

# **Annual Report and Consolidated Financial Statements**

**S.D. Standard Drilling Plc.**



**for the year ended 31 December 2011**

## CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS.....	3
STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF THE COMPANY FOR THE FINANCIAL STATEMENTS.....	4
REPORT ON CORPORATE GOVERNANCE.....	5
REPORT OF THE BOARD OF DIRECTORS.....	10
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	14
CONSOLIDATED BALANCE SHEET .....	15
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	16
CONSOLIDATED STATEMENT OF CASH FLOWS.....	17
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	18
INDEPENDENT AUDITOR'S REPORT .....	39

## **BOARD OF DIRECTORS AND OTHER OFFICERS**

### **Board of Directors**

Robert Petty (Chairman) – appointed on 9 May 2011

Amit Gupta (Non-Executive Director) – appointed on 9 May 2011

Gunnar Hvammen (Non-Executive Director) – resigned on 9 May 2011 and re-appointed on 16 May 2011

Øystein Stray Spetalen (Non-Executive Director) – appointed on 9 May 2011

Stephen Marzo (Independent Director) – appointed on 16 May 2011

Demetris Aletraris (Non-Executive Director) – appointed on 16 May 2011

George Crystallis (Independent Director)

Angela Papadopoulou – resigned on 13 May 2011

Martin Nes – resigned on 9 May 2011

Glen Ole Rodland – resigned on 9 May 2011

### **Chief Executive Officer**

Martin Nes

### **Chief Financial Officer**

Geir Johansen

### **Company Secretary**

#### **CQS Secretarial Limited**

213 Arch. Makarios Avenue

Maximos Plaza, Tower 1

3030 Limassol

Cyprus

### **Registered office**

213 Arch. Makarios Avenue,

Maximos Plaza, Tower 1, 3<sup>rd</sup> floor

3030 Limassol

Cyprus


## STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF THE COMPANY FOR THE FINANCIAL STATEMENTS

In accordance with Article 9 sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Markets) Law of 2007 ("Law") we, the members of the Board of Directors and other responsible persons for the consolidated financial statements of S.D. Standard Drilling Plc, for the year ended 31 December 2011 we confirm that, to the best of our knowledge :


- a) the consolidated financial statements of the Company for the year ended 31 December 2011 which are presented on pages 14 to 38:
  - (i) were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union in accordance with provisions of Article 9, section (4) of the Law, and
  - (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of S.D. Standard Drilling Plc, and the business that are included in the consolidated financial statements as a total, and
- b) the Directors' report provides a fair review of the developments and the performance of the business as well as the financial position of S.D. Standard Drilling Plc, and the business that are included in the consolidated financial statements as a total, together with a description of the principal risks and uncertainties that they are facing.

Limassol, 24 April 2012

  
Robert Petty  
Chairman

  
Gunnar Hvammen  
Non-Executive Director

  
Stephen Marzo  
Independent Director

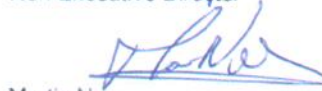
  
George Crystallis  
Independent Director

  
Geir Johansen  
Chief Financial Officer

  
Amit Gupta  
Non-Executive Director

  
Øystein Stray Spjelten  
Non-Executive Director

  
Demetris Aletraris  
Non-Executive Director

  
Martin Nes  
Chief Executive Officer

## REPORT ON CORPORATE GOVERNANCE

As a company incorporated in the Republic of Cyprus, S.D. Standard Drilling Plc (“SDSD” or the “Company”) is subject to Cypriot laws and regulations. Additionally, as a consequence of being listed on Oslo Axess, the Company must comply with certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance dated 21 October 2010 (the “Code of Practice”) on a “comply or explain” basis.

SDSD's Board of Directors and management annually review the principles for corporate governance in the Code of Practice and how they are implemented in the Company. Pursuant to the Code of Practice, SDSD hereby gives an account of the Company's corporate governance principles and practice.

The description below accounts for SDSD's compliance with the 15 sections in the Code of Practice.

### 1. Implementation and reporting on corporate governance

As SDSD is a Cyprus registered company, the Company intends to comply with the Code of Practice as long as it is in accordance with mandatory provisions in the Cyprus Companies Law, Cap 113 and Cypriot practice and principles for public limited companies. There are no corporate governance principles under Cypriot law that the Company has to comply with.

To ensure adherence to the Code of Practice the Company has adopted specific guidelines such as:

- Rules of procedure for the Board of Directors
- Instructions for the Chief Executive Officer
- Guidelines for the duties of the nomination committee
- Guidelines for the auditor's and associated persons' non-auditing work
- Code of conduct of business ethics and corporate social responsibility (Code of Ethics)
- Investor relations policy
- Audit committee charter

The Company's adoption of the Code of Practice and the above guidelines ensures an appropriate division of roles and responsibility and well-functioning cooperation among the Company's shareholders, the Board of Directors and its senior management, and that the Company's activities are subject to satisfactory control. An appropriate division of roles, effective cooperation, and satisfactory control contribute to the best possible value creation over time, to the benefit of owners and other stakeholders.

The Company's Code of Ethics addresses impartiality, conflicts of interests, relations with customers and suppliers, relations with media, insider trading and relevant financial interests of a personal nature. The code of ethics applies to all employees in SDSD.

### 2. Business

The Company and the entities controlled by the Company, hereafter referred to as the “Group”, were established for the purpose of building a premium oilfield services company through superior assets, systems and people. At present the Group holds construction contracts for six rigs of the KFELS MOD V B-Class design at Keppel FELS Shipyard (“Yard”) in Singapore.

The vision of Standard Drilling is to build a world-class drilling company focused on the safety of its crew, satisfying customers through the delivery of high quality services and creating shareholder value through growth and consolidation globally. The Company was established to capitalize on the strong market opportunity and demand for premium jack-up rigs due to an aging worldwide rig fleet that requires replacement and new technologies and environmental features more desirable in the current regulatory environment. The Company is run with a financially conservative profile.

## **2. Business (continued)**

The objectives of the Company are within the framework of the Memorandum of Association, which may be reviewed on the Company's website, <http://www.standard-drilling.com>. The Company's Memorandum of Association contains the description of the Company's objectives and strategies under Cypriot law but does not clearly define the Company's business as this is not in accordance with Cypriot practise.

The annual report describes the Company's targets and principal strategies and the market is kept updated through the quarterly reports.

## **3. Equity and dividends**

The Board of Directors continually reviews the capital situation in light of the Company's targets, strategies and intended risk profile. The Company aims to manage group resources in a manner which will ensure shareholders a competitive return in the form of dividends and increases in share price relative to comparable investment alternatives. The annual dividend payment will depend on the Company's financial situation, need for working capital and investments or acquisition possibilities.

In the extraordinary general meeting of the Company on 4 May 2011 it was resolved to increase the Company's authorized share capital to USD 3,620,000 divided into 362,000,000 shares each with a par value of 0.01 USD. As of the date of this report 262,000,000 shares of the 362,000,000 shares are issued and fully paid. Under Cyprus Companies Law the Board of Directors is authorized to issue and allot the remaining 100,000,000 shares and in said extraordinary general meeting the Board of Directors was authorized to issue and allot these shares to any new investor or current shareholder that it deem fit and at a price it deem appropriate, taking into consideration the market value of the shares. The shareholders' pre-emptive rights were waived and the authorization is not limited in time.

Cyprus practice and the Cypriot legal system with issued and authorized capital is different from the Norwegian Company law's specific mandates to the Board of Directors and the recommendations in the Code of Practise. The Board of Directors' authorization is therefore not in line with the recommendations in the Code of Practice with respect to limitation in time and defined purposes.

## **4. Equal treatment of shareholders and transactions with close associates**

The Company has only one share class, with identical voting rights. All shareholders are treated equally and the Articles of Association do not contain any restrictions on voting rights. Where there is a need to waive the pre-emption rights of existing shareholders this will be justified at the time of approval or where based on an existing mandate justified in the stock exchange announcement in relation to the relevant share increase.

Equal treatment of all shareholders is crucial. All information relevant to the share price is published through the notification system of the Oslo Stock Exchange and the Company's website. Any transactions in own (treasury) shares will be executed on the Oslo Stock Exchange or by other means at the listed price.

All transactions between the Company and its close associates are at arm's length and market prices. If there are material transactions between the Company and a shareholder, Board member, member of senior management, or a party closely related to any of the aforementioned, the Board of Directors will generally ensure that independent valuations are available.

The Company has adopted guidelines that ensure that members of Board of Directors and executive personnel notify the Board if they may have any direct or indirect interest in any transaction entered into by the Company.

## **5. Freely negotiable shares**

The shares are listed on the Oslo Axess and are freely negotiable. The Articles of Association include no form of restriction on negotiability.

## **6. General Meetings**

The AGM is the forum for the Company's shareholders to participate in major decisions, and shall be held no later than 30 June each year. The Company's Articles of Associations require 21 days notice for Annual and Extraordinary General Meetings.

## **6. General Meetings (continued)**

The Company's AGM is open to all the Company's shareholders and the Board of Directors is taking steps as recommended by the Code of Practice ensuring that as many shareholders as possible may exercise their rights by participating in general meetings of the Company.

Shareholders may exercise their vote through a representative or proxy. All shares have equal voting rights. There are no restrictions on ownership or any known shareholder agreements. The AGM minutes are published through the notification system of the Oslo Stock Exchange and on the Company's website, <http://www.standard-drilling.com>.

## **7. Committees**

### **Nomination Committee**

As all the members of the Board of Directors were elected in 2011, the Company did not find it necessary to establish a nomination committee when the Company was listed on Oslo Axess in March 2011, but expressed its intention to establish a nomination committee before the next election of members to the Board of Directors. The Board of Directors has recommended that the upcoming AGM elects a Nomination Committee and adopts guidelines defining the responsibility of the Nomination Committee based on the Board of Directors' proposal. The Board of Directors has also recommended that the Nomination Committee is laid down in the Company's Articles of Association in line with the recommendation in the Code of Practice.

The Nomination Committee will submit recommendations to future AGMs for the election of members of the Board of Directors. The recommendation will include relevant information on each candidate's background and independence. Furthermore, the Nomination Committee proposes remuneration to the members of the Board of Directors.

It is the Board of Directors' proposal that the composition of the Nomination Committee is in line with the Code of Practice.

### **Audit Committee**

The Board of Directors has constituted an Audit Committee with two directors as members. The responsibility of the Audit Committee is to monitor the Company's financial reporting process and the effectiveness of its systems for internal control and risk management. The Audit Committee shall also keep in regular contact with the Company's auditor regarding the auditing of the annual accounts and evaluate and oversee the auditor's independence. The Audit Committee reviews ethics and compliance issues. The Audit Committee reports to the Board of Directors. Each member of the Board of Directors has access to all working documents of the Audit Committee, including the minutes from its meetings.

The members of the Committee are: Steve Marzo (chairman) and Demetris Aletraris (member). The composition of the audit committee is in line with the Code of Practice.

## **8. The Board of Directors composition**

The Company does not have a corporate assembly. According to the Articles of Association, the Company shall have a Board of Directors consisting of a minimum of 2 and a maximum of 10 members. At present, the Board of Directors consists of 7 members.

The Board members are elected by the AGM. From 2013 the election will be based on a recommendation prepared and presented by the Nomination Committee to be adopted by the AGM. The recommendation will be distributed to the shareholders along with the convening letter to the AGM. Decisions on the composition of the Board of Directors require a simple majority. Directors are elected for two-year terms and can be re-elected.

## **8. The Board of Directors composition (continued)**

The Company aims to ensure a balanced composition of the Board of Directors in terms of competence, experience and background relevant to the Company's operations. It is also desirable that the Board of Directors reflect both the Company's ownership structure and the need for independent representatives. The current composition of the Board of Directors satisfies the requirements for independence as set forth in the Code of Practice.

## **9. The work of the Board of Directors**

The Board annually adopts a plan for its work, emphasizing goals, strategies and implementation. The Board receives monthly financial reports for the group and all its subsidiaries with the management's comments on the financial status and other relevant issues. The Board of Directors discusses strategy and budgets in extended board meetings.

The Board of Directors holds 8–10 board meetings per year and conducts an annual self-evaluation of its work.

As set forth under Section 1 above, the Board of Directors has adopted guidelines in line with the recommendations in the Code of Practice. The Board of Directors has also adopted committees as recommended, cf. also Section 7 above.

## **10. Risk management and internal control**

Risk management and internal control is performed through various processes within the group, both on a Board level and in daily management of the Company. The Board of Directors receives regular reports from management outlining the financial and operational performance of the Company and its subsidiaries.

In connection with the budget work and approval of the budget, the Board of Directors evaluates the internal control systems and the most important risk factors that the Company will be confronted with. In view of the Company's growth strategy the Board pays particular attention to ensuring that the internal control systems apply to all aspects of the Company's activities. The Board also considers the need for any further measures in relation to the risk factors identified.

In line with the Code of Practice the Board of Directors has adopted guidelines that encompass the Company's corporate and ethical values and corporate social responsibility, cf. Section 1 (Code of Ethics).

## **11. Remuneration of the Board of Directors**

The remuneration paid to the members of the Board of Directors will be decided by the AGM. The remuneration paid to the members of the Committees will be decided by the AGM having considered proposals by the Board of Directors in line with the Code of Practice. Information about the fee paid to the Board of Directors and Committees is stated in the Annual Report.

## **12. Remuneration of executive personnel**

As the Company has a limited number of employees, the Company has not considered it necessary to adopt guidelines for remuneration of executive employees in line with the Code of Practice. Information on remuneration for 2011 for members of the senior management is presented in the notes in the annual accounts.

## **13. Information and communications**

The Company complies with the Oslo Børs Code of Practice for Reporting IR Information and as well as additional reporting requirements under Cypriot laws and regulations.



#### **14. Takeovers**

The Board of Directors has as part of its Corporate Governance Principles adopted guidelines on how it will act in the event of a take-over bid, in line with the Code of Practise.

The Company will not seek to hinder or obstruct take-over bids for the Company's activities or shares unless there are particular reasons for this.

In the event of a take-over bid for the Company's shares, the Board of Directors should not exercise mandates or pass any resolutions with the intention of obstructing the take-over bid unless this is approved by the general meeting following announcement of the bid.

If an offer is made for the Company's shares, SDSD's Board of Directors should issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The Board of Director's statement on the offer should make it clear whether the views expressed are unanimous, and if this is not the case it should explain the basis on which specific members of the Board of Directors have excluded themselves from the Board of Directors' statement. The Board of Directors should arrange a valuation from an independent expert. The valuation should include an explanation, and should be made public no later than at the time of the public disclosure of the statement.

Any transaction that is in effect a disposal of the Company's activities should be decided by a general meeting.

#### **15. Auditor**

The Company's and the group's elected external auditor is PricewaterhouseCoopers Limited, Cyprus ("PwC").

The auditor participates in meetings of the Audit Committee.

The auditor submits a report/management letter to the Board of Directors following its audit of the Company's interim and annual financial statements. The report/management letter includes an evaluation of the Company's internal control systems. The auditor participates in the meeting of the Board of Directors in which the financial statements are reviewed and approved. The auditor also participates in the AGM. Information about the fee paid to the auditor is stated in the Annual Report.

The Company has adopted guidelines for the auditor's and associated persons' non-auditing work In line with the Code of Practise.

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report together with the audited consolidated financial statements of S.D. Standard Drilling Plc (the "Company" or "Standard Drilling") and its subsidiaries (together the "Group") for the year ended 31 December 2011.

### History and principal activities

The Company was incorporated as a private limited liability company under the laws of Cyprus with the name of S.D. Standard Drilling Limited on 2 December 2010. The Company was converted into a public limited liability company on 23 December 2010 and the Company's name was changed to S.D. Standard Drilling Plc. The Company has conducted two Private Placements; the first in December 2010 raised USD 42 million and second in May 2011 raised USD 330 million. Standard Drilling trades on the Oslo Axess exchange under the ticker SDSD.

### Business Strategy

The Company and the entities controlled by the Company, hereafter referred to as the "Group", were established for the purpose of building a premium oilfield services company through superior assets, systems and people. At present the Group holds construction contracts for six rigs of the KFELS MOD V B-Class design at Keppel FELS Shipyard ("Yard") in Singapore.

The vision of Standard Drilling is to build a world-class drilling company focused on the safety of its crew, satisfying customers through the delivery of high quality services and creating shareholder value through growth and consolidation globally. The Company was established to capitalize on the strong market opportunity and demand for premium jack-up rigs due to an aging worldwide rig fleet that requires replacement and new technologies and environmental features more desirable in the current regulatory environment. The Company is run with a financially conservative profile.

The Group's strategy is to

- Build a fleet of premium rigs using a well known design, the MOD V B-Class design;
- Execute construction contracts at high quality yards;
- Use on site construction supervisory teams to ensure on time/on specification delivery and on budget cost profile;
- Recruit an experienced management and operations team with global experience;
- Develop a strong health, safety and environmental culture;
- Focus on building relationships with high quality customers and business partners; and
- Successfully position Standard Drilling as one of the world's leading players in the jack-up rig market.

### Review of developments, position and performance of the Group's business

In 2011, Standard Drilling achieved a number of important milestones that support our commitment to build a world class rig business:

- Expanded our access to the capital markets with the listing of the Company's shares on the Oslo Axess;
- Successfully attracted a diverse investor base in our \$330 million private placement;
- Enlarged our fleet with the acquisition of two MOD V B-Class rigs from Clearwater Capital Partners Fund III, L.P.;
- Further expanded our fleet by ordering four additional MOD V B-Class rigs at Keppel FELS;
- Strengthened our financial position with the sale of one of our rigs, the B319;
- Successfully recruited a senior management team with global experience, strong sector background and demonstrated operating expertise;

**Review of developments, position and performance of the Group's business (continued)**

- The Group management has been working closely with Keppel FELS Shipyard and has used GL Noble Denton to assist in the technical monitoring of the rig construction process;
- The Group management also was engaged in the recruitment and appointment of several executive managers to oversee the company's operations;
- Efforts have also been initiated to identify potential customers and discussions have progressed with respect to engaging in term contracts; and
- Management has also engaged in discussions with financial institutions with respect to the residual funding requirements associated with the delivery of the rigs under construction. Management has also begun review of the necessary policies and procedures as well as the required technical systems to operate the rigs.

**Current Fleet Profile**

The Group's fleet profile (see below) reflects a schedule with deliveries beginning in early 2013 and continuing until mid-2014. We expect no delays in delivery. We believe our rig profile, combined with the current and forecast supply/demand profile, as well as the aging for existing fleets, will position Standard Drilling to secure competitive term contracts with leading industry participants.

**Fleet**

<u>Jack-up Rig</u>	<u>Construction started</u>	<u>Percentage Complete*</u>	<u>Construction plan finished</u>
B319 (Sold)	n/a	n/a	n/a
B324	January 2011	67%	February 2013
B325	January 2011	53%	June 2013
B337	July 2011	27%	July 2013
B338	August 2011	11%	November 2013
B339	August 2011	11%	December 2013
B340	August 2011	11%	May 2014

\*As of 3/31/2012

**Sector Outlook**

We see the following key themes in the sector:

- Robust outlook in the oil services sector driven by increasing E&P spending
- Supply demand dynamics are strong in the jack-up segment with the premium market running close to full utilization
- Significant need for fleet renewal given the aging fleet of existing jack-ups
- Macondo accident further driving demand for premium equipment by E&P companies pushing for increased safety requirements
- New, high specification jack-up rigs are for most wells substantially more efficient than older rigs and have greater technical capabilities

**Financial Results**

The Group's net profit before tax for the year ended 31 December 2011 was USD 30.556.000. After deducting tax of USD 7.000 the net profit attributable to the equity holders rose USD 30.549.000 compared to a net loss of USD 86.000 for the year ended 31 December 2010. The total assets of the Group for 2011 were USD 396.579.000 and the net assets were USD 393.315.000, compared to USD 43.448.000 and USD 40.864.000 respectively in 2010. The financial position, development and performance of the Group as presented in these consolidated financial statements was substantially improved during 2011.

### **Principal risks and uncertainties**

The Group's activities are exposed to the overall economic environment as well as regulatory and market risks associated with the offshore rig industry. In addition the Group incurs operational risk as well as risks associated with the construction of the jack-up rigs. The Group is also exposed to financial risks as disclosed in Notes 3 and 4 of the consolidated financial statements.

The Group has in place systems and procedures to maintain its status in the market and to stay alert to changes in the market place in order to help mitigate market risk. Internal procedures have been- and are continuously being developed to help mitigate financial and operational risks.

### **Future developments of the Group**

The Directors are optimistic about the market for jack-up rigs for the foreseeable future and expect day rates to continue to increase during 2012. Group management will continue to market the rigs on a global basis with the intention to secure contracts prior to the scheduled delivery of the rigs. It is further planned that the organization will build an operational capability to include both off-shore and on-shore service personnel during 2012. We will complement our operations build-out with work procedures and processes that reflect our commitment to safety and operating excellence as preparation for winning new business. We will also continue our discussions with leading financial institutions to finalize our funding efforts.

### **Results**

The Group's results for the year are set out on page 14. The Board of Directors does not recommend the payment of a dividend and the profit for the year is retained.

### **Share capital**

Changes in the share capital and share premium of the Group are disclosed in note 12.

### **Board of Directors**

The members of the Board of Directors at 31 December 2011 and at the date of this report are shown on page 3.

In accordance with the Company's Articles of Association, the Directors George Crystallis and Robert Petty retire by rotation but are eligible for re-election at the Annual General Meeting of the Company.

There were no significant changes in the assignment of responsibilities of the Board of Directors. The remuneration of the Members of the Board of Directors is shown in note 25 of the consolidated financial statements.

### **Directors' interest in the share capital of the Company**

None of the directors holding office at the end of the financial year had any interest in the shares of the Company, except the following indirect shareholdings:

Robert Petty and Amit Gupta through Clearwater Capital Partners Fund III  
Gunnar Hvammen through Solan Capital AS and Thabo Energy AS  
Øystein Stray Spetalen through Tymar AS and Tycoon Industrier AS

### **Events after the balance sheet date**

Any material post balance sheet events are described to note 26 to the consolidated financial statements.

## Branches

The Group did not operate through any branches during the year.

## Corporate Governance

The Directors of S.D. Standard Drilling Plc, recognize the importance of the corporate governance policies, practices and procedures. Being listed in the Oslo Axess Stock Exchange in Norway, the Company must comply with certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance dated 21 October 2010 (the "Code of Practice") on a "comply or explain" basis.

The Report on Corporate Governance is included on page 5 of this annual report.

## Independent Auditors

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

CQS Secretarial Limited



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(All amounts in USD thousands unless otherwise stated)	Note	Year ended 31 Dec. 2011	Period 2 Dec.- 31 Dec.2010
Gain on disposal of subsidiary	17	34 709	-
Interest income related to disposal	17	49	-
Administrative expenses	18	-4 202	86
<b>Operating profit/(loss)</b>		<b>30 556</b>	<b>86</b>
Finance income		-	-
Finance costs		-	-
Finance costs - net		-	-
<b>Profit/(loss) before income tax</b>		<b>30 556</b>	<b>86</b>
Income tax expense	16	-7	-
<b>Profit/(loss) for the year/period</b>		<b>30 549</b>	<b>86</b>
Other comprehensive income for the year/period, net of tax		-	-
<b>Total comprehensive income for the year/period</b>		<b>30 549</b>	<b>-86</b>
<b>Earnings per share attributable to the equity holders of the Company during the year/period (expressed in USD per share)</b>			
Basic earnings per share	19	0,16	0,00
Diluted earnings per share	19	0,16	0,00

The notes on pages 18 to 38 are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

(All amounts in USD thousands unless otherwise stated)	Note	As at 31 Dec. 2011	As at 31 Dec. 2010
<b>Assets</b>			
<i>Non-current assets</i>			
Rigs – Under construction	7	272 625	37 308
Equipment and machinery	8	9	-
Non-current receivable	9	1 434	-
<b>Total non-current assets</b>		<b>274 068</b>	<b>37 308</b>
<i>Current assets</i>			
Trade and other receivables	10	110	-
Cash and cash equivalents	11	122 401	6 140
<b>Total current assets</b>		<b>122 511</b>	<b>6 140</b>
<b>Total assets</b>		<b>396 579</b>	<b>43 448</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Ordinary shares	12	2 620	420
Share premium	12	359 950	40 530
Reserves	13	282	-
Accumulated profits/(losses)		30 463	-86
<b>Total equity</b>		<b>393 315</b>	<b>40 864</b>
<i>Liabilities</i>			
<i>Non-current liabilities</i>			
Provisions for other liabilities and charges	14	-	1 378
<b>Total non-current liabilities</b>		<b>-</b>	<b>1 378</b>
<i>Current liabilities</i>			
Trade and other payables	15	3 257	1 206
Current tax liability	16	7	-
<b>Total current liabilities</b>		<b>3 264</b>	<b>1 206</b>
<b>Total Liabilities</b>		<b>3 264</b>	<b>2 584</b>
<b>Total equity and liabilities</b>		<b>396 579</b>	<b>43 448</b>

On 24 April 2012, the Board of Directors of S.D. Standard Drilling Plc authorised these consolidated financial statements for issue.

 Stephen Marzo, Director

..... Demetris Aletraris, Director

The notes on pages 18 to 38 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(All amounts in USD thousands unless otherwise stated)	Note	Share capital	Share premium	Equity settled employee benefits reserve	Accumulated (losses)/ profits	Total equity
<b>Balance at 2 December 2010</b>		-	-	-	-	-
<b>Comprehensive income</b>						
Loss for the period				-	-86	-86
<b>Transactions with owners</b>						
Debt Conversion (formation of the Company)	12	359	35 501	-		35 860
Proceeds from shares issued (share capital increase)	12	61	6 079	-		6 140
Share issue costs			-1 050	-		-1 050
		420	40 530	-	-86	40 864
<b>Balance at 31 December 2010</b>		420	40 530	-	-86	40 864
<b>Comprehensive income</b>						
Profit for the year		-	-	-	30 549	30 549
<b>Transactions with owners</b>						
Share capital increase	12	2 200	327 800	-	-	330 000
Share issue costs	12	-	-8 380	-	-	-8 380
Recognition of share based payments	13	-	-	282	-	282
		2 200	319 420	282	30 549	352 451
<b>Balance at 31 December 2011</b>		2 620	359 950	282	30 463	393 315

The notes on pages 18 to 38 are an integral part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF CASH FLOWS**

(All amounts in USD thousands unless otherwise stated)	Note	31 Dec. 2011	2 Dec. – 31 Dec. 2010
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax		30 556	-86
Adjustments for:			
Loss from sale of equipment and machinery		2	
Expense recognised in respect of equity-settled share-based payments	12	282	-
Profit from the sale of investment in subsidiary	17	-34 709	-
Interest income	17	-49	-
Changes in working capital:			
Trade and other receivables		-61	-
Trade and other payables		-631	86
Cash used in operations		-4 610	-
Income tax paid		-	-
Net cash used in operating activities		-4 610	-
<b>Cash flows from investing activities</b>			
Purchases of equipment and machinery		-11	-
Additions to rig-capitalised expenses		-158 390	-
Net cash inflow on disposal of subsidiary		75 110	-
Interest received		49	-
Net cash used in investing activities		-83 242	-
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares, net	12	204 113	6 140
Net cash from financing activities		204 113	6 140
<b>Net increase in cash and cash equivalents</b>		<b>116 261</b>	<b>6 140</b>
Cash, cash equivalents at beginning of year/period		6 140	-
Exchange gains/(losses) on cash and cash equivalents		-	-
<b>Cash and cash equivalents at end of year/period</b>		<b>122 401</b>	<b>6 140</b>

**Non – cash transactions**

As part of the consideration for the Group's acquisition of Offshore Driller B324 Ltd and Offshore Driller B325 Ltd, the Company issued 78 338 000 new shares at a subscription price of USD1.50 per share to Clearwater Capital Partners Fund III, L.P.

The notes on pages 18 to 38 are an integral part of these consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 31 December 2011**

#### **1. General information**

##### **Country of incorporation**

S.D. Standard Drilling Plc. (the "Company") is a limited liability Company incorporated and domiciled in Cyprus on 2 December 2010 in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The Company was converted into a public company on 23 December 2010. On 25 March 2011 the Company's shares were listed on Oslo Axess. The head office is located in Limassol, Cyprus and its registered office is at 213 Arch. Makarios Avenue, Maximos Plaza, Tower 1, 3<sup>rd</sup> floor, 3030 Limassol, Cyprus.

##### **Principal activities**

The Company and the entities controlled by the Company, hereafter referred to as the "Group", were established for the purpose of building a premium oilfield services company through superior assets, systems and people. At present the Group holds construction contracts for the building of 6 rigs of the KFELS MOD V B-Class design at Keppel FELSShipyard in Singapore

#### **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below.

##### **2.1 Basis of preparation**

The consolidated financial statements of S.D. Standard Drilling Plc. have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113 and are expressed in United States Dollars. The consolidated financial statements have been prepared under the historical cost convention. All figures in these consolidated financial statements are in USD'000 unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

##### **2.1.1 Going concern**

In the opinion of the directors, the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore adopt the going concern basis in preparing its consolidated financial statements.

##### **2.1.2 Adoption of new and revised IFRS's**

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2011 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

In the current year, the Group has adopted all of the new and revised standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual periods beginning on 1 January 2011. The adoption of these Standards did not have a material effect on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

## 2. Summary of significant accounting policies (continued)

### 2.1.2 Adoption of new and revised IFRS's (continued)

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2011:

(i) Standards and Interpretations adopted by the EU

- *IFRS 7 (Amendment) Financial Instruments: Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).*

(ii) Standards and Interpretations not adopted by the EU

- *Amendments to IAS 1, "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).*
- *Amendments to IAS 12 - "Deferred tax": Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).*
- *Amendments to IAS 19 - "Employee Benefits" (amendments) (effective for annual periods beginning on or after 1 January 2013).*
- *IAS 27 (Revised): "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).*
- *Amendment to IAS32 "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).*
- *Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011).*
- *IFRS 7 (Amendment) Financial Instruments: Disclosures - "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 9 "Financial Instruments" issued in November 2009 and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011).*
- *IFRS 19 "Financial Instruments" (issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011) (effective for annual periods beginning on or after 1 January 2015).*
- *IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRIC 20: "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2014).*
- *IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).*
- *Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" on the application of IFRS 9 'Financial Instruments' and IAS 20 'Accounting for Government Grants and Disclosure on Government Assistance' - exemption on the retrospective application of IFRSs in relation to government grants (effective for annual periods beginning on or after 1 January 2013).*

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Group.

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 31 December 2011**

## **2. Summary of significant accounting policies (continued)**

### **2.2 Basis of consolidation (continued)**

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies into line with those used by other members of the Group.

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

### **2.3 Business combinations**

Acquisitions which meet the definition of a business are accounted for using the acquisition method.

For acquisitions not meeting the definition of a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed; and allocates the cost of the transaction between the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill.

### **2.4 Revenue recognition**

Revenue earned by the Group is recognised on the following basis:

#### *2.4.1 Interest income*

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### **2.5 Foreign currency translation**

#### *(a) Functional and Presentation currency*

Items included in the financial statement of the each entity in the Group are measured using the currency of primary economic environment in which entity operates (functional currency). All entities within the Group have USD as functional currency, and the Group has USD as presentation currency.

#### *(b) Translations and balances*

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates at the balance sheet date are recognised in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'financial income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains-net'.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

## 2. Summary of significant accounting policies (continued)

### 2.6 Rigs-Under construction

Costs relating to construction of the Drilling rigs are classified as non-current assets in the balance sheet. Instalments on Rig building contracts are recognised when due in accordance with the rig-building agreement, costs relating to on-site construction supervision are recognised based on stage of completion of the construction of the rigs and other pre-delivery construction costs are recognised upon incurring.

A rig 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 a rig is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### 2.7 Equipment and machinery

#### (a) Measurement

Equipment and machinery are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

#### (b) Depreciation

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:

	%
Furniture and Fittings	10
Computer Hardware	20

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.

#### (c) Subsequent cost

Expenditure for repairs and maintenance of equipment and machinery is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

#### (d) Disposal

An item of equipment and machinery 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 equipment and machinery is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 31 December 2011**

#### **2. Summary of significant accounting policies (continued)**

##### **2.8 Cash and cash equivalents**

In the statement of cash flows and the balance sheet, cash and cash equivalents includes deposits held at call with banks.

##### **2.9 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

##### **2.10 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **2.11 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 2. Summary of significant accounting policies (continued)

##### 2.12 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

##### 2.13 Share-based payments

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments such as options to buy shares of the Company (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which the award is granted. The fair value is determined using appropriate valuation models.

The cost of equity settled transactions is recognised as an expense, together with a corresponding increase in reserves within equity, over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period the entity revises the estimates of the number of options that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

##### 2.14 Borrowings

Borrowings are recognised initially at fair value, 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, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

## 2. Summary of significant accounting policies (continued)

### 2.15 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.

## 3. Financial risk management

### 3.1 Financial risk factor

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), Shipyard risk, credit risk, liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effect from the unpredictability of financial markets on the Group's financial performance.

#### (a) Market risk

##### (i) Currency risk

The Group's functional currency is US dollars. The Group operates internationally and the Group's transactions are primarily in US dollars, as such currency risk arising is low. Currency risk may arise from future commercial transactions in currencies other than US dollars.

##### (ii) Price risk

The Group is not directly exposed to price risk relating to income, since the rigs still are under construction.

##### (iii) Cash flow and fair value interest rate risk

The Group is currently financed by equity, and has no interest bearing debt; hence no interest rate risk is currently present.

#### (b) Shipyard risk

The Group bears the risk of the rigs not being delivered from the shipyard at the agreed time, with the agreed quality, and at the agreed price. The Group has hired GL Noble Denton, which has long experience with the supervision of such rig projects, to supervise that the construction projects are executed by the shipyard in accordance with the building contracts. If the shipyard (Keppel FELS) fails to deliver the vessel by the delivery date, the Group will have the right to receive compensation. Keppel FELS Shipyard has a long and solid track record in constructing the type of rigs that the Group has on order, thus the management considers that the shipyard risk is low.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 3. Financial risk management (continued)

##### (c) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. The Group has policies in place to ensure that services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' currently being used.

The maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial instruments presented on the balance sheet. The Group's major classes of financial assets are bank deposits and trade and other receivables.

##### (d) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents as well as securing availability of funding through adequate amount of credit facilities to meet future obligations.

The following are the contractual maturities of financial liabilities:

31 December 2010	Carrying	Contractual	3 months or					More than 5 years
	amounts	Cash flows	Less	3-12 months	1-2 years	2-5 years		
Trade and other payables	1 206	1 206	1 206	-	-	-	-	
31 December 2011	Carrying	Contractual	3 months or					More than 5 years
	amounts	Cash flows	Less	3-12 months	1-2 years	2-5 years		
Trade and other payables	3 257	3 257	3 257	-	-	-	-	

The group has through issuance of equity secured sufficient funding for the initial 20% instalment paid to the shipyard as well as adequate working capital until delivery of the first rig in February 2013. Additional funding will be required for the final payment of 80% of the construction price of the rigs at delivery in 2013 and 2014.

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the critical judgements and estimation, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### *Valuation of share based options*

The Group uses share-based incentive program. Share-based options are valued at fair value at the grant date and re-measured at the end of the reporting period, using the Black & Scholes option pricing model. The Group carefully reviews the assumptions used in the Black & Scholes option pricing model, and use an external third party to perform the calculations of the fair value for each period. However changes in the assumptions, and especially the expected volatility used for the calculation of fair value at grant date, could change the fair value of the options significantly.

##### *Income taxes and deferred tax assets*

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

#### 5. Financial instruments by category

	Loans and receivables	Assets at fair value through profit or loss	Available- for sale	Total
<b>31 December 2010</b>				
<b>Assets as per balance sheet</b>				
Cash and cash equivalents	6 140	-	-	6 140
Total	6 140	-	-	6 140
			Other financial liabilities	Total
<b>Liabilities as per balance sheet</b>				
Payables (excluding statutory liabilities)			1 206	1 206
Total			1 206	1 206

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 5. Financial instruments by category (continued)

	Loans and receivables	Assets at fair value through profit or loss	Available-for sale	Total
<b>31 December 2011</b>				
<b>Assets as per balance sheet</b>				
Non-current receivables	1 434	-	-	1 434
Trade and other receivables (excluding prepayments)	57	-	-	57
Cash and cash equivalents	122 401	-	-	122 401
<b>Total</b>	<b>123 892</b>	<b>-</b>	<b>-</b>	<b>123 892</b>
<b>Liabilities as per balance sheet</b>				
Payables (excluding statutory liabilities)			Other financial liabilities	Total
			3 257	3 257
<b>Total</b>			<b>3 257</b>	<b>3 257</b>

#### 6. Credit quality of financial assets

The credit quality of the main financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2011	2010
Cash at bank and short-term bank deposits	122 401	6 140
<b>Total</b>	<b>122 401</b>	<b>6 140</b>

The external credit ratings of the main financial institutions with which the Group holds its funds are as follows:

	2011	2010	Credit ratings	
			Long term rating	Short term rating
DNB Bank ASA (Standard & Poor's)	77 659	-	A+	A-1
JP Morgan Chase Bank (Standard & Poor's)	44 248	-	AA-	F1
Bank of Cyprus Public Company Limited (Moody's)	495	6 140	B1	Not Prime

#### Non-current receivables

No significant credit risk arises from the non-current receivable from the shipyard as the amounts will be netted off with future payments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year period ended 31 December 2011

#### 7. Rigs-Under construction

The Group's capital assets consist of six jack-up drilling rigs that are under construction at Keppel FELS Limited's Shipyard in Singapore.

Contractual payments to the shipyard, fees to GL Noble Denton and Noble Denton Sandefjord AS for supervision of the construction project and other directly attributable expenses for hired assistance are accounted for as "Rigs under construction".

	<b>Rigs Under Construction</b>
At formation 2 December 2010	-
Instalment to Keppel FELS Limited in 2010	35 860
Other capitalised expenses related to construction of the rig in 2010	70
Contingent commission fee (note 14)	1 378
<b>At 31 December 2010</b>	<b>37 308</b>
Addition from the acquisition of subsidiary companies (1)	116 651
Instalments to Keppel FELS Limited in 2011 (2)	153 600
Jack-up rig B319 derecognised on disposal of subsidiary (3)	-40 435
Other capitalised expenses related to construction of the rigs in 2011	2 879
Contingent commission fee (note 14)	2 622
<b>At 31 December 2011</b>	<b>272 625</b>

<b>Contractual payment plan for 6 rigs (Capital commitments):</b>	<b>31 Dec. 2011</b>	<b>31 Dec. 2010</b>
When entering contract: 20% (already paid)	225 600	35 860
Refund of 1%	-	-359
At delivery (in 2013 / 2014): 80%	902 400	143 440
Refund of 1%	-	-1 434
Construction monitoring services (payment throughout the construction period)	11 575	2 610
<b>Total contractual payment plan 6 rigs</b>	<b>1 139 575</b>	<b>180 117</b>

(1) As stated in note 21, the Group has acquired the entire share capital of Offshore Driller B324 Ltd and Offshore Driller B325 Ltd, as well as two options which Clearwater Capital Partners Fund III L.P., have entered into with Keppel FELS Limited. These two subsidiaries had rig capitalised expenses on acquisition date of USD 72 151 relating to the first instalments of USD 36 000 being 20% of the contract price under each of the two additional construction contracts which have already been paid to Keppel FELS and other expenses incurred in the period. In addition, an amount of USD 44 500 has been allocated to the capitalised cost of the two identifiable assets on the basis of their relative fair values at the date of acquisition.

(2) In connection to the above acquisition, on 7 April 2011 the Group entered into a frame agreement with Keppel FELS Limited for the construction of four premium Jack-up rigs identical to B319. The frame agreement replaces the four options held by the Group and Clearwater Capital Partners Fund III L.P. In this respect the Group incorporated four wholly owned subsidiaries incorporated under the laws of Cayman Islands, in addition to the two companies acquired above. The Cayman Islands subsidiaries are single-purpose limited liability companies each holding or set up for holding a Construction Contract with Keppel FELS for a premium jack-up rig. The first instalments of USD 38 400 being 20% of the contract price under each of the four additional construction contracts, have been paid by each of Offshore Driller 1 Ltd, Offshore Driller 2 Ltd, Offshore Driller 3 Ltd and Offshore Driller 4 Ltd, all being wholly-owned subsidiaries of S.D. Standard Drilling Plc, to Keppel FELS. Keppel FELS has confirmed the receipt of the payments and that the effective date under all the four additional construction contracts is 13 May 2011.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year period ended 31 December 2011

**7. Rigs-Under construction (continued)**

(3) On 14 October 2011, the Company novated the construction agreement of the jack-up rig B319 to the subsidiary Offshore Driller 5 Ltd. As consideration, Offshore Driller 5 Ltd has issued to the Company on 23 August 2011, 40.435 shares of USD 1.00 each at a premium of USD 999 per share.

Subsequently, as stated in note 17 the Company disposed the shares held in the subsidiary Offshore Driller 5 Ltd.

Furthermore, as stated in note 14, the commission agreement between the Group and Ferncliff Drilling Management AS which was signed on 10 December 2010 for the building of the jack-up drilling rig B319, has been cancelled on 4 May 2011 against the payment of USD 4 000 and as a result the Group has capitalised an additional amount of USD 2 622 in accordance with its accounting policy.

**8. Equipment and machinery**

	Furniture, Fixtures and Office Equipment	Computer Hardware	Total
<b>Cost</b>			
At 1 January 2010	-	-	-
<b>At 31 December 2010</b>	-	-	-
Additions	1	11	12
Disposal	-	-2	-2
<b>At 31 December 2011</b>	<b>1</b>	<b>9</b>	<b>10</b>
<b>Depreciation</b>			
At 1 January 2010	-	-	-
<b>At 31 December 2010</b>	-	-	-
Charge for the year	-	1	1
<b>At 31 December 2011</b>	<b>-</b>	<b>1</b>	<b>1</b>
Net book amount			
<b>Balance at 31 December 2011</b>	<b>1</b>	<b>8</b>	<b>9</b>
Balance at 31 December 2010	-	-	-

**9. Non-current receivable**

Non-current receivables are comprised by a refund of USD 1 434 for Keppel FELS being the remaining 80% of the 1% of B319's contractual purchase price. Non-current receivables will be settled on delivery of jack-up rigs 337 and 338 by the shipyard which is expected to occur in 2013.

**10. Trade and other receivables**

	31 Dec. 2011	31 Dec. 2010
Prepayments	53	-
Other receivables	57	-
<b>Total trade and other receivables</b>	<b>110</b>	<b>-</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 11. Cash and cash equivalents

	31 Dec. 2011	31 Dec. 2010
Cash at bank	122 401	6 140
<b>Cash and cash equivalents</b>	<b>122 401</b>	<b>6 140</b>

#### 12. Share capital and premium

	Number of shares (thousands)	Ordinary shares	Share premium	Total
<b>At formation 2 December 2010</b>	-	-	-	-
Debt Conversion (formation of the Company)	35 860	359	35 501	35 860
On 9 December 2010: Cash from shares issued (share capital increase)	6 140	61	6 079	6 140
Share issue costs	-	-	-1 050	-1 050
<b>At 31 December 2010</b>	<b>42 000</b>	<b>420</b>	<b>40 530</b>	<b>40 950</b>
On 4 May 2011: share capital increase	220 000	2 200	327 800	330 000
Share issue costs	-	-	-8 380	-8 380
<b>At 31 December 2011</b>	<b>262 000</b>	<b>2 620</b>	<b>359 950</b>	<b>362 570</b>

The Company issued 35 860 000 shares on 2 December 2010 as consideration for conversion of debt to Tymar AS (related party).

On 11 March 2011, following a resolution taken at an Extraordinary General Meeting, the Company increased its authorised share capital from 42 000 000 shares to 142 000 000 shares.

On 8 April 2011, the Company entered into a share purchase agreement with Clearwater Capital Partners Fund III L.P., under which the Company has acquired the entire share capital of Offshore Driller B324 Ltd and Offshore Driller B325 Ltd, as well as two options which Clearwater Capital Partners Fund III L.P., have entered into with Keppel FELS Limited, in exchange of a cash payment of USD 8 493 plus the issuance of 78 338 000 new shares in the Company to Clearwater Capital Partners Fund III L.P. ("The Acquisition"). The valuation of the consideration shares issued by the Company was based on a subscription price of USD 1.50 per share.

Furthermore, the Company announced on 8 April 2011 a private placement of USD 330 000 through the issue of 220 000 000 new shares, at a subscription price of USD 1.50 per share.

On 14 April 2011, the Company completed the Private Placement in which a total number of 220 000 000 new shares were issued, at a subscription price of USD 1.50 per new share, thereby raising gross proceeds of USD 330 000.

The Private Placement was directed as follows:

- a) 78 338 000 new shares were offered to Clearwater Capital Partners Fund III, L.P. ("Clearwater") as part of the consideration for the Company's acquisition of Offshore Driller B324 and Offshore Driller B325, and
- b) 141 662 000 new shares were offered to the current shareholders, to new Norwegian investors and to international institutional investors in certain other jurisdictions as permitted or catered for by exemption rules under applicable securities laws, including placements to qualified institutional investors (as defined by rule 144A under the US Securities Act).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 12. Share capital and premium (continued)

On 4 May 2011, the extraordinary general meeting of the Company passed a resolution to increase the authorised share capital of the Company from USD 1 420 to USD 3 620 divided into 362 000 000 ordinary Shares, by the creation of 220 000 000 new shares each with a par value of USD 0.01.

Furthermore, the extraordinary general meeting of the Company passed a resolution and on the same date the board of directors of the Company allotted 220 000 000 ordinary shares as issued and paid in full in connection with the Private Placement.

The new shares were listed on Oslo Axess on 9 May 2011.

All shares issued have the same rights and are of nominal value of USD 0.01 each.

#### 13. Equity-settled employee benefits reserve

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Arising on share-based payments	282	-
<b>Balance as of 31 December 2011</b>	<b>282</b>	<b>-</b>

In 2011 the Group granted share options to key management employees. Further information about share-based payments to employees is set out in note 22.

#### 14. Provisions for other liabilities and charges

	Contingent liability
At 2 December 2010 capitalised to rig contract	1 366
Increase due to the passage of time	12
<b>At 31 December 2010</b>	<b>1 378</b>
Increase due to the passage of time (note 7)	36
Additional provisions (note 7)	2 586
Payment	-4 000
<b>At 31 December 2011</b>	<b>-</b>

On 4 May 2011, the extraordinary general meeting of the Company passed a resolution approving the cancellation of the commission agreement between the Company and Ferncliff Drilling Management AS, which was signed on 10 December 2010, against the payment of USD 4 000. Ferncliff Drilling Management AS is controlled by one of the major shareholders of the Company.

#### 15. Trade and other payables

	31 Dec. 2011	31 Dec. 2010
Other payables	1 738	1 096
Accrued expenses	1 519	110
<b>Total trade and other payables</b>	<b>3 257</b>	<b>1 206</b>

The fair value of trade and other payables which are due within one year approximates their carrying amount at the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 16. Income tax expense

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
<b>Current tax:</b>		
Defence contribution on interest received	7	-
Total current tax	7	-
<b>Deferred tax:</b>		
Origination of temporary differences	-	-
Total deferred tax	-	-
<b>Income tax expense</b>	<b>7</b>	<b>-</b>

The total charge for the year can be reconciled to the accounting profit as follows:

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Profit/(loss) before tax	30 556	-86
Tax calculated at the applicable tax rates	3 056	-9
Tax effect of expenses not deductible for tax purposes	415	7
Tax effect of allowances and income not subject to tax	-3 471	-
Tax effect of tax loss for the year/period	-	2
Defence contribution current year	7	-
Tax charge	7	-

#### Balance sheet

##### Current tax liability:

	31 Dec. 2011	31 Dec. 2010
Special defence contribution	7	-
	<b>7</b>	<b>-</b>

#### 17. Gain on disposal of subsidiary

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Gain on disposal of subsidiary	34 709	-
Interest income related to disposal	49	-
	<b>34 758</b>	<b>-</b>

On 26 August 2011, the Company has entered into an agreement to sell the shares held in the subsidiary company Offshore Driller 5 Ltd which own the jack-up rig B319, currently under construction at Keppel FELS Limited's Shipyard in Singapore to an undisclosed buyer incorporated in the UK.

The jack-up rig B319 is expected to be mobilized to a geographic location which holds no strategic interest for S.D. Standard Drilling Plc and where the rig is expected to remain. The transaction has been completed on 17 November 2011.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 17.1 Gain on disposal of subsidiary

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Consideration received net	75 144	-
Net assets disposed of:		
Rig-capitalised expenses	-40 435	-
Gain on disposal	<b>34 709</b>	-

#### 18. Administrative expense

	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Legal, consulting and professional fees	2680	-
Other expenses	629	-
Salary and other employee benefit	893	86
Total administrative expenses	<b>4 202</b>	<b>86</b>

During 2011 audit fees of USD 13 (2010: USD 12), fees of USD 23 (2010: USD 119) for other assurance services and fees of USD 18 (2010: nil) for tax consultancy services were charged by the Company's statutory audit firm.

#### 19. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

##### 19.1 Basic earnings per share

	31 Dec. 2011	2 Dec. – 31 Dec 2010
Profit/(loss) attributable to equity holders of the Company	30 549	-86
Weighted average number of ordinary shares for the purposes of basic earnings per share in issue (thousands)	187 260	39 248
<b><i>Earnings per share distributable to the equity holders of the Company during the year/period (expressed in USD per share)</i></b>		
Basic earnings per share	0,16	0,00

##### 19.2 Diluted earnings per share

	31 Dec. 2011	2 Dec. – 31 Dec 2010
Profit/(loss) attributable to equity holders of the Company	30 549	-86
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	187 360	39 248
<b><i>Earnings per share attributable to equity holders of the Company during the year/period (expressed in USD per share)</i></b>		
Diluted earnings per share	0,16	0,00

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2011

**19. Earnings per share (continued)****19.2 Diluted earnings per share (continued)**

	31 Dec. 2011	2 Dec. – 31 Dec 2010
Weighted average number of ordinary shares used in the calculation of basic earnings per share in issue (thousands)	187 260	39 248
Shares deemed to be issued for no consideration in respect of:		
- Employee options	100	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	187 360	39 248

**20. Deferred income tax**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that realisation of the related tax benefit through future taxable profits is probable.

**21. Acquisition and incorporation of subsidiaries**

On 8 April 2011 S. D. Standard Drilling Plc ("The Company") entered into a share purchase agreement with Clearwater Capital Partners Fund III L.P., under which the Company has acquired the entire share capital of Offshore Driller B324 Ltd and Offshore Driller B325 Ltd, which had under construction two jack-up drilling rigs as well as two options which Clearwater Capital Partners Fund III L.P., have entered into with Keppel FELS Limited, in exchange of a cash payment of USD 8 493 plus the issuance of 78 338 000 new Shares in the Company to Clearwater Capital Partners Fund III L.P. ("The Acquisition"). The valuation of the consideration shares issued by the Company was based on a subscription price of USD 1.50 per share.

The above acquisition was treated by the Company as an acquisition of assets.

In this respect the Company incorporated four wholly owned subsidiaries incorporated under the laws of Cayman Islands, in addition to the two companies acquired above. The Cayman Islands subsidiaries are single-purpose limited liability companies each holding a Construction Contract with Keppel FELS for a premium jack-up rig.

On 9 June 2011 the Company incorporated a subsidiary in Singapore named S.D. Standard Drilling (Singapore) Pte Ltd.

On 16 August 2011 the Company incorporated a subsidiary in Cayman Islands named Offshore Driller 5 Ltd with the aim of transferring the jack-up rig B319 held by the Company to the subsidiary. On 26 August 2011 the Company entered into an agreement to sell the shares held in Offshore Driller 5 Ltd. The disposal of the shares in the subsidiary Offshore Driller 5 Ltd was officially completed and closed, as the conditions set out in the Share Purchase Agreement were fulfilled on 17 November 2011.

The registered name, country of incorporation and date of incorporation for each of the subsidiaries are as follows:

Name	Date of incorporation	Country of incorporation	Share	Voting rights
Offshore Driller B324 Ltd	15 December 2010	Cayman Islands	100%	100%
Offshore Driller B325 Ltd	15 December 2010	Cayman Islands	100%	100%
Offshore Driller 1 Ltd	8 April 2011	Cayman Islands	100%	100%
Offshore Driller 2 Ltd	8 April 2011	Cayman Islands	100%	100%
Offshore Driller 3 Ltd	8 April 2011	Cayman Islands	100%	100%
Offshore Driller 4 Ltd	8 April 2011	Cayman Islands	100%	100%
S.D. Standard Drilling (Singapore) Pte Ltd	9 June 2011	Singapore	100%	100%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

## 22. Share-based payments

### 22.1 Employee share option plan of the Group

#### 22.1.1 Details of the employee share option plan of the Group

According to the employment contracts, certain employees were granted options during 2011, to acquire ordinary shares of the S.D. Standard Drilling Plc ("the parent"), provided they remain in the employment of S.D. Standard Drilling (Singapore) Pte Ltd ("the subsidiary") until the jack-up rigs are placed on day rate for at least 30 days or are sold.

The subsidiary granted a total number of 8 400 000 share options during 2011, each granting the right to its owner to acquire one ordinary share of the parent, at predetermined strike prices as stated below in note 22.1.2.

According to the employment contracts, an equal portion of the options across each of the strike prices will vest on a pro-rata basis when each rig has been on hire for at least 30 days.

If a rig is sold prior to the rig being on contract for at least 30 days, the proportionate shares shall immediately vest upon the later of the receipt of consideration for the sale of the rig or the contractual delivery date of the rig.

However, if such sale leads to a change of control in the parent, 100% of the options shall vest upon the change of control. The options may only be exercised during the time of employment, or during any period of notice, of each employee.

22.1.2 The following share-based payment arrangements were in existence during the current period:

Batch	Number of options	Exercise price		Weighted average remaining contractual life
		USD	NOK	
1	2 100 000	0.92	5.50	1.82 years
2	2 100 000	1.13	6.80	1.82 years
3	2 100 000	1.33	8.00	1.82 years
4	2 100 000	1.58	9.50	1.82 years

The share based payments arrangement was separated to batches according to the exercise prices.

#### 22.1.3 Movements in shares options during the period

The following reconciles the share options outstanding at the beginning and end of the period:

	31 Dec. 2011		02 Dec.-31 Dec. 2010	
	Number of Options	Weight average exercise price USD	Number of options	Weight average exercise price USD
Balance at beginning of period	-	-	-	-
Granted during the period	8 400 000	1,24	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Balance at end of period	8 400 000	1,24	-	-

As at the end of the period, 600 000 options are exercisable at a weighted average exercise price of USD1,24 per share.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year period ended 31 December 2011

**22. Share-based payments (continued)***22.1.4 Fair value of share options granted in the period*

The fair value of the share options granted during the period is USD 2 324. Options were priced using Black-Scholes pricing model. The exercise date was set to equal the expected delivery date of each jack-up rig by the constructor plus thirty days, being the hire period determined by the employment contracts. This is based on the assumption that the management will be able to place the jack up rigs on a day rate immediately after their delivery. Expected volatility is based on the historical price over the past 11 months and also based on pattern and level of historical volatility of comparable entities for the first 3 years of operation of those entities.

Rigs' construction period:

Jack-up rig	<u>Construction started</u>	<u>Construction plan finished</u>
B337	July 2011	July 2013
B338	August 2011	November 2013
B339	August 2011	December 2013
B340	August 2011	May 2014
B324	January 2011	February 2013
B325	January 2011	June 2013

Inputs into the model

	<u>Batch 1</u>	<u>Batch 2</u>	<u>Batch 3</u>	<u>Batch 4</u>
Exercise price (US\$)	0,92	1,13	1,33	1,58
Exercise price (NOK)	5,50	6,80	8,00	9,50
Expected volatility	62,03%	62,03%	62,03%	62,03%
Option life	1,82 years	1,82 years	1,82 years	1,82 years
Risk free interest rate	0,32%	0,32%	0,32%	0,32%
Weighted average grant date share price (USD)	1,00	1,00	1,00	1,00
Weighted average grant date share price (NOK)	6,00	6,00	6,00	6,00

The USD/NOK exchange rate of 6.000 as at 31 December 2011 was used for all conversions into USD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 December 2011

#### 23. Shareholders' information

The Company's 20 largest shareholders as at 31 December 2011 are as follows:

Owner	Number of Shares	Ownership interest in %
Clearwater Capital Partners Fund	78 338 000	29,90
Euroclear Bank S.A./N.V. (BA)	22 114 812	8,44
Credit Suisse Securities (USA) LLC	15 116 689	5,77
Tymar AS	11 249 995	4,29
Bank of New York Mellon SA/NV	9 662 347	3,68
Deutsche Bank AG London	6 036 811	2,30
Sabaro Investment Ltd	5 165 000	1,97
Gross Management AS	4 866 681	1,86
Thabo Energy AS	4 745 000	1,81
Goldman Sachs & Co – Equity	4 410 376	1,68
Varma Mutual Pension Insurance	4 320 000	1,65
SHB Stockholm Clients Account	4 315 800	1,65
Morgan Stanley & Co LLC	4 105 222	1,56
Skandinaviska Enskilda Banken	3 947 798	1,51
JP Morgan Clearing Corp.	3 583 318	1,37
MP Pensjon PK	3 560 000	1,36
JPMorgan Chase Bank	3 527 949	1,35
Tycoon Industrier AS	2 973 001	1,14
Shenga Trading Company Limited	2 899 382	1,11
Citibank NA London Branch	2 880 000	1,10
Total 20 largest	197 818 181	75,50
Others	64 181 819	24,50
Total	262 000 000	100,00

#### 24. Related-party transactions

##### 24.1 Commissions

The Company had a commission agreement with Ferncliff Drilling Management AS. On 4 May 2011, the extraordinary general meeting of the Company passed a resolution approving the cancellation of the commission agreement between the Company and Ferncliff Drilling Management AS, which was signed on 10 December 2010, against the payment of USD 4 000.

##### 24.2 Management services

Name	Nature of transactions	31 Dec. 2011	2 Dec. – 31 Dec. 2010
Clearwater Capital Partners LLC	Management fees	350	-
Ferncliff TIH AS	Management fees	250	-
Lauvheim Holding AS	Consulting fees	128	-
		728	-

The Company had no transactions with shareholders other than those disclosed above. The above shareholders exercise significant influence through Board representation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year period ended 31 December 2011

**25. Remuneration to the Board of Directors and executive management**

	Directors' Fees	Salary	Benefits in kind	Share based payments expense	31 Dec. 2011 Total	31 Dec. 2010 Total
Executive management:						
Mark A. Jackson – CEO (from 29 Aug 2011)	-	172	62	199	433	-
Geir Johansen – CFO (from 20 Oct 2011)	-	60	21	63	144	-
Michael Kelley – COO (from 15 Dec 2011)	-	-	-	20	20	-
Karina Irgens-Hagevik –CEO (from 10 February until 27 May 2011)		23			23	
Total remuneration executive management	-	255	83	282	620	-

	Directors' Fees	Salary	Benefits in kind	Share options Scheme expense	31 Dec. 2011 Total	31 Dec. 2010 Total
Board of Directors:						
Robert Petty – Chairman	47	-	-	-	47	-
Amit Gupta (Non-Executive Director)	31	-	-	-	31	-
Gunnar Hvammen (Non-Executive Director)	31	-	-	-	31	-
Oystein Stray Spetalen (Non-Executive Director)	31	-	-	-	31	-
Stephen Marzo (Independent Director)	31	-	-	-	31	-
Demetris Aletraris (Non-Executive Director)	7	-	-	-	7	-
George Crystallis (Independent Director)	2	-	-	-	2	-
Total remuneration Board of Directors	180	-	-	-	180	-

The directors' fees for the year 2011 will be payable upon approval by the Annual General Meeting of the Shareholders.

**26. Subsequent events**

On 15 February 2012, Mr Mark A. Jackson resigned from his position as Managing Director of the subsidiary S.D. Standard Drilling (Singapore) Pte Ltd and Chief Executive Officer of the Company.

As part of a severance package, both parties have agreed to a lump sum payment equal to USD 250 less applicable and/or withholdings tax required by law and the revision of the terms and the number of shares options granted to the executive.

On the same date, the Board of Directors has re-appointed Mr Martin Nes to serve as acting Chief Executive Officer on an interim basis.



## **Independent auditor's report** **To the Members of S.D. Standard Drilling Plc**

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of S.D. Standard Drilling Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2011, 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.

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### *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 2011, 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 requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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.
- 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.

Pursuant to the requirements of the Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of the said Directive, and it forms a special part of the Report of the Board of Directors.

### **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 Law of 2009 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 'T. Nolas', is written over a horizontal line.

Tasos Nolas  
Certified Public Accountant and Registered Auditor  
for and on behalf of

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

Limassol, 24 April 2012