



**CONSOLIDATED
FINANCIAL STATEMENTS**

DECEMBER 31, 2012

Management's Report

The accompanying consolidated financial statements and related financial information are the responsibility of management, and have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been prepared and presented fairly, in all material respects, within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The Company retains independent petroleum consultants, RPS Energy Canada Ltd. and DeGolyer and MacNaughton Canada Limited, to conduct independent evaluations of the Company's oil reserves. The independent external auditors, KPMG LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors, currently composed of seven independent and one non-independent directors, carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of four members, all of whom are independent directors. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review the interim and/or annual financial statements and to recommend that the consolidated financial statements be presented to the Board of Directors for approval prior to their release.



Abdel F. (Abby) Badwi
Vice Chairman, President
& Chief Executive Officer



Douglas C. Urch
Executive VP, Finance
& Chief Financial Officer

March 13, 2013



KPMG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bankers Petroleum Ltd.

We have audited the accompanying consolidated financial statements of Bankers Petroleum Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bankers Petroleum Ltd., as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 13, 2013
Calgary, Canada

BANKERS PETROLEUM LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of US dollars, except per share amounts)

	Note	2012	2011
Revenues		\$ 432,138	\$ 339,918
Royalties		<u>(78,361)</u>	<u>(63,941)</u>
		353,777	275,977
Realized loss on financial commodity contracts	5(d)	(6,588)	-
Unrealized gain (loss) on financial commodity contracts	5(d)	<u>556</u>	<u>(2,904)</u>
		347,745	273,073
Operating expenses	8(b)	77,953	60,864
Sales and transportation expenses		57,578	45,460
General and administrative expenses	8(b)	16,050	13,773
Depletion and depreciation	11	65,937	40,367
Share-based payments	17	<u>11,205</u>	<u>11,041</u>
		228,723	171,505
		119,022	101,568
Net finance expense	7	<u>19,594</u>	<u>6,223</u>
Income before income tax		99,428	95,345
Deferred income tax expense	9	<u>(65,015)</u>	<u>(59,349)</u>
Net income for the year		<u>34,413</u>	<u>35,996</u>
Other comprehensive income			
Currency translation adjustment		953	315
Comprehensive income for the year		<u>\$ 35,366</u>	<u>\$ 36,311</u>
Basic earnings per share	14	<u>\$ 0.136</u>	<u>\$ 0.146</u>
Diluted earnings per share	14	<u>\$ 0.136</u>	<u>\$ 0.141</u>

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

APPROVED BY THE BOARD

"Robert Cross" Director

"Eric Brown" Director

BANKERS PETROLEUM LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31
(Expressed in thousands of US dollars)

ASSETS			
	Note	2012	2011
Current assets			
Cash and cash equivalents	12	\$ 33,740	\$ 49,013
Restricted cash	21	5,000	5,000
Accounts receivable	5(b)	35,603	56,006
Inventory	20	23,517	14,412
Deposits and prepaid expenses	23	30,265	17,463
Financial commodity contracts	5(d)	1,550	3,684
		129,675	145,578
Non-current assets			
Long-term receivable	5(b)	11,150	-
Property, plant and equipment	11	681,399	514,184
Exploration and evaluation assets	10	3,592	1,454
		\$ 825,816	\$ 661,216
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 38,787	\$ 52,109
Current portion of long-term debt	16	2,089	13,187
		40,876	65,296
Non-current liabilities			
Long-term debt	16	97,158	46,692
Decommissioning obligation	19	16,747	13,561
Deferred tax liabilities	9	188,003	122,988
		342,784	248,537
SHAREHOLDERS' EQUITY			
Share capital	13	334,764	318,021
Warrants	15	-	1,540
Contributed surplus		69,435	49,651
Currency translation reserve		7,362	6,409
Retained earnings		71,471	37,058
		483,032	412,679
		\$ 825,816	\$ 661,216

Commitments (Note 22)

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

BANKERS PETROLEUM LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of US dollars)

	Note	2012	2011
Cash provided by (used in):			
Operating activities			
Net income for the year		\$ 34,413	\$ 35,996
Depletion and depreciation	11	65,937	40,367
Amortization of deferred financing costs	16	-	734
Accretion of long-term debt	16	4,791	2,555
Accretion of decommissioning obligation	19	829	460
Unrealized foreign exchange loss		636	1,122
Deferred income tax expense	9	65,015	59,349
Share-based payments	17	11,205	11,041
Discount of long-term receivable	7	7,629	-
Realized loss on financial commodity contracts	5(d)	6,588	-
Unrealized (gain) loss on financial commodity contracts	5(d)	(556)	2,904
Cash premiums paid for financial commodity contracts	5(d)	(3,898)	(6,588)
		192,589	147,940
Change in long-term receivable		(18,779)	-
Change in non-cash working capital	8(a)	(12,064)	(15,743)
		161,746	132,197
Investing activities			
Additions to property, plant and equipment		(220,525)	(241,300)
Additions to exploration and evaluation assets		(2,138)	(1,454)
Restricted cash		-	(3,500)
Change in non-cash working capital	8(a)	(2,762)	6,786
		(225,425)	(239,468)
Financing activities			
Issue of shares for cash		13,555	5,783
Financing costs	16	(750)	(30)
Increase in long-term debt	16	35,537	44,543
Share issue costs		-	(167)
		48,342	50,129
Foreign exchange gain (loss) on cash and cash equivalents		64	(464)
Decrease in cash and cash equivalents		(15,273)	(57,606)
Cash and cash equivalents, beginning of year		49,013	106,619
Cash and cash equivalents, end of year	12	\$ 33,740	\$ 49,013
Interest paid		\$ 4,788	\$ 2,362
Interest received		\$ 438	\$ 574

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

BANKERS PETROLEUM LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in thousands of US dollars, except number of common shares)

	Note	Number of common shares	Share capital	Warrants	Contributed surplus	Currency translation reserve	Retained earnings	Total
Balance at December 31, 2010		244,794,990	\$ 309,379	\$ 1,597	\$ 28,135	\$ 6,094	\$ 1,062	\$ 346,267
Share-based payments	17	-	-	-	24,485	-	-	24,485
Options exercised		2,728,446	8,348	-	(2,969)	-	-	5,379
Warrants exercised		174,333	461	(57)	-	-	-	404
Share issue costs		-	(167)	-	-	-	-	(167)
Net income for the year		-	-	-	-	-	35,996	35,996
Currency translation adjustment		-	-	-	-	315	-	315
Balance at December 31, 2011		247,697,769	\$ 318,021	\$ 1,540	\$ 49,651	\$ 6,409	\$ 37,058	\$ 412,679
Share-based payments	17	-	-	-	21,432	-	-	21,432
Options exercised		1,457,890	4,147	-	(1,655)	-	-	2,492
Warrants exercised		4,672,991	12,596	(1,533)	-	-	-	11,063
Warrants expired		-	-	(7)	7	-	-	-
Net income for the year		-	-	-	-	-	34,413	34,413
Currency translation adjustment		-	-	-	-	953	-	953
Balance at December 31, 2012		253,828,650	\$ 334,764	\$ -	\$ 69,435	\$ 7,362	\$ 71,471	\$ 483,032

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

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

1. REPORTING ENTITY

Bankers Petroleum Ltd. (Company) is incorporated and domiciled in Canada and is engaged in the exploration for, and development and production of, oil in Albania. The Company is listed on the Toronto Stock Exchange and the Alternative Investment Market of the London Stock Exchange under the symbol BNK.

The consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries (Group) – Bankers Petroleum International Limited (BPIL), Bankers Petroleum Albania Ltd. (BPAL) and Sherwood International Petroleum Ltd. (Sherwood). BPIL is incorporated in Jersey and BPAL and Sherwood are incorporated in the Cayman Islands.

The Group operates the Albanian oilfields pursuant to Petroleum Agreements with Albpetrol Sh.A (Albpetrol), the state-owned oil company, under Albpetrol's existing license with the Albanian National Agency for Natural Resources (AKBN). The Patos-Marinza and Kuçova agreements became effective in March 2004 and September 2007, respectively, and have a 25 year term with extension options at the Company's election for further five year increments, subject to government and regulatory approvals.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Board of Directors on March 13, 2013.

(b) Basis of presentation and measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and held-for-trading financial assets measured at fair value with changes in fair value recorded in profit or loss. The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the parent entity is Canadian dollars. These consolidated financial statements are presented in United States (US) dollars (presentation currency), which is the functional currency of the Company's operating subsidiaries.

Unless where otherwise noted, the consolidated financial statements are presented in thousands of US dollars.

2. BASIS OF PREPARATION (cont'd)

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are as follows:

Recoverability of asset carrying values

The recoverability of development and production asset carrying values is assessed at a cash generating unit (CGU) level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil reserves include the following:

- (i) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- (ii) Oil prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchanges rates, weather, and economic and geopolitical factors.
- (iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Decommissioning obligation

Amounts recorded for decommissioning obligation and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

2. BASIS OF PREPARATION (cont'd)

(d) Use of estimates and judgments (cont'd)

Financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature is subject to measurement uncertainty.

Share-based payments

Compensation costs recognized for share-based payment plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes option pricing model which is based on significant assumptions such as volatility, dividend yield and expected term of options and warrants. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

The functional currency for each entity is the currency of the primary economic environment in which it operates. The functional currency of the Albanian segment is the US dollar. Foreign currency denominated transactions and balances for this segment are translated to US dollars as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Foreign currency transactions (cont'd)

- (i) Monetary assets and liabilities are translated at the rates prevailing at each reporting date;
- (ii) Non-monetary assets and liabilities are translated to the functional currency at the historical exchange rate;
- (iii) Income and expenses for the period are translated at the average exchange rate for the period; and
- (iv) Gains and losses arising from foreign currency translation are recognized in net income.

The results and financial position of the Canadian segment has a Canadian dollar functional currency, which is different from the presentation currency. The Company translates foreign currency denominated transactions and balances related to the Canadian segment into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at each reporting date;
- (ii) Income and expenses are translated at exchange rates at the dates of the transactions; and
- (iii) All resulting exchange differences are recognized in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of accounts receivable, long-term receivable, restricted cash, cash and cash equivalents, long-term debt and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value, through profit or loss, net of directly attributable transaction costs.

Subsequent measurement of all financial assets and liabilities except those held-for-trading and available-for-sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when impaired.

Cash and cash equivalents are held-for-trading investments and the fair values approximate their carrying value due to their short-term nature. Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. Accounts receivable is classified as loans and receivables and the fair value approximates their carrying value due to the short-term nature of these instruments. The long-term receivable is classified as loans and receivables and is measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities are classified as other financial liabilities and the fair value approximates their carrying value due to the short-term nature of these instruments. Long-term debt is classified as other financial liabilities and their fair value approximates carrying value as they bear interest at market rates.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Financial instruments (cont'd)

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The derivative financial instruments are initiated within the guidelines of the Company's risk management policy and are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. Derivative financial instruments are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with unrealized gains and losses resulting from changes in the fair value recognized in profit and loss and realized gains and losses recorded when the instrument is settled. Transaction costs are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity.

(d) Property, plant and equipment (PP&E) and intangible exploration assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of comprehensive income as incurred.

Exploration and evaluation (E&E) costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are assessed at the exploration area level.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment (PP&E) and intangible exploration assets (cont'd)

(i) Recognition and measurement (cont'd)

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within PP&E referred to as oil and natural gas interests.

Development and production costs

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The Company has grouped its development and production assets into the following CGU's: the Patos-Marinza and Kuçova oilfields.

When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of PP&E are determined by comparing the net proceeds from disposal with the carrying amount of PP&E and are recognized in the statement of comprehensive income.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are reviewed by independent reservoir engineers at least annually.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment (PP&E) and intangible exploration assets (cont'd)

(iii) Depletion and depreciation (cont'd)

Proved and probable reserves are estimated using independent reservoir engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For other assets, depreciation is recognized in profit or loss on either a straight-line or declining balance method over the estimated useful lives of each part of an item of PP&E. Land is not depreciated.

Workover costs are depreciated on a straight-line basis over 5 years.

Equipment, furniture and fixtures are depreciated on the declining balance method at rates of 20% to 30%.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Inventory

Inventory is comprised of crude oil, diluent, diesel and other stocks, and is valued at the lower of average cost of production and net realizable value (estimated selling price in the ordinary course of business, less the costs of completion and costs necessary to make the sale).

(f) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Material financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Impairment (cont'd)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into CGU's. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value, less cost to sell, is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value, less cost to sell oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

E&E assets are assessed at the exploration area level when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of other assets recognized in prior years is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Share-based payments

The grant date fair value of warrants awarded to employees, directors and service providers is measured using the Black-Scholes option pricing model. The grant date fair value of options awarded to employees, directors and service providers is measured using the Black-Scholes option pricing model and recognized in the statement of comprehensive income, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(h) Decommissioning obligation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site remediation activities when retiring tangible long-life assets such as producing well sites and facilities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligation is measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion within finance expenses whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Such capitalized costs for resource properties are amortized as part of depletion and depreciation using the unit-of-production method. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(i) Revenue

Revenue from the sale of the Company's oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time the product is shipped (export sales) or delivered to the refinery (domestic sales).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Finance income and expense

Finance expense comprises interest and bank charges, accretion of decommissioning obligation, amortization of deferred financing costs, accretion of long-term debt, discount of long-term receivable and any impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expense, are reported on a net basis.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings per share

Basic earnings per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants granted. The dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) New standards not yet adopted

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 10 “Consolidated Financial Statements” introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 “Joint Arrangements” replaces IAS 31 “Interests in Joint Ventures”. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A “joint operation” continues to be accounted for using proportionate consolidation, where a “joint venture” must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A “joint operation” is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a “joint venture”, the joint ventures partners have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 “Disclosure of Interests in Other Entities” is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 “Fair Value Measurement” is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 “Investments in Associates and Joint Ventures” has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 “Separate Financial Statements” has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements that are not consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) New standards not yet adopted (cont'd)

In November 2009, the IASB published IFRS 9 “Financial Instruments”, which covers the classification and measurement of financial assets as part of its project to replace IAS 39 “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

In December 2011, “Offsetting Financial Assets and Financial Liabilities”, amendments to IFRS 7 “Financial Instruments: Disclosures” and IAS 32 “Financial Instruments: Presentation” were published by the IASB. These amendments clarify the requirements for offsetting financial instruments. The amendments to IFRS 7 introduce new disclosure requirements for financial assets and financial liabilities that are offset in the Consolidated Balance Sheets, or are subject to enforceable master netting arrangements or similar agreements. The amendment to IFRS 7 is applied retrospectively for annual periods beginning on or after January 1, 2013, and amendments to IAS 32 are applied retrospectively for annual periods beginning on or after January 1, 2014.

The adoption of these standards on January 1, 2013 will have no significant impact on the amounts recorded in the Company’s consolidated financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment (PP&E) and exploration and evaluation (E&E) assets

The fair value of PP&E and E&E assets recognized in a business combination and related decommissioning obligations, is based on market values. The market value of PP&E and E&E assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

4. DETERMINATION OF FAIR VALUES (cont'd)

- (b) Cash and cash equivalents, restricted cash, accounts receivable, long-term receivable, accounts payables and accrued liabilities and long-term debt.

The fair value of cash and cash equivalents, restricted cash, accounts receivable, long-term receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012 and 2011, the fair value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity. In the case of long-term debt, the fair value approximates its carrying value as it bears interest at floating rates. For long-term receivable, the fair value is estimated as the present value of the future cash flows, discounted at the risk-adjusted rate at the reporting date.

- (c) Derivatives

The fair value of financial commodity contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates).

- (d) Stock options and warrants

The fair value of employee stock options and warrants is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option and warrant holder behavior), expected dividends, expected forfeiture rate and the risk-free interest rate (based on government bonds).

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

4. DETERMINATION OF FAIR VALUES (cont'd)

(e) Financial assets and liabilities

The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2012 and 2011. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and long-term debt included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments or the indexed rate of interest on the long-term debt. These assets and liabilities are not included in the following tables:

December 31, 2012 (\$000s)	Carrying amount	Fair value	Fair value measurements using		
			Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets					
Long-term receivable	\$ 11,150	\$ 11,150	\$ -	\$ -	\$ 11,150
Fair value of financial commodity contracts	\$ 1,550	\$ 1,550	\$ -	\$ 1,550	\$ -

December 31, 2011 (\$000s)	Carrying amount	Fair value	Fair value measurements using		
			Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets					
Fair value of financial commodity contracts	\$ 3,684	\$ 3,684	\$ -	\$ 3,684	\$ -

Level 1 fair value measurements are based on unadjusted quoted market prices. Cash and cash equivalents have been classified as level 1.

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 fair value measurements are those with inputs for the asset or liability that are not based on observable market data.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

5. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Overview (cont'd)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from petroleum refineries relating to accounts receivable.

In Canada, no amounts are considered past due or impaired.

The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As of December 31, 2012 and 2011, other than the discount of long-term receivable, the Company does not have an allowance for doubtful accounts and did not provide for any doubtful accounts nor was it required to write-off any receivables.

As at December 31, 2012, the Company's total receivables consisted of \$46.5 million (2011 – \$55.8 million) of receivables from petroleum refineries and \$0.2 million (2011 – \$0.2 million) of other trade receivables, as summarized below:

2012 (\$000s)	Current	30-60 days	61- 90 days	Over 90 days	Total
Albania	\$ 30,256	\$ -	\$ -	\$ 16,268	\$ 46,524
Canada	229	-	-	-	229
	<u>\$ 30,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,268</u>	<u>\$ 46,753</u>
2011 (\$000s)	Current	30-60 days	61- 90 days	Over 90 days	Total
Albania	\$ 28,697	\$ 1,287	\$ 5,076	\$ 20,767	\$ 55,827
Canada	179	-	-	-	179
	<u>\$ 28,876</u>	<u>\$ 1,287</u>	<u>\$ 5,076</u>	<u>\$ 20,767</u>	<u>\$ 56,006</u>

In Albania, the Company considers any amounts greater than 60 days as past due. The accounts receivable, included in the table, past due or not past due are not impaired. They are from counterparties with whom the Company has a history of collection and the Company considers the accounts receivable collectible. Domestic receivables are due by the end of the month following production and export receivables are collected within 30 days from the date of shipment. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a variety of purchasers.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

5. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Of the total receivables in Albania, approximately \$23.9 million (2011 – \$28.2 million) is due from one domestic customer of which the full amount (2011 – \$25.8 million) is past due. The Company expects to collect the full amount of the receivable. Based on actual repayment history, \$5.1 million (2011 – \$28.2 million) has been classified as current and \$11.2 million (2011 – nil) has been classified as long-term, net of \$7.6 million (2011 – nil) discount of long-term receivable. This long-term receivable is discounted using a risk-adjusted discount rate of 20 percent to reflect the delay in collection of this amount. Subsequent to December 31, 2012, \$1.7 million was received.

In Canada, no amounts are considered past due or impaired.

The Company manages the credit exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a minimum period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and modified as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has credit facilities with three international banks, as disclosed in note 16. The Company also attempts to match its payment cycle with collection of petroleum revenues. The Company maintains a close working relationship with the banks that provide its credit facilities.

The contractual maturities of financial liabilities, at December 31, 2012, are as follows:

<i>(\$000s)</i>	Carrying Amount	2013	2014	2015	2016 and after
Accounts payable and accrued liabilities	\$ 38,787	\$ 38,787	\$ -	\$ -	\$ -
Operating loan	18,724	-	18,724	-	-
Term loans	7,185	2,089	1,496	1,200	2,400
Revolving loans	80,000	-	63,500	16,500	-
	\$ 144,696	\$ 40,876	\$ 83,720	\$ 17,700	\$ 2,400

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

5. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at December 31, 2012, a 10% change in the foreign exchange rate of the Canadian dollar (CAD) against the US dollar (USD), with all other variables held constant, would affect after tax net income for the year by \$1.0 million (2011 – \$1.1 million). The sensitivity is lower in 2012 as compared to 2011 because of a decrease in Canadian dollar cash and cash equivalents outstanding. The average exchange rate during the year was USD\$1.00 equals CAD\$1.00 (2011 – USD\$1.00: CAD\$0.99) and the exchange rate at December 31, 2012 was USD\$1.00 equals CAD\$0.99 (2011 – USD\$1.00: CAD\$1.02).

As at December 31, 2012, a 10% change in the foreign exchange rate of the Albanian Lek against the USD, with all other variables held constant, would affect after tax net income for the year by \$2.7 million (2011 – \$3.9 million). The sensitivity is mainly lower in 2012 as compared to 2011 due to the decrease in Albania Lek accounts payable and accrued liabilities. The average exchange rate during the year was USD\$1.00 equals 110 Lek (2011 – USD\$1.00: 103 Lek) and the exchange rate at December 31, 2012 was USD\$1.00 equals 106 Lek (2011 – USD\$1.00: 109 Lek).

The Company had no forward foreign exchange rate contracts in place as at or during the years ended December 31, 2012 and 2011.

The following financial instruments were denominated in CAD and Albanian Lek:

(000s)	2012			2011		
	CAD	Lek	USD	CAD	Lek	USD
Cash and cash equivalents	11,734	8,507	11,875	13,137	1,052	12,927
Accounts receivable	228	-	229	181	-	178
Accounts payable and accrued liabilities	(2,122)	(2,889,578)	(29,353)	(1,861)	(3,899,416)	(38,824)
	<u>9,840</u>	<u>(2,881,071)</u>	<u>(17,249)</u>	<u>11,457</u>	<u>(3,898,364)</u>	<u>(25,719)</u>

5. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Market risk (cont'd)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its operating, term and revolving loans which bear a floating rate of interest. As at December 31, 2012, a 10% change in the interest rate, with all other variables held constant, would affect after tax net income for the year by \$0.5 million (2011 – \$0.3 million), based on the average debt balance outstanding during the year. The sensitivity in 2012 is higher as compared to 2011 mainly due to the increase in revolving loans outstanding.

The Company has not entered into any mitigating interest rate hedges or swaps.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil are impacted by not only the relationship between the Canadian and US dollar but also world economic events that dictate the levels of supply and demand.

It is the Company's policy to economically hedge some oil sales through the use of various financial derivative forward sale contracts. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price.

The Company's primary revenues are from oil sales in Albania, priced on a quality differential basis, to the Brent oil price. As at December 31, 2012, a \$1 per barrel change in the Brent oil price, with all other variables held constant, would affect after tax net income for the year by \$1.6 million (2011 – \$1.2 million).

At December 31, 2012, the Company had an outstanding financial commodity contract representing 4,000 barrels of oil per day at a floor price of \$80 per barrel Brent for 2013.

The estimated fair value of the financial oil contracts has been determined for the amounts the Company would receive or pay to terminate the oil contracts at year-end.

On February 28, 2011, the Company paid a \$6.6 million premium to enter into the financial commodity contracts for 2012. At December 31, 2012, the estimated fair value of these financial commodity contracts is nil (December 31, 2011 – \$3.7 million), resulting in a realized loss of \$6.6 million (2011 – nil) and unrealized gain of \$2.9 million (2011 – loss of \$2.9 million) for the year ended December 31, 2012.

On August 16, 2012, the Company paid a \$3.9 million premium to enter into a financial commodity contract for 2013. At December 31, 2012, the estimated fair value of this financial commodity contract is \$1.6 million (December 31, 2011 – nil), resulting in an unrealized loss of \$2.3 million for the year ended December 31, 2012 (2011 – nil). This financial commodity contract is classified as current.

5. FINANCIAL RISK MANAGEMENT (cont'd)

(e) Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil assets. The Company considers its capital structure to include shareholders' equity, long-term debt and working capital. In order to maintain or adjust the capital structure, the Company may issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of debt to funds from operations. This ratio is calculated as net debt (outstanding long-term debt less working capital before current portion of long-term debt) divided by funds from operations (cash provided by operating activities before changes in non-cash working capital). The Company's strategy is to maintain a ratio of no more than 1.5 to 1. This ratio may increase at certain times as a result of acquisitions. In order to monitor this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

As at December 31, 2012, the ratio of debt to funds from operations was 0.08 (2011 – surplus of 0.16). The change from 2011 was due to the reduction in net debt from a surplus of \$23.1 million to net debt of \$15.0 million and an increase in funds from operations from \$147.9 million to \$192.6 million.

There were no changes in the Company's approach to capital management during the year.

The Company's share capital is not subject to external restrictions; however, the long-term debt facility is based on certain covenants, all of which were met as at December 31, 2012 and 2011. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

6. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation includes all compensation paid to executive management and members of the Board of Directors and is comprised of the following:

<i>(\$000s)</i>	2012	2011
Salaries and wages	\$ 2,378	\$ 2,605
Short-term employee benefits	841	1,199
Termination benefits	274	404
Share-based payments*	12,778	12,820
	\$ 16,271	\$ 17,028

* Represents the amortization of share-based payments associated with options granted to key management personnel as recorded in the financial statements.

7. FINANCE INCOME AND EXPENSE

<i>(\$000s)</i>	2012	2011
Finance income		
Interest income	\$ 388	\$ 640
Finance expense		
Interest and bank charges	\$ 5,228	\$ 2,656
Net foreign exchange loss	1,505	458
Amortization of deferred financing costs (note 16)	-	734
Accretion of long-term debt (note 16)	4,791	2,555
Accretion of decommissioning obligation (note 19)	829	460
Discount of long-term receivable (note 5(b))	7,629	-
	\$ 19,982	\$ 6,863
Net finance expense	\$ 19,594	\$ 6,223

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

8. SUPPLEMENTAL INFORMATION

(a) Changes in non-cash working capital

<i>(\$000s)</i>	2012	2011
Operating activities		
Change in current assets		
Accounts receivable	\$ 20,403	\$ (26,773)
Inventory	(9,105)	(10,213)
Deposits and prepaid expenses	(12,802)	(839)
Change in current liabilities		
Accounts payable and accrued liabilities	(10,560)	22,082
	<u>\$ (12,064)</u>	<u>\$ (15,743)</u>
Investing activities		
Change in current liabilities		
Accounts payable and accrued liabilities	<u>\$ (2,762)</u>	<u>\$ 6,786</u>

(b) Income statement presentation

The Company's consolidated statement of comprehensive income is prepared primarily by nature of expense, with the exception of employee compensation costs, which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in operating and general and administrative expenses in the consolidated statements of comprehensive income.

<i>(\$000s)</i>	2012	2011
Operating expenses	\$ 5,644	\$ 4,624
General and administrative expenses	5,921	5,575
Total employee compensation costs	<u>\$ 11,565</u>	<u>\$ 10,199</u>

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

9. INCOME TAX EXPENSE

Deferred income tax expense relates to the Albanian operations and results from the following:

<i>(\$000s)</i>	2012	2011
Net book value of property, plant and equipment and exploration and evaluation assets	\$ 637,310	\$ 494,738
Decommissioning obligation	(16,747)	(13,561)
Cost recovery pool	(244,557)	(235,201)
Timing difference	\$ 376,006	\$ 245,976
Deferred tax liability at 50%	\$ 188,003	\$ 122,988

The Company's deferred tax liabilities result from the temporary differences between the carrying values and tax values of its Albanian assets and liabilities.

The cost recovery pool represents deductions for income taxes in Albania. Under the terms of the Petroleum Agreements in Albania, profit will be taxed at a rate of 50%.

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the income before tax provision due to the following:

<i>(\$000s)</i>	2012	2011
Income before income taxes	\$ 99,428	\$ 95,345
Statutory tax rate	25.0%	26.5%
	24,857	25,266
Difference in tax rates between Albania and Canada	32,584	27,929
Permanent differences	3,938	4,709
Unrecognized deferred tax assets	4,921	1,287
Other	(1,285)	158
Deferred income tax expense	\$ 65,015	\$ 59,349

The statutory tax rate was 25.0% in 2012 (2011 – 26.5%). The decrease from 2011 to 2012 was due to a reduction in the 2012 Canadian corporate tax rates as part of a series of corporate tax rate reductions previously enacted by the Canadian federal government in 2007.

The significant components of the Company's deductible temporary differences associated with the unrecognized deferred tax asset are as follows:

<i>(\$000s)</i>	2012	2011
Non-capital loss (expiring in 2014-2032)	\$ 51,205	\$ 33,763
Capital loss	29,109	25,994
Financial commodity contracts	2,413	2,904
Share issue costs	2,421	1,573
Property, plant and equipment – Canada	1,249	942
	\$ 86,397	\$ 65,176

The Company has temporary differences associated with its investments in its foreign subsidiaries and branches. As at December 31, 2012, the Company has no deferred tax liabilities in respect of these temporary differences.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

10. EXPLORATION AND EVALUATION ASSETS

<i>(\$000s)</i>	Total
Cost or deemed cost	
Balance at December 31, 2010	\$ -
Additions	<u>1,454</u>
Balance at December 31, 2011	1,454
Additions	<u>2,138</u>
Balance at December 31, 2012	<u>\$ 3,592</u>

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves.

For the year ended December 31, 2012, there were no impairments or triggers on E&E assets.

11. PROPERTY, PLANT AND EQUIPMENT (PP&E)

<i>(\$000s)</i>	Petroleum Interests	Equipment, Furniture and Fixtures	Total
Cost or deemed cost			
Balance at December 31, 2010	\$ 312,033	\$ 5,687	\$ 317,720
Exchange differences	(84)	(52)	(136)
Additions	<u>257,128</u>	<u>4,095</u>	<u>261,223</u>
Balance at December 31, 2011	569,077	9,730	578,807
Exchange differences	25	39	64
Additions	<u>230,824</u>	<u>2,285</u>	<u>233,109</u>
Balance at December 31, 2012	<u>\$ 799,926</u>	<u>\$ 12,054</u>	<u>\$ 811,980</u>

Accumulated depletion and depreciation

Balance at December 31, 2010	\$ 21,945	\$ 2,332	\$ 24,277
Exchange differences	-	(21)	(21)
Depletion and depreciation	<u>39,420</u>	<u>947</u>	<u>40,367</u>
Balance at December 31, 2011	61,365	3,258	64,623
Exchange differences	-	21	21
Depletion and depreciation	<u>64,513</u>	<u>1,424</u>	<u>65,937</u>
Balance at December 31, 2012	<u>\$ 125,878</u>	<u>\$ 4,703</u>	<u>\$ 130,581</u>

<i>(\$000s)</i>	Petroleum Interests	Equipment, Furniture and Fixtures	Total
Net book value			
At December 31, 2010	\$ 290,088	\$ 3,355	\$ 293,443
At December 31, 2011	\$ 507,712	\$ 6,472	\$ 514,184
At December 31, 2012	<u>\$ 674,048</u>	<u>\$ 7,351</u>	<u>\$ 681,399</u>

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

11. PROPERTY, PLANT AND EQUIPMENT (PP&E) (cont'd)

The depletion expense calculation for the year ended December 31, 2012 included \$2.4 billion (2011 – \$1.9 billion) for estimated future development costs associated with proved and probable reserves in Albania.

The Company capitalized general and administrative expenses and share-based payments of \$11.7 million during the year ended December 31, 2012 (2011 – \$14.8 million) that were directly related to exploration and development activities in Albania.

Included in PP&E as of December 31, 2012 are oilfield equipment of \$42.5 million (2011 – \$37.8 million) for utilization in future drilling, reactivation and infrastructure programs in Albania.

For the years ended December 31, 2012 and 2011, there were no impairments on petroleum interests.

(a) Security

At December 31 2012 and 2011, all of the assets of BPAL are pledged as security for the credit facilities (see note 16).

12. CASH AND CASH EQUIVALENTS

<i>(\$000s)</i>	2012	2011
Cash	\$ 7,658	\$ 8,633
Fixed income investments	26,082	40,380
	\$ 33,740	\$ 49,013

13. SHARE CAPITAL

At December 31, 2012 and December 31, 2011, the Company was authorized to issue an unlimited number of common shares with no par value.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

14. EARNINGS PER SHARE

The following table summarizes the calculation of basic and diluted weighted average number of common shares:

	2012	2011
Weighted-average number of common shares outstanding – basic	252,383,072	247,148,449
Dilutive effect of stock options	805,093	5,176,657
Dilutive effect of warrants	-	3,002,497
Weighted-average number of common shares outstanding – diluted	253,188,165	255,327,603

The average market price of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the year that the options were outstanding. Excluded from diluted earnings per share is the effect of 8,903,000 options for the year ended December 31, 2012 (6,904,999 options for 2011), as their effect is anti-dilutive.

15. WARRANTS

A summary of the changes in warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price (CAD\$)
Outstanding, December 31, 2010	4,863,066	\$ 2.37
Transferred to share capital on exercise	(174,333)	2.37
Outstanding, December 31, 2011	4,688,733	2.37
Transferred to share capital on exercise	(4,672,991)	2.37
Expired	(15,742)	2.37
Outstanding, December 31, 2012	-	\$ -

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

16. LONG-TERM DEBT

The Company had credit facilities with three international banks, including Raiffeisen Bank, the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), as summarized below:

(\$000s)	Facility Amount	Outstanding Amount	
		2012	2011
Raiffeisen Bank			
Operating loan (a)	\$ 20,000	\$ 18,724	\$ 12,298
Term loan – 2009 (b)	1,185	1,185	2,074
EBRD and IFC*			
Environmental term loan (c)	10,000	6,000	6,000
Revolving loan – Tranche 1 (d)	50,000	50,000	50,000
Revolving loan – Tranche 2 (d)	50,000	30,000	-
	131,185	105,909	70,372
EBRD and IFC*			
Transfer from deferred financing costs (d)	-	(6,662)	(10,493)
	\$ 131,185	\$ 99,247	\$ 59,879

* all facilities are equally funded

(\$000s)	2012	2011
Current portion of long-term debt	\$ 2,089	\$ 13,187
Long-term debt	97,158	46,692
	\$ 99,247	\$ 59,879

These facilities are secured by all of the assets of BPAL, assignment of proceeds from the Albanian domestic and export crude oil sales contracts, a pledge of the common shares of BPAL and a guarantee by the Company. The credit facilities are subject to certain covenants requiring the maintenance of certain financial ratios, all of which were met as at December 31, 2012 and 2011.

(a) Operating loan

The operating loan consists of a two year facility, bearing interest based on the London Inter-Bank Offer Rate (LIBOR) plus 3.5% and matures on March 31, 2014. As at December 31, 2012, the entire operating loan has been classified as long-term.

(b) Term loan – 2009

This term loan bears interest at the bank's refinancing rate plus 4.65% and is repayable in equal monthly installments of \$74,100 ending on April 30, 2014. As at December 31, 2012, the entire facility was utilized. Of the amount outstanding, \$0.9 million is classified as current and \$0.3 million as long-term. Principal repayments of the term loan over the next two years are:

(\$000s)	
2013	\$ 889
2014	296
	\$ 1,185

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

16. LONG-TERM DEBT (cont'd)

(c) Environmental term loan

The \$10.0 million term loan, funded equally by IFC and EBRD, is available for environmental and social programs pertinent to the Company's activities in Albania. The interest rate is based on LIBOR plus 4.5%. A standby fee of 0.5% is charged on the unutilized portion. At December 31, 2012, \$6.0 million of the facility was drawn. Principal repayments commence in April 2013 in bi-annual installments of \$0.5 million, or pro-rata to the amounts drawn, to both IFC and EBRD, with maturity on October 15, 2017. Of the amount outstanding, \$1.2 million is classified as current and \$4.8 million as long-term. Principal repayments of the environmental term loan are as follows:

<i>(\$000s)</i>	
2013	\$ 1,200
2014	1,200
2015	1,200
2016	1,200
2017	1,200
	\$ 6,000

(d) Revolving loans

The revolving loans, funded equally by EBRD and IFC, consist of two \$50.0 million tranches. Tranche I is fully-utilized by the Company. Tranche II became available on March 22, 2012 and is partially-utilized. The interest rate is based on LIBOR plus a margin of 4.5% and is reduced to LIBOR plus a margin of 4.0% if the Brent oil price exceeds \$90 per barrel for sixty consecutive trading dates. A standby fee of 2.0% is charged on any unutilized Tranche II portion. At December 31, 2012, Tranche I has been drawn down by \$50.0 million and Tranche II by \$30.0 million. The total amount has been classified as long-term. For each of Tranche I and Tranche II, the amounts decline to \$16.5 million on January 16, 2014 (amended during the year from October 16, 2013), \$8.3 million on October 16, 2014 with final repayment due on October 16, 2015. Principal repayments of the revolving loans are as follows:

<i>(\$000s)</i>	Due date	
2014	January 16, 2014	\$ 47,000
2014	October 16, 2014	16,500
2015	October 16, 2015	16,500
		\$ 80,000

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

16. LONG-TERM DEBT (cont'd)

(d) Revolving loans (cont'd)

Deferred financing costs pertaining to the Company's revolving loans were amortized over the life of the facilities. These costs were netted against the corresponding long-term debt when the debt was drawn. The debt is being accreted up to its face value using the effective interest rate method.

<i>(\$000s)</i>	2012	2011
Balance, beginning of year	\$ 10,493	\$ 13,980
Additions	750	30
Exchange differences	210	(228)
Amortization	-	(734)
Accretion	<u>(4,791)</u>	<u>(2,555)</u>
Balance, end of period	<u>\$ 6,662</u>	<u>\$ 10,493</u>

In January 2013, the remaining \$20.0 million available on Tranche II was drawn down by the Company.

17. SHARE-BASED PAYMENTS

The Company has established a "rolling" stock option plan. The number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued and outstanding shares on a yearly basis or 2% if the optionee is engaged in investor relations activities or is a consultant. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Under the terms of the stock option plan, the exercise of stock options will be settled by the issuance of shares of the Company.

Options issued typically vest one-third immediately (after three to six months following the date of the grant for new employees), one-third after one year following the date of the grant, and one-third after two years following the grant date. Options issued expire five years following the date of the grant.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

17. SHARE-BASED PAYMENTS (cont'd)

A summary of the changes in stock options is presented below:

	Number of Options	Weighted Average Exercise Price (CAD\$)
Outstanding, December 31, 2010	14,514,504	\$ 3.61
Granted	8,757,500	7.34
Exercised	(2,728,446)	1.93
Forfeited	(288,335)	8.97
Outstanding, December 31, 2011	20,255,223	5.37
Granted	11,736,100	3.35
Exercised	(1,457,890)	1.70
Cancelled	(9,119,168)	7.63
Forfeited	(745,999)	6.82
Outstanding, December 31, 2012	20,668,266	\$ 3.43
Exercisable, December 31, 2012	11,953,661	\$ 3.37

The range of exercise prices of the outstanding options is as follows:

Range of Exercise Price (CAD\$)	Number of Options	Weighted Average Exercise Price (CAD\$)	Weighted Average Remaining Contractual Life (years)
1.01 - 2.00	3,490,667	\$ 1.69	1.34
2.01 - 3.00	8,164,599	2.61	4.60
3.01 - 4.00	356,666	3.43	3.68
4.01 - 6.00	8,186,334	4.75	2.94
6.01 - 9.00	470,000	7.74	2.78
	20,668,266	\$ 3.43	3.33

The weighted average share price at the dates of exercise for stock options exercised during the year ended December 31, 2012 was CAD\$3.35 (2011 – CAD\$8.38).

In July 2012, 8,704,168 options were cancelled with an average exercise price of \$7.73. As a result of the cancellation, the Company incurred \$1.2 million in share-based payments, of which \$0.5 million was charged to earnings and \$0.7 million was capitalized during the year ended December 31, 2012.

Using the fair value method for share-based payments, the Company calculated share-based payments for the year ended December 31, 2012 as \$21.4 million (2011 – \$24.5 million) for the stock options granted to officers, directors, employees and service providers. Of this amount, \$11.2 million (2011 – \$11.0 million) was charged to earnings and \$10.2 million (2011 – \$13.5 million) was capitalized.

The weighted average fair market value per option granted during the years ended December 31, 2012 and 2011 and the weighted average assumptions used in the Black-Scholes option pricing model in their determination were as follows:

	2012	2011
Fair value per option (CAD\$)	2.06	3.19
Risk-free interest rate (%)	1.28	2.29
Forfeiture rate (%)	5	5
Volatility (%)	81	46
Expected life (years)	5	5

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

18. SEGMENTED INFORMATION

The Company defines its reportable segments based on geographic locations.

Year ended December 31, 2012 (\$000s)	Albania	Canada	Total
Revenues	\$ 432,138	\$ -	\$ 432,138
Royalties	(78,361)	-	(78,361)
	353,777	-	353,777
Realized loss on financial commodity contracts	-	(6,588)	(6,588)
Unrealized gain on financial commodity contracts	-	556	556
	353,777	(6,032)	347,745
Operating expenses	77,953	-	77,953
Sales and transportation expenses	57,578	-	57,578
General and administrative expenses	9,212	6,838	16,050
Depletion and depreciation	65,652	285	65,937
Share-based payments	4,298	6,907	11,205
	214,693	14,030	228,723
	139,084	(20,062)	119,022
Net finance expense	10,679	8,915	19,594
Income (loss) before income tax	128,405	(28,977)	99,428
Deferred income tax expense	(65,015)	-	(65,015)
Net income (loss) for the year	63,390	(28,977)	34,413
Other comprehensive income			
Currency translation adjustment	-	953	953
Comprehensive income (loss) for the year	\$ 63,390	\$ (28,024)	\$ 35,366
Assets, December 31, 2012	\$ 796,365	\$ 29,451	\$ 825,816
Liabilities, December 31, 2012	\$ 260,369	\$ 82,415	\$ 342,784
Additions to PP&E	\$ 220,449	\$ 76	\$ 220,525
Additions to E&E	\$ 2,138	\$ -	\$ 2,138

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

18. SEGMENTED INFORMATION (cont'd)

Year ended December 31, 2011 (\$000s)	Albania	Canada	Total
Revenues	\$ 339,918	\$ -	\$ 339,918
Royalties	(63,941)	-	(63,941)
	275,977	-	275,977
Unrealized loss on financial commodity contracts	-	(2,904)	(2,904)
	275,977	(2,904)	273,073
Operating expenses	60,864	-	60,864
Sales and transportation expenses	45,460	-	45,460
General and administrative expenses	7,792	5,981	13,773
Depletion and depreciation	40,116	251	40,367
Share-based payments	4,529	6,512	11,041
	158,761	12,744	171,505
	117,216	(15,648)	101,568
Net finance expense	1,943	4,280	6,223
Income (loss) before income tax	115,273	(19,928)	95,345
Deferred income tax expense	(59,349)	-	(59,349)
Net income (loss) for the year	55,924	(19,928)	35,996
Other comprehensive income			
Currency translation adjustment	-	315	315
Comprehensive income (loss) for the year	\$ 55,924	\$ (19,613)	\$ 36,311
Assets, December 31, 2011	\$ 614,830	\$ 46,386	\$ 661,216
Liabilities, December 31, 2011	\$ 200,593	\$ 47,944	\$ 248,537
Additions to PP&E	\$ 240,448	\$ 852	\$ 241,300
Additions to E&E	\$ 1,454	\$ -	\$ 1,454

Revenues by geographical region are as follows:

<i>(\$000s)</i>	2012	2011
Albania- domestic	\$ -	\$ 68,235
Albania- domestic take-in-kind	36,163	-
Albania- export	395,975	271,683
	\$ 432,138	\$ 339,918

For the year ended December 31, 2012, revenues of \$340.7 million (2011 – \$336.0 million), were derived from five customers (2011 – six customers) who individually amounted to over 10% or more of the Company's revenues.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in US dollars)

19. DECOMMISSIONING OBLIGATION

<i>(\$000s)</i>	2012	2011
Balance, beginning of year	\$ 13,561	\$ 6,622
Incurred	1,434	3,854
Revisions	923	2,625
Accretion	829	460
Balance, end of year	<u>\$ 16,747</u>	<u>\$ 13,561</u>

The Company's decommissioning obligation results from its ownership interest in oil assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. In Albania, the Company estimated the total undiscounted amount required to settle the decommissioning obligation at December 31, 2012 is \$62.1 million (2011 – \$58.5 million). This obligation will be settled at the end of the Company's 25 year license of which 17 years and 20 years are remaining for the Patos-Marinza and Kuçova agreements, respectively. The liability has been discounted using a risk-free interest rate of 8% (2011 – 8%) as at December 31, 2012.

20. INVENTORY

<i>(\$000s)</i>	2012	2011
Crude oil	\$ 10,703	\$ 8,081
Diluent	8,381	4,320
Diesel and other	4,433	2,011
	<u>\$ 23,517</u>	<u>\$ 14,412</u>

Inventory is comprised of crude oil, diluent, diesel and other stocks, and is valued at the lower of average cost of production and net realizable value.

21. RESTRICTED CASH

At December 31, 2012, the Company has a \$5.0 million (2011 – \$5.0 million) bank guarantee for certain capital projects in Block "F", of which the Company has incurred a total of \$3.6 million towards these projects.

22. COMMITMENTS

The Company leases office premises, of which the minimum lease payments are payable as follows:

<i>(\$000s)</i>	Albania	Canada	Total
2013	\$ 608	\$ 541	\$ 1,149
2014	356	45	401
2015	351	-	351
2016	351	-	351
2017	351	-	351
2018 and after	878	-	878
	<u>\$ 2,895</u>	<u>\$ 586</u>	<u>\$ 3,481</u>

The Company has debt repayment commitments as disclosed in note 16.

23. ALBANIAN TAX ASSESSMENTS

Of the total deposits and prepaid expenses of \$30.3 million (December 31, 2011 – \$17.5 million), \$20.5 million (December 31, 2011 – \$1.2 million) is paid to the Albanian court as deposits for procedure purposes on several legal cases. The recoverability of these amounts is dependent on the outcome of these cases. As of December 31, 2012, these amounts were considered recoverable.

The Company continues to challenge assessments from the Albanian Government Tax Directorate through the Albanian Courts. In addition to the success in setting aside a recently introduced separate assessment of excise tax on the Company's importation and use of diluent, over the past few months, the Courts have ruled in favor of Bankers for all other cases heard, including the carbon and circulation taxes on diluent imports, which resulted in recent assessments to the Company totalling over \$17 million. The Company is now preparing to continue its defense from various levels of appeals.