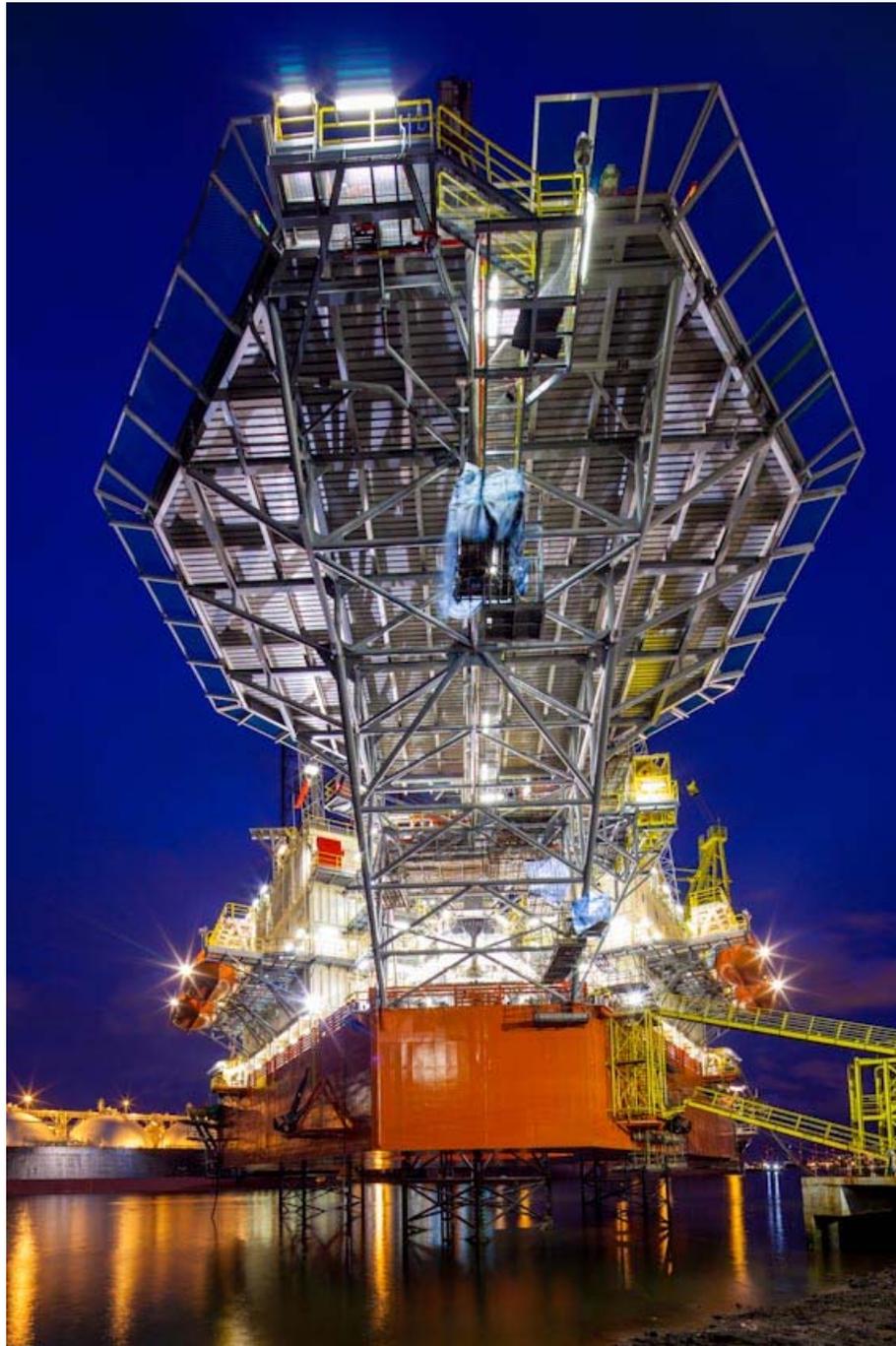


S.D. STANDARD DRILLING PLC  
ANNUAL REPORT AND CONSOLIDATED  
FINANCIAL STATEMENTS 2012



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

### **GUNNAR HVAMMEN**

#### **CHAIRMAN**

Gunnar Hvammen is part of the founding group of S.D. Standard Drilling Plc and has nearly 25 years of experience in the offshore, oil service and drilling industry. Mr. Hvammen has been an independent founder, investor, CEO and board member in numerous companies, including Songa Offshore ASA and Offshore Heavy Transport ASA. Previously, Mr. Hvammen was a Senior Corporate Partner in Fondsinans ASA and a rig sale and purchase broker in Normarine Offshore Consultants (today Pareto Offshore) which he co-founded. He started in oil services as a rig sale and purchase broker at PF Bassøe/Loosbrock.

### **AMIT GUPTA**

#### **NON-EXECUTIVE DIRECTOR**

Amit Gupta is a co-founder and Partner of Clearwater Capital Partners and a member of its Investment and Management Committees. Throughout his nearly 20-year investment career, Mr. Gupta has been on the forefront of credit analysis and deal execution in Asia. Prior to founding Clearwater in 2001, Mr. Gupta garnered experience while holding positions at Goldman Sachs (Asia) LLC where he was an Executive Director, at Peregrine Fixed Income Ltd. and at ICICI Ltd.

### **ROBERT PETTY**

#### **NON-EXECUTIVE DIRECTOR**

Robert Petty is a co-founder and Managing Partner of Clearwater Capital Partners and is a member of its Investment and Management Committees. Over his nearly 30-year career, Mr. Petty has focused on investing in Asia-dedicated special situations and credit investments, including turnarounds, restructurings, stressed credits and distressed-for-control transactions. Prior to founding Clearwater in 2001, Mr. Petty held senior positions at Amroc Investments LLC, Peregrine Fixed Income Ltd. and was with Lehman Brothers Holdings, Inc. for thirteen years.

### **ØYSTEIN STRAY SPETALEN**

#### **NON-EXECUTIVE DIRECTOR**

Øystein Stray Spetalen is part of the founding group of S.D. Standard Drilling Plc and is Chairman and owner of Ferncliff TIH AS, one of Norway's largest investment companies. He is also an independent investor. During his career Mr. Spetalen has worked as an investment manager at the Kistefos Group, a corporate advisor at several investment banks and as a portfolio manager in Gjensidige Forsikring. Mr. Spetalen started his career as a portfolio manager at Gjensidige Insurance Company twenty five years ago.

### **GEORGE CRYSTALLIS**

#### **INDEPENDENT DIRECTOR**

George Crystalllis is Managing Director of M.G. Crystalllis & Co Limited, a Cyprus trading company. Mr. Crystalllis is also the founder and owner of Odos Athinon, Art and Culture Centre in Limassol.

### **DEMETRIS ALETRARIS**

#### **NON-EXECUTIVE DIRECTOR**

Demetris Aletraris is the General Manager at Emma Capital Ltd after being the General Manager at CP Reinsurance Co Ltd. Prior to CP Reinsurance, Mr. Aletraris was with Euroinvestment & Finance Ltd, most recently serving as General Manager in the Marketrends Group, and was with General Insurance of Cyprus Ltd as Financial Controller and Operations Development Manager. Prior to that he served as Financial Controller at Pancyprian Insurance Ltd. Mr. Aletraris started his career at KPMG Peat Marwick in London and then in the Republic of Cyprus.

### **STEPHEN MARZO**

#### **INDEPENDENT DIRECTOR**

Stephen Marzo resigned as Chief Financial Officer of Hong Kong Exchanges and Clearing Limited and now serves as a Financial Advisor and Consultant. Mr. Marzo has had a distinguished career in financial services industry spanning more than 30 years. Most recently Mr. Marzo served as Chief Financial Officer of the Noble Group Limited, one of the largest commodities supply chain management companies in the world. Prior to Noble, Mr. Marzo held senior risk management positions at Goldman Sachs Asia LLC and Bear Stearns (Asia) LLC. He also previously worked as the European Treasurer for Phibro Energy Inc.

### **MARTIN NES**

#### **CHIEF EXECUTIVE OFFICER**

Martin Nes was re-appointed to serve as Acting Chief Executive Officer on an interim basis in February 2012 having previously held the roles of Chairman and Acting CEO at S.D. Standard Drilling. Mr. Nes is well versed in the Company and the shipping and offshore industry and has broad corporate experience where he has been involved in and led a number of projects. Mr. Nes also serves as CEO of Ferncliff TIH AS, one of Norway's largest investment companies. Prior to joining Ferncliff, Mr. Nes worked for the Norwegian law firm Wikborg Rein, both in their Oslo and London offices and for the shipping law firm Evensen & Co.

### **GEIR JOHANSEN**

#### **CHIEF FINANCIAL OFFICER**

Mr. Johansen has more than 20 years of experience within the maritime and oil and gas industries across Asia, the Americas and Europe. Prior to joining S.D. Standard Drilling he served as CFO for DOF Subsea, including DOF Subsea ASA and DOF Subsea Asia Pacific. Prior to that, he was at Det Norske Veritas (DNV) Maritime, last serving as Director of Finance. Mr. Johansen began his career at Saga FC.

### **CQS SECRETARIAL LIMITED**

#### **COMPANY SECRETARY**

213 Arch. Makarios Avenue  
Maximos Plaza, Tower 1  
3030 Limassol, Cyprus

## 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 obligated to adhere to the Norwegian Code of Practice for Corporate Governance dated 23 October 2012 (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.

### 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. 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.

### 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 with superior assets, systems and people. Since its founding in 2010, the Group has ordered seven rigs of the KFELS MOD V B-Class design at Keppel FELS Shipyard (“Yard”) in Singapore. Fleet expansion since 2010 has been predicated on capitalizing on the strong market opportunity and demand for premium jack-up rigs due to an aging worldwide rig fleet requiring replacement and new technologies and environmental features desirable in the current regulatory environment.

The objectives of the Company are within the framework of the Memorandum of Association, which is located 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 practice.

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

### EQUITY AND DIVIDEND

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.

In an extraordinary general meeting of the Company on 4 May 2011 it was resolved to increase the Company’s authorized share capital to USD 3.6 million divided into 362 million shares each with a par value of USD 0,01. As of the date of this report 262 million shares of the 362 million shares are issued and fully paid. Under Cyprus Companies Law the Board of Directors is authorized to issue and allot the remaining 100 million 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 deemed fit and at a price it deemed 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.

In an extraordinary general meeting of the Company on 5 March 2013, it was resolved by a special resolution that the share premium account of the Company which is kept under the provisions of section 55 of the Companies Law, be reduced from USD 369.4 million (gross of share issue costs amounting to USD 9.4 million) to USD 39.9 million. Of this reduction in the share premium account, the amount of USD 320 million will be returned to the registered shareholders of the Company as of the second trading day on the Oslo Axess, after the reduction becomes effective upon the registration with the Cyprus Registrar of Companies of the court order confirming such reduction of the share premium account of the Company and

the issuance by the Registrar of Companies of the relevant certificate according to article 67 of the Cyprus Companies Law, Cap. 113.

Cyprus practice and the Cypriot legal system with issued and authorized capital is different from the Norwegian Company law mandates that are specific to the Board of Directors and the recommendations in the Code of Practice. 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.

#### **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.

#### **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.

#### **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.

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>.

#### **COMMITTEES**

##### *Nomination Committee*

At the extraordinary general meeting (EGM) held on 30 May 2012 the shareholders approved the establishment of a Nomination Committee which will operate in accordance with the "Guidelines for the Nomination Committee", which have been posted on the company's website, <http://www.standard-drilling.com>. Glen Ole Rodland was elected as chairman and Amit Gupta as a member of the Nomination Committee. The Company's articles of association were also amended in the same EGM to provide that the Company shall have a Nomination Committee.

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 responsibilities of the Audit Committee are 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 and 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.

#### **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 two and a maximum of ten members. At present, the Board of Directors consists of seven members.

The Board members are elected at the AGM. From 2013 the election will be based on a recommendation prepared and presented by the Nomination Committee to be adopted at 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 and Directors are elected for two-year terms and can be re-elected.

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.

#### **THE WORK OF BOARD OF DIRECTORS**

The Board annually adopts a plan for its work, emphasizing goals, strategies and implementation. The Board regularly receives 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 eight to ten board meetings per year and conducts an annual self-evaluation of its work.

As set forth under Section "Implementation and Reporting on Corporate Governance" 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 "Committee" above.

#### **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. The Board of Directors evaluates the internal control systems on an ongoing basis and assesses the most important risk factors that the Company will be confronted with. In view of the Company's 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 "Implementation and reporting on corporate governance" (Code of Ethics).

#### **REMUNERATION OF THE BOARD OF DIRECTORS**

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

#### **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 2012 for members of the senior management is presented in the notes in the annual accounts.

#### **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.

#### **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 Practice.

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.

#### **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 to the Board of Directors following its audit of the Company's interim and annual financial statements. The report 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 Practice.

## 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. ("SDSD" or the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2012.

### 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. During second half of 2011 the Company started the process of building its corporate head quarter in Singapore.

### BUSINESS STRATEGY

The Company was established for the purpose of building a premium oilfield services company through superior assets, systems and people.

The fleet expansion since 2010 and 2011 was predicated on capitalizing on the strong market opportunity and demand for premium jack-up rigs due to an aging worldwide rig fleet requiring replacement and new technologies and equipment features desirable in the current regulatory environment.

In order to protect and maximize shareholder values, the Board of Directors regularly reviews the Company's business strategy to take into account the existing and forecast business environment. In 2012 the world economy took a turn for the worse, and in particular the deteriorating economic and financial environment in Europe, was of major concern to the Board of Directors. As a consequence of this concern, and as a result of opportunities that became concurrently available in the market, the Board of Directors decided to sell several of the Company's new build contracts. This had the benefits of recognizing significant gains relative to the contracted cost associated with the new build rig contracts, but also provided the Company with the ability to reduce the residual financial costs associated with the rig new build contracts. As a result this strategy allowed the Company to reduce the its overall exposure to the availability of cost competitive financing in the financial markets and lessen any impact to the Company's share price and equity position. .

Going forward, the Board of Directors maintains a policy of continuing to monitor market conditions while seeking to possess maximum flexibility with respect to the future of the Company. At present with only a single rig remaining new build contract and a strong balance sheet, the Board believes the Company is in a good

position to take advantage of opportunities, both in relation to the sale, charter, acquisition of jack-up rigs as well as in respect of return of equity to the shareholders.

### REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE OF THE GROUP'S BUSINESS

Standard Drilling achieved a number of important milestones during 2012:

- During the year the Group sold or signed agreements to sell a total of five rigs. Three of the sale transactions had legal and financial closing during 2012 (B324, B325 and B339). The net proceeds from these sales were USD 200.9 million while net gain was USD 42 million. For the transactions that closed during 2013 (B337 and B338) the net proceeds were USD 124.4 million while net gain was USD 44.1 million.
- 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.
- Efforts were initiated to identify potential customers for term contracts or for sale of the rig new building contracts.
- Management has during the year engaged in discussions with financial institutions with respect to the residual funding requirements associated with the delivery of the rigs under construction.

### RIG NEW BUILD CONTRACT

As of 31 March 2013 the Company has one rig new build contract (B340) left in its portfolio. The rig is scheduled to be delivered in May 2014 and the Company expects the rig to be delivered on time and on budget.

### 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;
- The U.S. Gulf of Mexico Macondo accident has further driven demand for premium equipment by E&P companies pushing for increased safety requirements; and

- 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 2012 was USD 33.8 million. After deducting tax of USD 56 thousand the net profit attributable to the equity holders was USD 33.7 million compared to a net profit of USD 30.5 million for the year ended 31 December 2011. The total assets of the Group for 2012 were USD 442 million and the net assets were USD 389.6 million, compared to USD 396.6 million and USD 393.3 million respectively in 2011. The financial position, development and performance of the Group as presented in these consolidated financial statements were improved during 2012.

#### 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 Note 3 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 and rig valuation to continue to increase during 2013. In light of the rig new build sales transactions executed during 2012, the Group will not be operating rigs in the near future. Thus, it is not necessary for the Group to have a fully built out technical organization in place in Singapore and the technical team will therefore be reduced to reflect this.

#### RESULTS

The Group's results for the year are set out on page 10. The Board of Directors decided in December 2012 to pay an interim dividend of USD 0,14 per share. The dividend pay-out took place in January 2013.

#### SHARE CAPITAL

There have been no changes in the share capital and share premium of the Company during the year.

#### BOARD OF DIRECTORS

The members of the Board of Directors at 31 December 2012 are shown on page 3.

In accordance with the Company's Articles of Association, the Directors Mr. Amit Gupta and Mr. Øystein Spetalen will retire

S.D. Standard Drilling Plc – Annual Report and Consolidated Financial Statements 2012

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 30 of the consolidated financial statements.

The Board of Directors established an Audit Committee on 29 February 2012. The Audit Committee has two members.

The 2012 Annual General Meeting held on 23 May 2012 voted in favour of establishing a Nomination Committee. The Nomination Committee has two members

#### 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, Tycoon Industrier AS, Saga Tankers ASA and Nordic Construction Barges.

#### EVENTS AFTER THE BALANCE SHEET DATE

Any material post balance sheet events are described in note 31 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 23 October 2012 (the "Code of Practice") on a "comply or explain" basis.

The Report on Corporate Governance is included on page 4 of this annual report.

#### INDEPENDENT AUDITORS

The Independent Auditors, PricewaterhouseCoopers Limited, has 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.

*On Behalf of the Board of Directors of S.D. Standard Drilling Plc.*

*CQS Secretarial Limited*

*Secretary, Limassol, 24 April 2013*

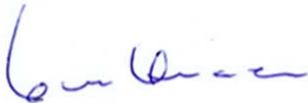


## STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF THE COMPANY FOR THE FINANCIAL STATEMENTS

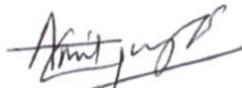
In accordance with Article 9 sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Markets) Law of 2007 ("Law") we, the members of the Board of Directors and other responsible persons for the consolidated financial statements of S.D. Standard Drilling Plc, for the year ended 31 December 2012 we confirm that, to the best of our knowledge:

- a) the consolidated financial statements of the Company for the year ended 31 December 2012 which are presented on pages 10 to 35:
  - (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 2013



Gunnar Hvammen  
Chairman



Amit Gupta  
Non-Executive Director



Robert Petty  
Non-Executive Director



Oystein Stray Spetalen  
Non-Executive Director



Stephen Marzo  
Independent Director



Demetris Aletraris  
Non-Executive Director



George Crystallis  
Independent Director



Martin Nes  
Chief Executive Officer



Geir Johansen  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

<i>(Amounts in USD 000)</i>		31.12.2012	31.12.2011
	Note	<i>Audited</i>	<i>Audited</i>
Operating Revenue		-	-
Operating Expenses		-	-
<b>Gross profit/(loss)</b>		<b>-</b>	<b>-</b>
Other gains and losses	21	42 070	34 709
Administrative expenses	22	(8 821)	(4 146)
<b>Operating profit/(loss) before depreciation</b>		<b>33 249</b>	<b>30 563</b>
Depreciation and amortization		(9)	-
<b>Operating profit/(loss)</b>		<b>33 240</b>	<b>30 563</b>
Finance Income	23	572	49
Finance Costs	23	(54)	(56)
<b>Profit/(loss) for the year before tax</b>		<b>33 758</b>	<b>30 556</b>
Income tax expense	20	(56)	(7)
<b>Profit/(loss) for the year</b>		<b>33 702</b>	<b>30 549</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>33 702</b>	<b>30 549</b>
<b>Earnings/(loss) per share</b>			
Basic/diluted earnings/(loss) per share	24	0,13	0,16

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

*(Amounts in USD 000)*

		31.12.2012	31.12.2011
	Note	<i>Audited</i>	<i>Audited</i>
<b>ASSETS</b>			
Rigs – Under construction	7	-	272 625
Intangible assets	8	12	-
Equipment and machinery	9	43	9
Non-current receivables	10	-	1 434
<b>Total non-current assets</b>		<b>55</b>	<b>274 068</b>
Trade and other receivables	11	1 779	110
Cash and bank balances	12	321 373	122 401
Assets classified as held for sale	13	118 831	-
<b>Total current assets</b>		<b>441 983</b>	<b>122 511</b>
<b>Total Assets</b>		<b>442 038</b>	<b>396 579</b>
<b>EQUITY AND LIABILITIES</b>			
Ordinary shares	14	2 620	2 620
Share premium	14	359 950	359 950
Reserves	15	-	282
Accumulated profits/(losses)		26 982	30 463
<b>Total equity</b>		<b>389 552</b>	<b>393 315</b>
Provision for other liabilities and charges	16	-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>
Trade and other payables	17	5 762	3 257
Prepayments received (sale of rig)	18	10 000	-
Dividend payable	19	36 680	-
Current tax liabilities	20	44	7
<b>Total current liabilities</b>		<b>52 486</b>	<b>3 264</b>
<b>Total Equity and Liabilities</b>		<b>442 038</b>	<b>396 579</b>

On 24 April 2013, the Board of Directors of S.D. Standard Drilling Plc authorized these consolidated financial statements for issue.



Stephen Marzo Director



Demetris Aletraris Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

<i>(Amounts in USD 000)</i>	Note	Share Capital	Share Premium	Share Option Reserve	Accumulated Profits/(Losses)	Total
<b>Balance at 01.01.2011</b>		420	40 530	-	(86)	40 864
<b>Comprehensive income</b>						
Profit/(loss) for the year		-	-	-	30 549	30 549
<b>Transactions with owners</b>						
Share capital increase	14	2 200	327 800	-	-	330 000
Share issue costs	14	-	(8 380)	-	-	(8 380)
<b>Employees share option scheme</b>						
Value of employee services	15	-	-	282	-	282
<b>Balance at 31.12.2011 (Audited)</b>		<b>2 620</b>	<b>359 950</b>	<b>282</b>	<b>30 463</b>	<b>393 315</b>
<b>Balance at 01.01.2012</b>		<b>2 620</b>	<b>359 950</b>	<b>282</b>	<b>30 463</b>	<b>393 315</b>
<b>Comprehensive income</b>						
Profit/(loss) for the year		-	-	-	33 702	33 702
<b>Transactions with owners</b>						
Interim dividend	19	-	-	-	(36 680)	(36 680)
<b>Employee share option scheme</b>						
Value of employee services	15	-	-	2 094	-	2 094
Value of employees services reclassified on modification to cash-settled share based payments transactions	15	-	-	(2 376)	(503)	(2 879)
<b>Balance at 31.12.2012 (Audited)</b>		<b>2 620</b>	<b>359 950</b>	<b>-</b>	<b>26 982</b>	<b>389 552</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts in USD 000)

	Note	31.12.2012 <i>Audited</i>	31.12.2011 <i>Audited</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(Loss) for the year before income tax		33 758	30 556
Adjustments for:			
Other gains and losses	21	(42 070)	(34 709)
Depreciation and amortization expense		9	1
Loss from sale of equipment and machinery		4	2
Loss on disposal on intangible assets		115	-
Expense recognized in respect of employee share options		-	282
Interest income	23	(572)	(49)
Increase in trade and other receivables		(235)	(61)
Increase/(decrease) in trade and other payables		761	(631)
Income tax paid		(19)	-
<b>Net cash used in operating activities</b>		<b>(8 249)</b>	<b>(4 609)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Advance received for sale of rig B337		10 000	-
Purchases of equipment and machinery	9	(44)	(12)
Additions to rigs under construction		(4 062)	(158 390)
Net proceeds from disposal of assets		200 885	75 110
Purchase of intangible assets	8	(130)	-
Interest received		572	49
<b>Net cash generated from/(used in) investing activities</b>		<b>207 221</b>	<b>(83 243)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of ordinary shares, net		-	204 113
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>204 113</b>
<b>Net increase in cash and cash equivalents</b>		<b>198 972</b>	<b>116 261</b>
Cash and cash equivalents at beginning of year		122 401	6 140
Cash and cash equivalents at end of year		321 373	122 401

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 1 - INCORPORATION AND PRINCIPAL ACTIVITIES

#### 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 address of the Company’s registered office is 213 Arch. Makarios Avenue, Maximos Plaza, Tower 1, 3rd 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 with superior assets, systems and people.

### NOTE 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 2012 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 2012. 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 2012

### NOTE 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 2012:

##### (i) Standards and Interpretations adopted by the EU

- *Amendments to IFRS 7: Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 13 December 2012)*
- *Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 13 December 2012)*
- *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 11 December 2012)*
- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 11 December 2012)*
- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 11 December 2012)*
- *IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 11 December 2012)*
- *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 11 December 2012)*
- *IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 11 December 2012)*
- *IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 11 December 2012)*
- *Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 11 December 2012)*
- *IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 11 December 2012)*
- *IAS 1 - Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented (effective for annual periods beginning on or after 5 June 2012)*
- *Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after 5 June 2012)*
- *Improvements to IFRSs 2009-2011 (issued on 17 May 2012) (effective for annual periods beginning on or after 1 January 2013)*
- *Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance (issued on 28 June 2012) (effective for annual periods beginning on or after 1 January 2013).*

##### (ii) Standards and Interpretations not adopted by the EU

- *IFRS 9 "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)*
- *Amendments to IFRS 1 – Government loans (issued 13 March 2012) (effective for annual periods beginning on or after 1 January 2013)*
- *Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012) (effective for annual periods beginning on or after 1 January 2014).*

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 2012

### NOTE 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 2012

### NOTE 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	%
Computer Hardware	10
	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 2012

### NOTE 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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

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.

Where the terms of the share option scheme is modified to be settled in cash rather than in equity instruments, the entity measures the liability initially using the modification date fair value of the equity-settled award, based on the elapsed portion of the vesting period. This amount is then recognized as a credit to liability and a debit to equity. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognized in profit and loss.

#### 2.14 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.

#### 2.15 INTANGIBLE ASSETS

##### Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Company and that will probably generate benefits exceeding costs beyond one year are recognized as intangible assets. Subsequently computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the computer software. Cost associated with maintenance of computer software programs are recognized as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use and is included within administrative expenses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### 2.16 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.17 DIVIDENDS

Dividend distribution to the Company's shareholders is recognized in the Company's financial statements in the year in which they are approved by the Company's shareholders.

### NOTE 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.

##### *(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.

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 statement of financial position. The Group's major classes of financial assets are bank deposits and trade and other receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 3 - FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (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:

<i>(Amounts in USD 000)</i>	<b>Carrying amounts</b>	<b>Contractual Cash flows</b>	<b>3 months or less</b>	<b>3-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>2011</b>							
Trade and other payables	3 257	3 257	3 257	-	-	-	-
<b>Total</b>	<b>3 257</b>	<b>3 257</b>	<b>3 257</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2012</b>							
Trade and other payables	5 762	5 762	5 762	-	-	-	-
Dividend payable	36 680	36 680	36 680	-	-	-	-
<b>Total</b>	<b>42 442</b>	<b>42 442</b>	<b>42 442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 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 2012

### NOTE 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 recognized 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 of the liability 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.

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

### NOTE 5 - FINANCIAL INSTRUMENTS BY CATEGORY

<i>(Amounts in USD 000)</i>	Loans and receivables	Assets at fair value through profit and loss	Available-for sale	Total
<b>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 at the end of the year</b>	<b>123 892</b>	<b>-</b>	<b>-</b>	<b>123 892</b>

<i>(Amounts in USD 000)</i>	Other financial liabilities	Total
<b>2011</b>		
<b>Liabilities as per balance sheet</b>		
Trade and other payables (excluding statutory liabilities)	3 257	3 257
<b>Total at the end of the year</b>	<b>3 257</b>	<b>3 257</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 5 - FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

<i>(Amounts in USD 000)</i>	Loans and receivables	Assets at fair value through profit and loss	Available-for sale	Total
<b>2012</b>				
<b>Assets as per balance sheet</b>				
Trade and other receivables (excluding prepayments)	1 543	-	-	1 543
Cash and cash equivalents	321 373	-	-	321 373
<b>Total at the end of the year</b>	<b>322 916</b>	<b>-</b>	<b>-</b>	<b>322 916</b>

<i>(Amounts in USD 000)</i>	Other financial liabilities	Total
<b>2012</b>		
<b>Liabilities as per balance sheet</b>		
Dividend payable	36 680	36 680
Trade and other payables (excluding statutory liabilities)	5 762	5 762
<b>Total at the end of the year</b>	<b>42 442</b>	<b>42 442</b>

### NOTE 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:

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Cash at bank and short term bank deposits (1)	321 373	122 401
Trade and other receivables (excluding prepayments) (2)	1 543	57
<b>Total at the end of the year</b>	<b>322 916</b>	<b>122 458</b>

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

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011	Credit ratings	
			Long term rating	Short term rating
DNB Bank ASA (Standard & Poor's)	250 597	77 659	A+	A-1
JP Morgan Chase Bank (Standard & Poor's)	70 186	44 248	A+	A-1
Bank of Cyprus Public Company Limited (Moody's)	590	494	Caa2	Not Prime

(2) No significant credit risk arises from the receivable from the shipyard as the amounts will be netted off with future payments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 7 - RIGS-UNDER CONSTRUCTION

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Balance at the beginning of the year	272 625	37 308
Addition from the acquisition of subsidiary companies	-	116 651
Instalments to Keppel FELS Limited in 2011	-	153 600
Jack-up rig B319 derecognised on disposal of subsidiary	-	(40 435)
Jack-up rig B324, derecognized on disposal of subsidiary (note 21)	(59 486)	-
Jack-up rig B325, derecognized on disposal of rig (note 21)	(59 323)	-
Jack-up rig B337 classified as held for sale (note 13)	(40 118)	-
Jack-up rig B338 classified as held for sale (note 13)	(39 917)	-
Jack-up rig B339 derecognized on disposal of rig (note 21)	(40 001)	-
Jack-up rig B340 classified as held for sale (note 13)	(38 796)	-
Other capitalised expenses related to construction of the rigs	5 016	2 879
Contingent commission fee (note 16)	-	2 622
<b>Balance at the end of the year</b>	<b>-</b>	<b>272 625</b>

#### Capital Commitments

Capital expenditures contracted for as of 31 December 2012 but not recognized in the Financial Statement:

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Installments to Keppel FELS Limited (80% payable at delivery)	460 800	902 400
Construction supervision	1 992	10 342
<b>Total remaining capital commitments at the end of the year</b>	<b>462 792*</b>	<b>912 742</b>

\*USD 462,8 million relates to Assets classified as held for sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 8 - INTANGIBLE ASSETS

<i>(Amounts in USD 000)</i>	<b>Computer software</b>	<b>Total</b>
<b>Cost</b>		
At 1 January 2011	-	-
At 31 December 2011	-	-
Additions	130	130
Disposals	(115)	(115)
<b>At 31 December 2012</b>	<b>15</b>	<b>15</b>
<b>Amortization</b>		
At 1 January 2011	-	-
At 31 December 2011	-	-
Charge for the year	3	3
<b>At 31 December 2012</b>	<b>3</b>	<b>3</b>
Net book amount		
<b>Balance at 31 December 2012</b>	<b>12</b>	<b>12</b>
Balance at 31 December 2011	-	-

### NOTE 9- EQUIPMENT AND MACHINERY

<i>(Amounts in USD 000)</i>	<b>Furniture, Fixtures and Office Equipment</b>	<b>Computer Hardware</b>	<b>Total</b>
<b>Cost</b>			
At 1 January 2011	-	-	-
Additions	1	11	12
Disposal	-	(2)	(2)
At 31 December 2011	1	9	10
Additions	17	27	44
Disposals	(1)	(3)	(4)
<b>At 31 December 2012</b>	<b>17</b>	<b>33</b>	<b>50</b>
<b>Depreciation</b>			
At 1 January 2011	-	-	-
Charge for the year	-	1	1
At 31 December 2011	-	1	1
Charge for the year	2	4	6
<b>At 31 December 2012</b>	<b>2</b>	<b>5</b>	<b>7</b>
Net book amount			
<b>Balance at 31 December 2012</b>	<b>15</b>	<b>28</b>	<b>43</b>
Balance at 31 December 2011	1	8	9

### NOTE 10 – NON-CURRENT RECEIVABLE

Non-current receivables were comprised by a refund of USD 1.4 million from 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 B337 and B338 by the shipyard which is expected to occur in 2013 and consequently was reclassified as current receivable (note 11).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 11 - TRADE AND OTHER RECEIVABLES

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Prepayments	236	53
Other receivables (note 10)	1 543	57
<b>Total trade and other receivables at the end of the year</b>	<b>1 779</b>	<b>110</b>

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

### NOTE 12 - CASH AND CASH EQUIVALENTS

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Cash at bank	321 373	122 401
<b>Cash and cash equivalents at the end of the year</b>	<b>321 373</b>	<b>122 401</b>

### NOTE 13 - ASSETS CLASSIFIED AS HELD FOR SALE

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Jack up rig B337 held for sale (1)	40 118	-
Jack up rig B338 held for sale (2)	39 917	-
Jack up rig B340 held for sale (3)	38 796	-
<b>Total assets held for sale at the end of the year</b>	<b>118 831</b>	<b>-</b>

- 1) In November 2012, the Group entered into a Sale and Purchase Agreement with CP Latina, a company incorporated in Mexico, for the sale of jack-up rig B337, owned by the subsidiary company Offshore Driller 1 Ltd. Net proceeds from the sale of the jack-up rig amounts to USD 65.7 million. The transaction closed in January 2013.
- 2) In January 2013, CP Latina exercised the option to purchase jack-up rig B338 owned by the subsidiary company Offshore Driller 2 Ltd, by novation of the construction agreement. Net proceeds from the sale of the jack-up rig amounts to USD 58.7 million. The transaction closed in March 2013.
- 3) Jack-up rig B340 owned by the subsidiary Company Offshore Driller 4 Ltd, was reclassified as held for sale as management is considering to sell jack-up rig B340 and an active program to locate potential buyers has been initiated.

### NOTE 14 - SHARE CAPITAL AND PREMIUM

<i>(Amounts in USD 000)</i>	Number of shares (thousands)	Ordinary shares	Share premium	Total
<b>2011</b>				
Balance at the beginning of the year	42 000	420	40 530	40 950
Share capital increase	220 000	2 200	327 800	330 000
Share issue costs	-	-	(8 380)	(8 380)
<b>Balance at the end of the year</b>	<b>262 000</b>	<b>2 620</b>	<b>359 950</b>	<b>362 570</b>
<b>2012</b>				
Balance at the beginning of the year	262 000	2 620	359 950	362 570
<b>Balance at the end of the year</b>	<b>262 000</b>	<b>2 620</b>	<b>359 950</b>	<b>362 570</b>

All shares issued have the same rights and are of nominal value of USD 0,01 each.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 15 - EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Balance at the beginning of year	282	-
Arising on share-based payments	2 094	282
Value of employees services reclassified on modification to cash-settled share based payments transactions	(2 376)	-
<b>Balance at the end of the year</b>	<b>-</b>	<b>282</b>

The Group granted share options to key management employees. Further information about share-based payments to employees is set out in note 27.

### NOTE 16 - PROVISION FOR OTHER LIABILITIES AND CHARGES

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Balance at the beginning of the year	-	1 378
Increase due to the passage of time (note 7)	-	36
Additional provisions (note 7)	-	2 586
Payment	-	(4 000)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

### NOTE 17- TRADE AND OTHER PAYABLES

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Other payables	289	1 738
Accrued expenses	2 594	1 519
Payable to employees under cash-settled share based payment transactions (note 27)	2 879	-
<b>Total trade and other payables at the end of the year</b>	<b>5 762</b>	<b>3 257</b>

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

### NOTE 18- PREPAYMENTS RECEIVED

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Prepayment received for the sale of jack-up rig B337	10 000	-
<b>Balance at the end of the year</b>	<b>10 000</b>	<b>-</b>

In November 2012, the Company received from CP Latina an Instalment of USD 10 million for jack-up rig B337 in accordance with signed Sale and Purchase Agreement. The transaction closed in January 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 19 – DIVIDEND PAYABLE

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Interim dividend	36 680	-
	<b>36 680</b>	<b>-</b>

On 20 December 2012, the Board of Directors declared an interim dividend of USD 0,14 per share out of the profits of the year 2011 and 2012. The dividend was paid to the shareholder in January 2013.

### NOTE 20 – INCOME TAX EXPENSE

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Current tax:</b>		
Corporate income tax current year	56	-
Defence contribution on interest received	-	7
<b>Total current tax</b>	<b>56</b>	<b>7</b>
<b>Deferred tax:</b>		
Origination of temporary differences	-	-
<b>Total deferred tax</b>	<b>-</b>	<b>-</b>
<b>Income tax expense</b>	<b>56</b>	<b>7</b>

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

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Profit/(loss) before tax	33 758	30 556
Tax calculated at the applicable tax rates	3 376	3 056
Tax effect of expenses not deductible for tax purposes	131	415
Tax effect of allowances and income not subject to tax	(3 444)	(3 471)
Tax effect of tax loss brought forward	(7)	-
Defence contribution current year	-	7
<b>Tax charge</b>	<b>56</b>	<b>7</b>

#### Balance sheet

##### Current tax liability:

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Special defence contribution	-	7
Corporate income tax	44	-
<b>Total current tax liability at the end of the year</b>	<b>44</b>	<b>7</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 21 – OTHER GAINS AND LOSSES

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Gain on disposal of investment in subsidiary Offshore Driller B324 Ltd (1)	8 429	-
Gain on disposal of rig under construction B325 (2)	8 247	-
Gain on disposal of rig under construction B339 (3)	25 394	-
Gain on disposal of investment in subsidiary Offshore Driller 5 Ltd	-	34 709
<b>Total gain on disposal of rig/investment</b>	<b>42 070</b>	<b>34 709</b>

- 1) In June 2012, the Group entered into an agreement to sell the shares held in the subsidiary company Offshore Driller B324 Ltd which owned jack-up rig B324, currently under construction at Keppel FELS shipyard in Singapore, to UMW Oil and Gas, a company incorporated in Malaysia. Net proceeds from the sale of the subsidiary amounts to USD 67.9 million. The transaction closed in September 2012.
- 2) In July 2012, the Group entered into a Sale and Purchase Agreement with Arabian Drilling Company, a company incorporated in the Kingdom of Saudi Arabia, for the sale of jack-up rig B325 owned by the subsidiary company Offshore Driller B325 Ltd. Net proceeds from the sale of the rig amounts to 67.6 million. The transaction closed in August 2012.
- 3) In December 2012, the Group entered into a Sale and Purchase agreement with Arabian Drilling Company, a company incorporated in the Kingdom of Saudi Arabia, for the sale of jack-up rig B339 owned by the subsidiary company Offshore Driller 3 Ltd. Net proceeds from the sale of the rig amounts to 65.4 million. The transaction closed in December 2012.

### NOTE 22 – ADMINISTRATIVE EXPENSES

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
Legal, consulting and professional fees	1 389	2 680
Other expenses	1 354	573
Salary and other employee benefit (note 30)	6 078	893
<b>Total administrative expenses</b>	<b>8 821</b>	<b>4 146</b>

During 2012 audit fees of USD 22 thousand (2011: USD 13 thousand), fees of USD 18 thousand (2011: USD 23 thousand) for other assurance services and fees of USD NIL (2011: 18 thousand) for tax consultancy services were charged by the Group's statutory audit firm.

### NOTE 23 – FINANCE INCOME AND COSTS

<i>(Amounts in USD 000)</i>	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Finance income:</b>		
Bank interest received	572	49
<b>Total finance income</b>	<b>572</b>	<b>49</b>
<b>Finance cost:</b>		
Bank charges	44	39
Foreign exchange losses	10	17
<b>Total finance cost</b>	<b>54</b>	<b>56</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 24 – EARNINGS PER SHARE

Basic earnings per share are 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.

#### 24.1 Basic earnings per share

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Profit/(loss) attributable to equity holders of the Company	33 702	30 549
Weighted average number of ordinary shares for the purposes of basic earnings per share in issue (thousands)	262 000	187 260
<b>Basic earnings per share</b>	<b>0,13</b>	<b>0,16</b>

#### 24.2 Diluted earnings per share

<i>(Amounts in USD 000)</i>	31.12.2012	31.12.2011
Profit/(loss) attributable to equity holders of the Company	33 702	30 549
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands)	262 000	187 360
<b>Diluted earnings per share</b>	<b>0,13</b>	<b>0,16</b>

	31.12.2012	31.12. 2011
Weighted average number of ordinary shares used in the calculation of basic earnings per share in issue (thousands)	262 000	187 260
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	262 000	187 360

### NOTE 25 – DEFERRED INCOME TAX

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As of 31 December 2012 the Group doesn't have unutilized losses which can be carried forward and used to offset against future taxable income.

### NOTE 26 – ACQUISITION AND INCORPORATION OF SUBSIDIARIES

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 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%

In June 2012, the Group entered into an agreement to sell the shares held in the subsidiary company Offshore Driller B324 Ltd. The transaction closed in September 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 27 – SHARE-BASED PAYMENTS

#### 27.1 Employee share option plan of the Group

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

According to the employment contracts, certain employees were granted options during 2011 and 2012, to acquire ordinary shares of the S.D. Standard Drilling Plc (“the Parent”). The subsidiary granted a total number of 8 200 000 (2011: 8 400 000) share options each granting the right to its owner to acquire one ordinary share of the parent, at predetermined strike prices as stated below in note 27.1.2.

#### Arrangement 1

According to certain employment contracts of the first arrangement, 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.

#### Arrangement 2

According to the employment contracts of the second arrangement, part of share options of certain employees will vest on the first, second and third anniversary of the date of commencement of employment and part will vest 30 days after the schedule delivery dates of the rigs.

If there is a change of control the options shall vest upon the change of control.

Following a modification on 31 December 2012 the Group decided to settle in cash the share options granted to its employees. In this respect the Group has reclassified the value of employees services previously recognized in equity to current liabilities. The total liability as at the statement of financial position date estimated to be USD 2.9 million.

27.1.2 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	1 475 000	0,99	5,50	0,46 years
2	1 475 000	1,22	6,80	0,46 years
3	1 475 000	1,43	8,00	0,46 years
4	1 475 000	1,70	9,50	0,46 years
5	1 500 000	1,44	8,06	0,46 years
6	500 000	1,42	7,94	0,04 years
7	300 000	1,37	7,67	0,05 years

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 27 – SHARE-BASED PAYMENTS (CONTINUED)

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

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

	31.12.2012		31.12.2011	
	Number of Options	Weight average exercise price	Number of options	Weight average exercise price
		USD		USD
Balance at beginning of period	8 400 000	1,34	-	-
Granted during the period	4 000 000	1,39	8 400 000	1,24
Forfeited during the period	(4 200 000)	1,34	-	-
Exercised during the period	-	-	-	-
<b>Balance at end of period</b>	<b>8 200 000</b>	<b>1,36</b>	<b>8 400 000</b>	<b>1,24</b>

#### 27.1.4 Fair value of share options as at the reporting date

Options were priced using Black-Scholes pricing model. The fair value of the share options as at the reporting date is USD 2.9 million.

Inputs into the model:

	Batch 1	Batch 2	Batch 3	Batch 4	Batch 5	Batch 6	Batch 7
Exercise price (US\$)	0,99	1,22	1,43	1,70	1,44	1,42	1,37
Exercise price (NOK)	5,50	6,80	8,00	9,50	8,06	7,94	7,67
Expected volatility	62,03%	62,03%	62,03%	62,03%	61,33%	61,33%	61,33%
Option life	0,46 years	0,04 years	0,05 years				
Risk free interest rate	0,32%	0,32%	0,32%	0,32%	0,34%	0,36%	0,35%
Reporting date share price (USD)	1,72	1,72	1,72	1,72	1,72	1,72	1,72
Reporting date share price (NOK)	9,60	9,60	9,60	9,60	9,60	9,60	9,60

The USD/NOK exchange rate of 5,58 as at 31 December 2012 was used for all conversions into USD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 28 – SHAREHOLDERS INFORMATION

The Company's 20 largest shareholders are as follows:

Owner	31.12.2012		31.12.2011	
	Number of Shares	Ownership interest in %	Number of Shares	Ownership interest in %
Clearwater Capital Partners Fund	78 338 000	29,90	78 338 000	29,90
BNYBE – QVT Fund V LP I	17 378 146	6,63	-	-
Credit Suisse Securities (USA) LLC	16 151 588	6,16	15 116 689	5,77
Deutsche Bank AG London	13 315 901	5,08	6 036 811	2,30
Tymar AS	11 249 995	4,29	11 249 995	4,29
Tycoon Industrier AS	10 100 256	3,86	2 973 001	1,14
Euroclear Bank S.A./N.V. (BA)	8 308 489	3,17	22 114 812	8,44
BNYBE – QVT Fund L.P.	7 274 983	2,78	-	-
Gross Management AS	5 166 681	1,97	4 866 681	1,86
Sabaro Investment Ltd	5 165 000	1,97	5 165 000	1,97
Thabo Energy AS	4 745 000	1,81	4 745 000	1,81
JPMCB RE SHB Swedish Funds Lending	4 021 875	1,54	-	-
JPMORGAN Chase Bank	3 925 968	1,50	3 527 949	1,35
JP Morgan Clearing Corp.	3 738 488	1,43	-	-
MP Penjion PK	3 560 000	1,36	3 560 000	1,36
Verdipapirfondet dnb Norge Selekti	3 407 013	1,30	-	-
VPF Nordea Kapital	3 056 592	1,17	-	-
BNYBE – Quintessence Fund LP	2 981 977	1,14	-	-
BNYBE – QVT Fund IV LP I	2 967 067	1,13	-	-
Deutsche Bank AG London	2 955 255	1,13	-	-
Bank of New York Mellon SA/NV	-	-	9 662 347	3,68
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
Shenga Trading Company Limited	-	-	2 899 382	1,11
Citibank NA London Branch	-	-	2 880 000	1,10
<b>Total 20 largest</b>	<b>207 808 274</b>	<b>79,32</b>	<b>197 818 181</b>	<b>75,50</b>
<b>Others</b>	<b>54 191 726</b>	<b>20,68</b>	<b>64 181 819</b>	<b>24,50</b>
<b>Total</b>	<b>262 000 000</b>	<b>100,00</b>	<b>262 000 000</b>	<b>100,00</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 29 – RELATED-PARTY TRANSACTIONS

#### 29.1 Management services

<i>(Amounts in USD 000)</i>	Nature of transactions	31.12.2012	31.12. 2011
Clearwater Capital Partners LLC	Management fees	300	350
Fernclyff TIH AS	Management fees	368	250
Lauvheim Holding AS	Consulting fees	-	128
Tycoon Industries AS	Recharging fees	88	-
		<b>756</b>	<b>728</b>

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

### NOTE 30 – REMUNERATION TO THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

<i>(Amounts in USD 000)</i>	Directors Fees	Salary	Benefits in kind	Share options Scheme	31.12.2012 Total	31.12.2011 Total
Executive management:						
Mark A. Jackson – CEO (from 29 Aug 2011)	-	331	25	603	959	433
Geir Johansen – CFO (from 20 Oct 2011)	-	297	237	618	1 152	144
Michael Kelley – COO (from 15 Dec 2011)	-	418	220	954	1 592	20
Karina Irgens-Hagevik – CEO (from 10 February until 27 May 2011)	-	-	-	-	-	23
<b>Total remuneration executive management</b>	<b>-</b>	<b>1 046</b>	<b>482</b>	<b>2 175</b>	<b>3 703</b>	<b>620</b>

<i>(Amounts in USD 000)</i>	Directors' Fees	Salary	Benefits in kind	Share options Scheme	31.12.2012 Total	31.12.2011 Total
Board of Directors:						
Robert Petty –(Non-Executive Director)	60	-	-	-	60	47
Amit Gupta (Non-Executive Director)	50	-	-	-	50	31
Gunnar Hvammen (Chairman)	65	-	-	-	65	31
Oystein Stray Spetalen (Non-Executive Director)	50	-	-	-	50	31
Stephen Marzo (Independent Director)	63	-	-	-	63	31
Demetris Aletraris (Non-Executive Director)	18	-	-	-	18	7
George Crystallis (Independent Director)	2	-	-	-	2	2
<b>Total remuneration Board of Directors</b>	<b>308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>308</b>	<b>180</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### NOTE 31 – SUBSEQUENT EVENTS

1. In January 2013, CP Latina exercised its option to purchase the jack-up rig under construction B338. Transaction closed in March 2013.
2. In January 2013, an interim dividend of USD 0,14 per share amounting to USD 36.7 million in total was paid to shareholders.
3. In January 2013, the Group decided to proceed with the liquidation of the following subsidiary companies: Offshore Driller B325 Ltd, Offshore Driller 1 Ltd, and Offshore Driller 3 Ltd. Further in March 2013 subsidiary company Offshore Driller 2 Ltd was put into liquidation.
4. In an extraordinary general meeting of the Company on 5 March 2013, it was resolved by a special resolution that the share premium account of the company which is kept under the provisions of section 55 of the Companies Law, be reduced from USD 369.4 million (gross of share issue costs amounting to USD 9.4 million) to USD 39.9 million. Of this reduction in the share premium account, the amount of USD 320 million will be returned to the registered shareholders of the Company as of the second trading day on the Oslo Axess, after the reduction becomes effective upon the registration with the Cyprus Registrar of Companies of the court order confirming such reduction of the share premium account of the company and the issuance by the Registrar of Companies of the relevant certificate according to article 67 of the Cyprus Companies Law, Cap. 113. It is expected that the contemplated capital reduction will be completed in May 2013.
5. The Company's cash held with Bank of Cyprus affected by measures introduced by the Central Bank of Cyprus during March 2013 were USD 398 thousand as at the relevant date of implementation. Out of this balance, an amount of USD 160 thousand is the maximum exposure of the Company to be converted in shares of Bank of Cyprus.



## **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 2012, 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 2012, 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 2013

# S.D. Standard Drilling

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## Financial Calendar (Release of Financial Reports)

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Q1 2013	21 May 2013
Q2 2013	15 August 2013
Q3 2013	12 November 2013

## S.D. Standard Drilling Plc

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