way purchases and sales of investments are recognised on the trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and then in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are measured at cost less impairment.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Investments (continued)

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are included in borrowings in current liabilities.

Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation 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 and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs to completion and selling expenses.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Exploration and evaluation costs

Exploration and evaluation expenditure is expensed as incurred unless the directors conclude that future economic benefits are more likely than not to be realised. These costs include materials and fuel utilised and surveying costs.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

4. Critical accounting estimates, judgments and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which had the most significant effect on the amounts recognised in the consolidated financial statements:

- **Provision for bad and doubtful debts**

The Group reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

- **Provision for obsolete and slow-moving inventory**

The Group reviews its inventory records for evidence regarding the saleability of inventory and its net realizable value on disposal. The provision for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory as well as the movement and the level of stock of each category of inventory.

The amount of provision is recognized in profit or loss. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the provision for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

- **Income taxes**

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Fair value of financial assets**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The fair value of the financial assets available for sale has been estimated based on the fair value of these individual assets.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

4. Critical accounting estimates, judgments and assumptions (continued)

• Impairment of investments in subsidiary and associate companies

The Company periodically evaluates the recoverability of investments in subsidiary and associate companies whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/associates may be impaired, the estimated future discounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

• Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

• Impairment of non-financial assets

The impairment test is performed using the discounted cash flows expected to be generated through the use of non-financial assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs to.

5. Revenue

	2013	2012
	NOK	NOK
Sale of coal	<u>5,632,255</u>	<u>6,808,557</u>
	<u>5,632,255</u>	<u>6,808,557</u>

6. Other income

	2013	2012
	NOK	NOK
Reversal of impairment of investments in associates (Note 16)	<u>6,761,690</u>	<u>3,967,979</u>
	<u>6,761,690</u>	<u>3,967,979</u>

7. Net (loss)/profit from investing activities

	2013	2012
	NOK	NOK
Profit from sale of investments in associates (Note 16)	-	10,091,924
Fair value gains on financial assets at fair value through profit or loss (Note 20)	4,100,349	6,080,523
Loss from sale of investments in subsidiaries (Note 15)	(4,296,700)	-
Impairment charge on available-for-sale financial assets (Note 17)	<u>(8,528,190)</u>	<u>-</u>
	<u>(8,724,541)</u>	<u>16,172,447</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

8. Administration and other expenses

	2013 NOK	2012 NOK
Licenses and taxes	675	-
Sundry expenses	3,290,632	3,188,199
Courier expenses	986	-
Auditors' remuneration	664,134	534,022
Accounting fees	193,388	-
Legal fees	174,042	789,383
Other professional fees	2,171,551	1,356,999
Travelling	265,551	-
Bad debts written off	1,067,269	-
Management fees	312,500	1,250,000
Other administration expenses	-	273,879
	<u>8,140,728</u>	<u>7,392,482</u>

9. Operating (loss) /profit

	2013 NOK	2012 NOK
Operating (loss)/profit is stated after charging the following items: Staff costs including Directors in their executive capacity (Note 10)	<u>3,239,593</u>	<u>4,238,202</u>

10. Staff costs

	2013 NOK	2012 NOK
Wages and salaries	3,233,855	4,238,202
Social insurance costs and other funds	5,738	-
	<u>3,239,593</u>	<u>4,238,202</u>

11. Net finance income

	2013 NOK	2012 NOK
Bank interest income	<u>341,136</u>	654,549
Finance income	<u>341,136</u>	654,549
Interest expense	(80,490)	(64,136)
Sundry finance expenses	<u>(23,471)</u>	<u>(27,892)</u>
Finance costs	<u>(103,961)</u>	<u>(92,028)</u>
Net finance income	<u>237,175</u>	<u>562,521</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Year ended 31 December 2013

12. Tax

Consolidated Statement of Financial Position	2013 NOK	2012 NOK
Overseas tax	<u>357</u>	425
	<u>357</u>	<u>425</u>

The tax on the Group's results before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2013 NOK	2012 NOK
Loss before tax	<u>(40,431,320)</u>	<u>(58,042,178)</u>
Tax calculated at the applicable tax rates 12,5% (2012: 28%)	(5,053,915)	(16,251,810)
Tax effect of allowances and income not subject to tax	762,062	16,251,810
Tax effect of tax loss for the year	<u>4,291,853</u>	-
Tax charge	<u>-</u>	<u>-</u>

12.1 Tax recognised in other comprehensive income

	2013 NOK	2012 NOK
Total income tax recognised in other comprehensive income	<u>-</u>	<u>-</u>

The corporation tax rate in Cyprus is 12,5%. In 2012, the Company was taxed in Norway at a tax rate of 28%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30% (2012:15%). In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter.

The operations in Malawi are taxed at 30%.

13. Loss per share attributable to equity holders of the parent

	2013	2012
Loss attributable to shareholders (NOK)	<u>(28,601,055)</u>	<u>(41,995,885)</u>
Weighted average number of ordinary shares in issue during the year	<u>958,508,828</u>	<u>958,508,828</u>
Loss per share attributable to equity holders of the parent	<u>(0.03)</u>	<u>(0.04)</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

14. Property, plant and equipment

	Plant and machinery NOK
Cost	
Balance at 1 January 2012	84,635,000
Additions	8,030,184
Disposals	(76,559,000)
Exchange differences	<u>(8,331,000)</u>
Balance at 31 December 2012/ 1 January 2013	7,775,184
Additions	90,862
Exchange differences	<u>(939,440)</u>
Balance at 31 December 2013	<u>6,926,606</u>
Depreciation	
Balance at 1 January 2012	196,000
Charge for the year	2,232,000
Exchange differences	(1,438,628)
Impairment	<u>1,548,628</u>
Balance at 31 December 2012/ 1 January 2013	2,538,000
Charge for the year	<u>2,968,746</u>
Balance at 31 December 2013	<u>5,506,746</u>
Net book amount	
Balance at 31 December 2013	<u>1,419,860</u>
Balance at 31 December 2012	<u>5,237,184</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

15. Group information

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2013 Holding %	2012 Holding %
Heavy Minerals Limited	Isle of Man	Investment in mineral companies	63,67 (i)	64,3
Eland Coal Mine Company Limited	Malawi	Mine operations	63.67	64.3
Allied Procurement Agency Limited	Malawi	Dormant	63.67	64.3

(i) Direct ownership interest 27,6% and indirect ownership interest through Petroresources Ltd 36,07%.

During the year, Heavy Minerals Limited ("HML") issued 1.100.000 share out of which the Group subscribed for a less number of shares than its existing shareholding. As a result, the percentage of effective shareholding has diluted from 64,3% to 63,67%. (0,63% dilution). The total loss recognized from the transaction amounts to NOK 4.296.700

The Eland Coal Mine Company Ltd's ("ECMC") mining license was renewed on 19th December 2012 by the Malawi Government and will be operational for the next 5 years. The Management expects that the ECMC will start reporting profits by the year ending December 2014 due to plans that have been put in place. The Company has put in additional loan capital of NOK 9,7 million (USD1.6million) with the expectation that ECMC's revenue will increase as a result of increased capacity. The Company will not recall their loan until ECMC starts reporting profits and positive cash flows. The ECMC has entered into year- long contracts with key customers to ensure steady sales and significant growth of revenue. Marketing and sales initiatives have been adopted to increase both local and international sales. During the last quarter of the year 2012, ECMC managed to get a one year sales contract with Tanzania Gypsum Limited of 6,000 metric tonnes of coal at NOK 489 (USD80) per tonne. In the first quarter of 2013, ECMC started supplying coal to TGB Kenya for annual order of 9,600 metric tonnes of coal at NOK 489 (USD80) per tonne. Mbeya Cement Company Limited, the main customer will give ECMC a new order of more than the prior order of 15,000 metric tonnes at an increased price than the current one of NOK 398 (USD65) per tonne. Locally, ECMC has existing orders with local customers of 500 metric tonnes per month at an average price of NOK 489 (USD80) per tonne. In 2014, ECMC is expecting significant growth of revenue from 15,000 metric tonnes in 2013 to 36,600 metric tonnes in 2014 with an average price of NOK 489 (USD80) per metric tonnes.

16. Investments in associates

At cost	2013 NOK	2012 NOK
Balance at 1 January	87,329,124	47,414,000
Additions	4,522,887	65,202,000
Reversal of impairment	6,761,690	3,967,979
Exchange differences	4,659,692	(4,003,252)
Other comprehensive income	4,820,701	-
Share of results of associates before tax	(9,687,625)	(35,343,527)
Profit from rig merger	-	10,091,924
Balance at 31 December	<u>98,406,469</u>	<u>87,329,124</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

16. Investments in associates (continued)

The details of the investments are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	2013 Holding %	2012 Holding %	2013 NOK	2012 NOK
Petroresources Ltd (i)	Cyprus	Holding of licences for oil exploration	49,8	49,8	14,953,036	23,395,000
Epsis AS	Norway	Computer Software for Collaboration	23,3	23,3	3,297,416	2,378,586
Petrolia SE (ii)	Cyprus	Oil & Gas activities	49,1	49,1	<u>80,156,017</u>	<u>61,555,538</u>
					<u>98,406,469</u>	<u>87,329,124</u>

(i) During the year 2012 the Company acquired 2.350 shares in Petroresources Ltd for a consideration of USD749.275 (NOK4.522.887).

(ii) The carrying amount of investment in Petrolia SE is written down to market value as at 31 December 2013.

During 2012 the Company sold 37m shares in Petrolia SE to the related company Larsen Oil & Gas AS for NOK22,2m.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

16. Investments in associates (continued)

Significant aggregate amounts in respect of associated undertakings:

	Holding %	Assets NOK'000	Liabilities NOK'000	Revenue NOK'000	Expenses NOK'000	Net profit /(loss) NOK'000
2013						
Petroresources	49.8	28,479	(104)	-	(31,233)	(31,233)
Petrolia SE	49.1	1,227,222	(603,849)	705,524	(695,442)	10,082
Epsis AS	23.3	18,954	(4,802)	30,649	(26,707)	3,942
		1,274,655	(608,755)	736,173	(753,382)	(17,209)
2012						
Petroresources	49.8	54,680	(2,925)	-	(485)	(485)
Petrolia SE	49.1	1,268,816	(350,301)	598,940	(640,118)	(41,178)
Epsis AS	23.3	15,124	(5,173)	24,820	(37,000)	(12,180)
		1,338,620	(358,399)	623,760	(677,603)	(53,843)

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

17. Available-for-sale financial assets

At cost	2013 NOK	2012 NOK
Balance at 1 January	12,646,740	12,646,740
Additions	3,100,000	-
Impairment charge	(8,528,190)	-
Balance at 31 December	<u>7,218,550</u>	<u>12,646,740</u>

Available for sale financial assets relate to the investment in Opra Technologies ASA. During the year, the Company acquired 3.100.000 shares of NOK1 each, bringing the total number of shares held by the Company to 12.754.000 shares (2012: 9.654.000) and shareholding to 10,6% (2012: 9,6%). Impairment charge during the year amounted to NOK8.528.190 (accumulated impairment NOK33.809.332).

18. Inventories

	2013 NOK	2012 NOK
Inventories	<u>1,267,449</u>	<u>1,423,416</u>
	<u>1,267,449</u>	<u>1,423,416</u>

Inventories are stated at cost. Inventories mainly include spares and consumables.

19. Trade and other receivables

	2013 NOK	2012 NOK
Trade receivables	4,775,305	1,439,069
Receivables from related companies (Note 25)	608	-
Other receivables (i)	<u>225,492</u>	<u>1,734,756</u>
	<u>5,001,405</u>	<u>3,173,825</u>

(i) A provision for bad debts was recognised in respect of receivables from Certified Oilfield Rentals Limited ("COR"), for an amount of NOK1.067.269. COR is under bankruptcy and the accumulated impaired receivable of NOK1.266.184 is not expected to be recovered.

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

20. Financial assets at fair value through profit or loss

	2013 NOK	2012 NOK
At fair value		
Investment in Bond (i)	53,901,000	55,370,000
Investment in shares (ii)	<u>46,765,097</u>	<u>34,415,749</u>
Balance at 31 December	<u>100,666,097</u>	<u>89,785,749</u>

All investments are traded on the stock exchange.

(i) The Group owns bonds defined as "12.0 per cent Petrolia SE Callable Bond Issue 2013/2015" ISIN 0010683592. The bonds are issued by the associated company Petrolia SE and are listed in ABM market of Oslo Stock Exchange. At 31 December 2013 the Group held 53.675.000 bonds of nominal value 1 NOK and accrued interest of NOK226.000. The interest income for the year amounted to NOK7.006.000 (2012: NOK5.462.465).

During 2012, the Group acquired bonds amounting to NOK42m and sold bonds with a nominal value of NOK8m to the related party Larsen Oil & Gas AS for NOK7,8m.

During the year, the value of the bond was decreased by NOK1.695.000 (2012: increase NOK965.000).

The acquisition cost is NOK54.405.000.

(ii) Investment in shares

	2013 NOK	2012 NOK
Balance at 1 January	34,415,749	42,192,000
Additions	56,508,216	-
Disposal proceeds	(49,954,217)	(12,891,774)
Change in fair value	<u>5,795,349</u>	<u>5,115,523</u>
Balance at 31 December	<u>46,765,097</u>	<u>34,415,749</u>

The investment in shares relate to marketable securities and are valued at market value at the close of business on 31 December by reference to Oslo Stock Exchange quoted bid prices.

The acquisition cost is NOK 44.760.663.

During the year, the Group received dividends from its investments in listed shares totalling to NOK1.516.723 (2012: NOK562.092).

21. Cash at bank and in hand

	2013 NOK	2012 NOK
Cash at bank	<u>11,954,818</u>	26,931,280
	<u>11,954,818</u>	<u>26,931,280</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

For the purposes of the consolidated cash flow statement, the cash and cash equivalents include the following:

	2013	2012
	NOK	NOK
Cash at bank and in hand	11,964,002	26,931,971
Bank overdrafts (Note 23)	(9,184)	(691)
	<u>11,954,818</u>	<u>26,931,280</u>

The exposure of the Group to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 26 of the consolidated financial statements.

22. Share capital

	2013	2013	2012	2012
	Number of	NOK	Number of	NOK
	shares		shares	
Authorised				
Ordinary shares of NOK0,025 each	<u>958,508,828</u>	<u>23,962,720</u>	<u>958,508,828</u>	<u>23,962,720</u>
Issued and fully paid				
Balance at 1 January	<u>958,508,828</u>	<u>23,962,846</u>	<u>958,508,828</u>	<u>23,962,846</u>
Balance at 31 December	<u>958,508,828</u>	<u>23,962,846</u>	<u>958,508,828</u>	<u>23,962,846</u>

On 19 February, 2013, the Company's Board of Directors decided to buy back shares from shareholders whose shares had a total value not exceeding NOK 500.

The number of shares bought back during the year amounted to 2.497.283. The purchase price was NOK0,10.

23. Borrowings

	2013	2012
	NOK	NOK
Current borrowings		
Bank overdrafts (Note 21)	<u>9,184</u>	<u>691</u>
	<u>9,184</u>	<u>691</u>
Non current borrowings		
Loans from related companies (Note 25)	<u>2,322,532</u>	<u>2,073,217</u>
	<u>2,322,532</u>	<u>2,073,217</u>
Total	<u>2,331,716</u>	<u>2,073,908</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

24. Trade and other payables

	2013 NOK	2012 NOK
Trade payables	2,762,112	3,340,710
Social insurance and other taxes	364	-
Accruals	243,834	-
Other creditors	88,127	1,752,167
	<u>3,094,437</u>	<u>5,092,877</u>

The trade payables are due within 30 days of the invoice date.

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

25. Related party balances and transactions

List of main shareholders as at 31 December 2013 and at 15 April 2014	No of shares	Shareholding
1 INCREASED OIL RECOVERY AS	413.915.779	43.18%
2 NET AS	163.892.692	17.10%
3 INDEPENDENT OILFIELDS RENTALS LTD	134.894.721	14.07%
4 BERNT LARSEN HOLDING AS	75.185.758	7.84%
5 INDEPENDENT OIL & RESOURCES PLC (the Company)	27.325.323	2.85%
6 ASKELADDEN INVEST AS	12.502.370	1.30%
7 SKARET INVEST AS	10.837.706	1.13%
Other shareholders with shareholding under 1%	119.954.479	12.53%
Total number of shares	<u>958.508.828</u>	<u>100%</u>

The Chairman of the Company, Jan Egil Moe, holds indirectly 0,33% of the shares of the Company, through the company, Janem SA.

The following transactions were carried out with related parties:

25.1 Directors' remuneration

The remuneration of Directors and other members of key management was as follows:

	2013 NOK	2012 NOK
Directors' fees	565,262	650,000
Directors' remuneration	-	91,650
	<u>565,262</u>	<u>741,650</u>

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

25. Related party balances and transactions (continued)

25.2 Purchases of services

		2013 NOK	2012 NOK
	<u>Nature of transactions</u>		
Larsen Oil & Gas AS (shareholder)	Management fees	312,500	1,250,000
Janem AS (shareholder)	Professional fees	925,500	804,000
		<u>1,238,000</u>	<u>2,054,000</u>

25.3 Receivables from related parties (Note 19)

		2013 NOK	2012 NOK
	<u>Nature of transactions</u>		
Name			
Petroresources Limited (associate company)	Financing	608	-
		<u>608</u>	<u>-</u>

25.4 Loans from related undertakings (Note 23)

		2013 NOK	2012 NOK
Larsen Oil & Gas AS		41,564	37,100
Mineral Sands Limited		1,174,142	1,048,103
Petroresources Limited		1,106,826	988,014
		<u>2,322,532</u>	<u>2,073,217</u>

26. Financial risk management objectives and policies

Financial risk factors

The Company is exposed to market price risk, currency risk, interest rate risk, credit risk, liquidity risk and capital management risk arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

26.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and that such changes will affect the Company's income or the value of its holdings of financial instruments. As at the year end, the Company holds investments as shown in Note 20, which are affected by market price changes. The Company manages the market risk by holding a diversified portfolio of equity and bond investments in the Oslo Stock exchange.

26.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's income and operating cash inflows are substantially independent of changes in market interest rates as the Company holds bonds as stated in Note 20, which carry fixed interest rate. Interest income from cash at bank is not significant.

INDEPENDENT OIL & RESOURCES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2013

26. Financial risk management objectives and policies (continued)

26.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign currency risks from its operations in Malawi.

26.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities - primarily other receivables and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Credit risk related to financial instruments and cash deposits: Cash balances are held with reputable financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

26.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The Company has established procedures with the objective of maintaining a balance between continuity of funding and flexibility through the use of various investment products.

26.6 Capital management

Capital includes equity shares and share premium.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, in order to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company's overall objectives, policies and processes remain unchanged from last year.

27. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2013.

28. Commitments

The Group had no capital or other commitments as at 31 December 2013.

29. Events after the reporting period

There were no material events after the reporting period, which have a bearing on the understanding of the consolidated financial statements.

Independent Auditor's Report on pages 4 and 5