PA RESOURCES
ANNUAL REPORT 2011

PRODUCING FIELDS
BALANCE PROFITABLE GROWTH

PA RESOURCES

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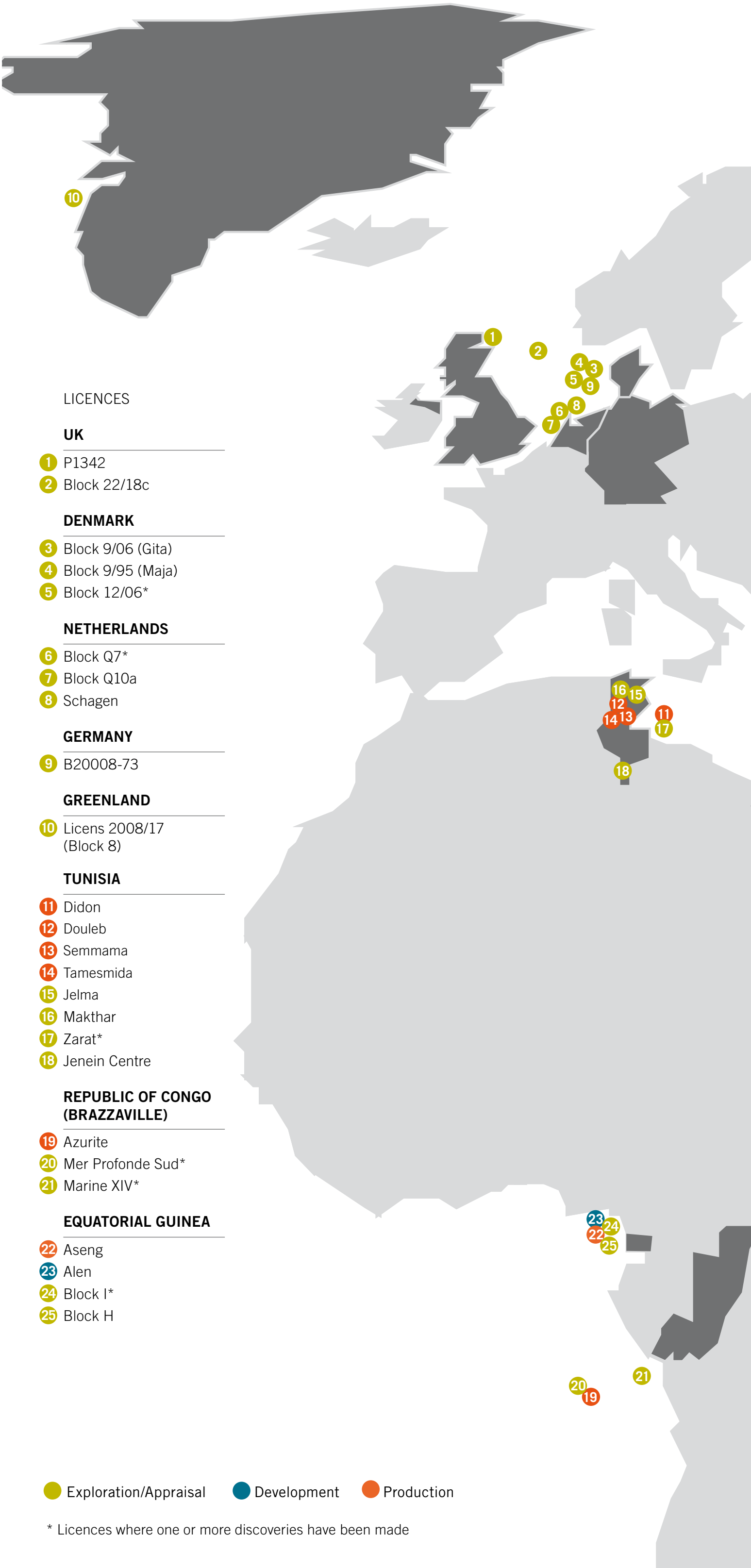
BOARD OF DIRECTORS' REPORT

FINANCIAL REPORTS

This is a translation of the Swedish Annual Report. In the event of any differences between this translation and the Swedish original, the Swedish version shall prevail.

ASSETS



LICENCES

UK

1. P1342
2. Block 22/18c

DENMARK

3. Block 9/06 (Gita)
4. Block 9/95 (Maja)
5. Block 12/06*

NETHERLANDS

6. Block Q7*
7. Block Q10a
8. Schagen

GERMANY

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TUNISIA

11. Didon
12. Douleb
13. Semmama
14. Tamesmida
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16. Makthar
17. Zarat*
18. Jenein Centre

REPUBLIC OF CONGO (BRAZZAVILLE)

19. Azurite
20. Mer Profonde Sud*
21. Marine XIV*

EQUATORIAL GUINEA

22. Aseng
23. Alen
24. Block I*
25. Block H

Exploration/Appraisal   Development   Production

* Licences where one or more discoveries have been made

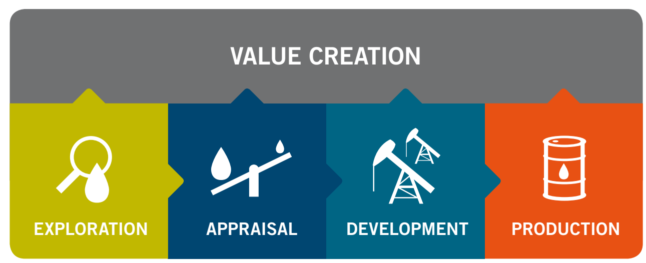
PA RESOURCES
IN 3 MINUTES

FACTS

- An international oil and gas company with operations and assets in nine countries
- Geographic focus: West Africa, North Africa and the North Sea including Greenland
- A total of 25 oil and gas licences
- Oil production in West and North Africa from six fields
- Nine potential commercially discoveries
- One field under development and 18 in exploration phase
- Operator of 12 licences, part-owner and partner in the other licences
- 133 employees in Tunisia, Sweden, the UK and the Republic of Congo
- PA Resources is domiciled and has its head office in Stockholm, Sweden
- The share and convertible bond are listed on NASDAQ OMX Stockholm

BUSINESS CONCEPT AND BUSINESS MODEL

PA Resources' business consists of the acquisition, development, extraction and divestment of oil and gas reserves, and exploration for new reserves. Production of oil generates important cash flow that enables the investments required to increase the Group's reserves and thus shareholder value. Geographically, PA Resources focuses on three regions: North Africa, West Africa, and the North Sea including Greenland.



OIL RESERVES AND RESOURCES (Million barrels of oil equivalent)

39,1 1P

60,2 2P

145 CONTINGENT RESOURCES

409 PROSPECTIVE RESOURCES

INVESTMENT CASE

Cash flow from producing fields
Existing production levels and the oil price generate important cash flow that contributes to financing exploration and development projects. From January 2012, a significant addition has been made by the Aseng field which was brought into production in November 2011.

Cost-efficient development of more discoveries
Prioritised investments transform discoveries into producing fields. Existing infrastructure in Africa and the North Sea enable cost-efficient development. Focus is on the identification of satellite fields to the Azurite field and the appraisal and development planning of the Danish discoveries as well as the Zarat field in Tunisia.

Exploration for future growth
The appraisal of discoveries and structures identifies prospects and remaining potential for new drilling. In licence 12/06 in Denmark and Mer Profonde Sud in the Republic of Congo, analysis is ongoing for continued activities. Seismic analysis of the Greenland licence resulted in multiple leads and prospects of significant size.

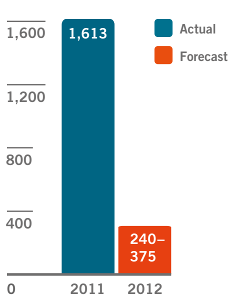
THE YEAR **IN BRIEF**

2011 IN FIGURES

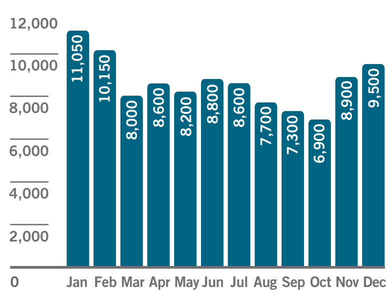
- Revenue amounted to SEK 2,154 million (2,227)
- EBITDA was SEK 1,295 million (1,276)
- Profit before tax totalled SEK 158 million (179) excluding one-off costs
- The Azurite field's booked 2P reserves were written down by 6 million barrels and charged against fourth quarter earnings
- Non-cash one-off costs of SEK 2,035 million before tax and SEK 1,758 million after tax were recognised
- Operating cash flow improved for the full year to SEK 812 million (416)
- The discovery on Broder Tuck and the oil discovery on Lille John are initially assessed as contributing 32 million barrels in contingent resources.

USD **103** PER BARREL IN AVERAGE SALES PRICE 2011

Investments (CAPEX)
(SEK million)



Average production in 2011
(barrels per day)



Earnings and key ratios table

	2011	2010	2009
Average sales price, USD	103	76	59
Average production, barrels per day	8,600	10,700	11,200
Revenue, SEK million	2,154	2,227	2,113
EBITDA, SEK million	1,295	1,276	1,326
Operating profit, SEK million*	508	490	430
Profit before tax for the period, SEK million*	158	179	318
Earnings per share after dilution, SEK	–3.27	–0.61	0.04
Profit margin, %*	7.3	8.1	15.0
Equity per share before dilution, SEK	5.13	8.24	13.41
Equity/assets ratio, %	36.8	48.2	44.6

* Excluding non-cash, one-off costs of SEK 2,035 million before tax and SEK 1,758 million after tax.

IMPORTANT EVENTS

2011

New licence in Germany adjacent to the Danish licence 12/06.

Sanctioned development plan for the Alen field in Equatorial Guinea.

Bond with maturity in 2011 and 2012 refinanced through a new five-year bond.

Q1

Development of the Azurite field in the Republic of Congo was completed in June.

Q2

Discovery of gas and condensate on Broder Tuck on the Danish licence 12/06.

Q3

Production well on the satellite field Didon North in Tunisia failed.

No commercial discoveries found on Jelma in Tunisia.

Oil discovery in the Miocene structure on Lille John in Danish licence 12/06 confirmed.

Production started on the Aseng field in Equatorial Guinea in the beginning of November.

No commercial quantities of hydrocarbons encountered on Marine XIV in the Republic of Congo.

Booked 2P reserves at the Azurite field were written down by 6 million barrels.

Q4

SUBSTANTIAL INVESTMENTS IN **DEVELOPMENT AND NEW DISCOVERIES**

2011 was a challenging year for PA Resources and our shareholders. An uncertain macroeconomic situation resulted in the entire sector, with the exception of a few companies, producing a weaker share price trend despite high average oil prices. What is positive, is that we have ended a phase of substantial investment and have production from the Aseng field. We face 2012 with a strong cash flow, a significantly lower rate of investment and a number of exciting discoveries and assets to further develop.

Significant investments completed

2011 was a year characterised by the completion of substantial investment programmes. In 2011, investments amounted to just over SEK 1.6 billion and pertained primarily to the development of the Azurite and Aseng fields, the satellite field Didon North and the drilling campaign on the Danish exploration licence 12/06. All of these investments are now completed.

In 2011, total production amounted to just over 3 billion barrels. Production peaked in the first quarter and then declined gradually until the fourth quarter. In the fourth quarter, the Aseng field was brought into production which meant increased volumes despite a decline in production at the Azurite field. At the end of the year, average production amounted to 9,500 barrels per day. Both Didon and the Azurite field will show a gradual decline in production in 2012 due to where the fields are in their production cycles.

Development of the Didon North field was stopped in October, which was a disappointment. The underlying reason was geotechnical problems that contributed to the well not flowing. The location of the reservoir contains a multitude of minor faults not visible in the seismic data and were only detectable following completion of the drilling.

Production from the Azurite field in the Republic of Congo proved also to be a disappointment in 2011. The setback was due to the well completions.

Strong cash flow from the Aseng field for many years

Production start on the Aseng field in Equatorial Guinea at the beginning of November was a key milestone for PA Resources. Development of the field was performed methodically and thoroughly. Prior to the production start, comprehensive tests were performed of all the wells with favourable results. The diligent development means a lower level of risk in parallel with a lower than expected investment cost and production from the field could be started just more than six months ahead of the original timetable.

The Aseng field has a reservoir and production capacity of high quality, which means that the expected production plateau for the field stretches over a couple of years. This means that the investment cost of about SEK 500 million will be repaid, measured in cash flow, already in the first year of production.

> “In the fourth quarter, the Aseng field was brought into production which meant increased volumes despite a decline in production at the Azurite field.

Adding value to the asset portfolio

PA Resources has an asset portfolio with substantial potential since many of the assets can draw advantage from the proximity of existing infrastructure and thus facilitate cost-efficient development.

In the Danish section of the North Sea, PA Resources, as operator, has itself identified and analysed the prospects Broder Tuck and Lille John on licence 12/06. In 2011, we completed a successful drilling campaign on this licence that has thus far resulted in two discoveries; one discovery of gas and condensate on Broder Tuck and one oil discovery in the Miocene structure on Lille John. The second drilling of a sidetrack on Lille John both confirmed the earlier oil discovery and proved that the reservoir was of higher quality than shown by the first well. In 2012, focus is on the development planning of Broder Tuck, continued evaluation of the discovery and mapping of the potential of additional Miocene prospects. The Miocene structure is relatively unexplored in this area of the North Sea where we foresee considerable potential.

> “In the Danish section of the North Sea, PA Resources, as operator, has itself identified and analysed the prospects Broder Tuck and Lille John on licence 12/06.

Reduced reserves and increased resources

The annual appraisal of oil reserves lead to a reduction of the reserves in parallel with the Danish discoveries making a positive contribution to contingent resources. The increase in contingent resources at the end of the year came primarily from Broder Tuck which means that potential in Lille John remains. Risked prospective reserves received a significant addition as a result of the seismic analysis performed of the Greenlandic licence.

As a consequence of the weak production from the Azurite field and the setback at the Didon North well, a write-down was performed of booked reserves in an amount of 8.7 million barrels. The write-downs were charged to fourth quarter earnings but had no impact on cash flow.

Lower rate of investment in 2012

In 2012, the assessment is that investments will amount to SEK 240–375 million. We have only a few fixed drilling commitments in 2012 so investments are mainly in maintenance, appraisal activities and development planning to further develop and reduce risks with the discoveries in Denmark and the Zarat field in Tunisia. PA Resources is operator for both fields which means an opportunity to control the fields' pace of development. A prerequisite for development of these fields is a reduction in PA Resources' working interest which reduces risk and the need for investment.

The write-down of reserves mean that the prerequisites that previous production targets and development investments were based on have altered which impacts our investment plan and priorities.

In 2012, we also focus on the identification of possible satellite projects that could be connected to the Azurite field to utilise the existing infrastructure. Completion of the development planning of the Zarat field in Tunisia is also a high priority as is the continued analysis of identified prospects and leads in the Greenlandic licence.

Lowered debt

Operating cash flow is expected to exceed investments with a good margin in 2012. The goal is to reduce the company's debt in 2012. During the past year, we reduced interest-bearing liabilities and continued amortising through the start of 2012. Until the next bond loan matures, in one and a half years in October 2013, we intend to further reduce debt.

At the end of the year, PA Resources reduced the ceiling for the reserve-based credit facility. The total funding framework remains however unchanged since the company has access to various credit facilities, including loans linked to oil inventories and other local funding solutions.

Continued high oil prices

We are currently in a period in which the outlook for the global economy is uncertain. Positive signals are mixed with macroeconomic setbacks. Financial concerns in combination with geopolitical tension in the Middle East have contributed to continued high oil prices. Prerequisites are favourable for high oil prices to continue throughout 2012 and will naturally impact our revenue positively. In the past year, the price of Brent crude reached an historic average high at USD 111 per barrel. The average sales price of USD 103 for the full-year 2011 was the highest ever for our part. Even if the oil prices should decline from current high levels of around USD 120 per barrel to a level around USD 90 per barrel, our production will still generate a positive cash flow.

The completion of investments in the Aseng and Azurite fields, combined with a healthy cash flow and exciting new discoveries and assets to develop, place PA Resources in an improved position as we enter 2012.

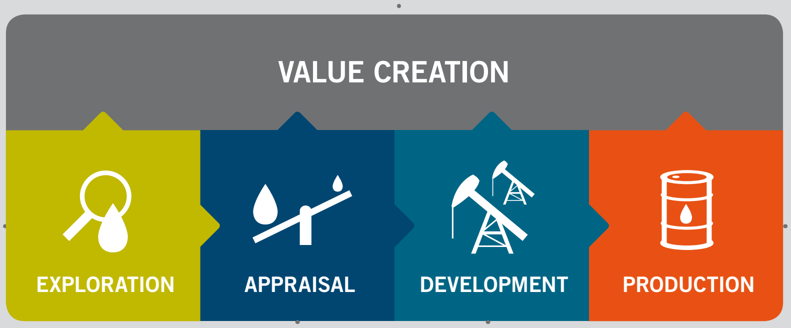
Stockholm, March 2012

Bo Askvik, President and CEO

BUSINESS MODEL FOR **LONG-TERM GROWTH**

PA Resources business activities are based on the following business model: To increase oil and gas reserves through successful exploration and thereby improve the prerequisites for long-term organic growth. Appraisal activities determine if discoveries are commercially viable to develop for production. Cash flow from production can be reinvested in exploration, appraisal and development activities. Through balancing these investments against cash flow from operations, this business model will create long-term growth for PA Resources' shareholders.

The development of discoveries to the production stage creates long-term value and growth. Value increases and risk decreases in line with a discovery approaching its production start. The objective is to balance investments between the various phases, exploration, appraisal and development against operating cash flow with external funding. The value of an asset can be realised through various forms of transactions which also enable the funding of future investments and a reduction in debt.



Structures and prospects are identified through analysis of geological and technical conditions as well as diligent preparation and later tested through drilling. Successful exploration results in new discoveries of oil and gas. The resources of the company increase and thereby the value of the asset.

Continued analysis and appraisal activities are required to quantify the size of a discovery in terms of contingent and therefore recoverable resources. Additional appraisal wells are often required. Thereafter an assessment is formed of whether the discovery is commercially viable for development which can increase the fair value of the asset.

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When a field is brought into production, the discovery generates a cash flow that can later be reinvested in continued exploration, appraisal and development activities. Cash flow forms the foundation of profitable organic growth.

PRIORITISED **ASSETS**

PA Resources' assets are allocated across the three stages of exploration, appraisal and production. Ongoing activities and investments focus on appraisal and development of those discoveries assessed as representing the greatest value for the company. In addition, focus is on the exploration of licences with high potential and with nearby infrastructure that facilitates cost-efficient development. Short-term priorities include the identification of potential satellite fields that can be connected to the Azurite field in the Republic of Congo, continued appraisal of discoveries and the remaining potential on licence 12/06 in Denmark as well as the submission of a revised development plan for the Zarat field in Tunisia.

PA Resources' assets at a glance

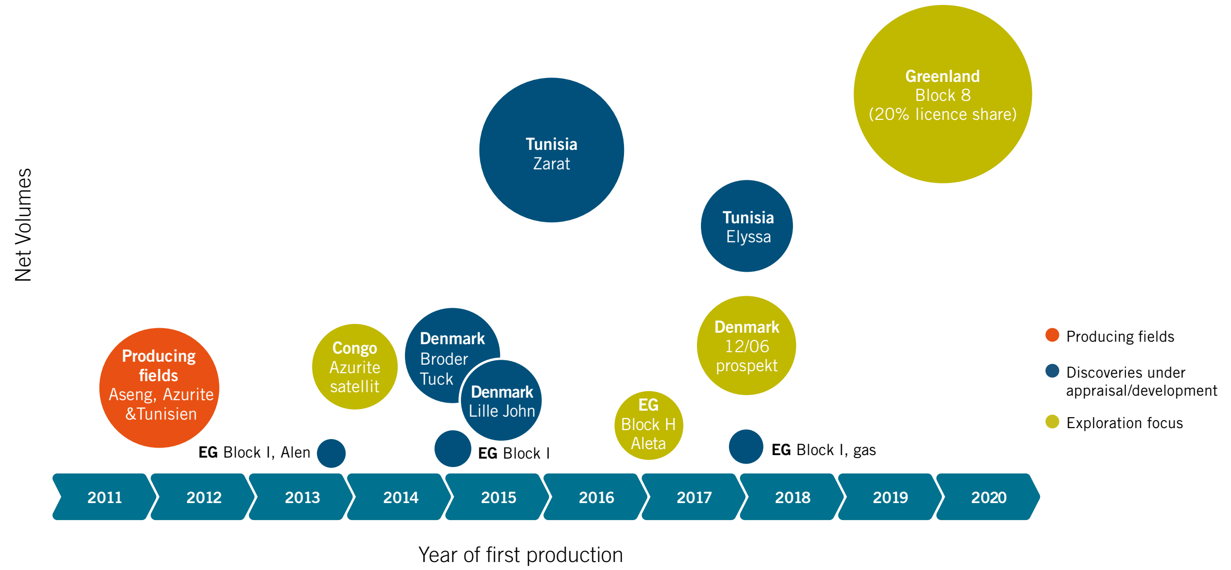
- A total of 25 oil and gas licences
- Geographical focus: West Africa, North Africa and the North Sea/Greenland
- Six producing fields
- One field under development (Alen)
- Nine potential commercially viable discoveries
- 18 licences in exploration phase
- Operator of 12 licences
- Part-owner and partner in other licences

Active portfolio management

The objective of PA Resources is to actively manage and refine the portfolio. PA Resources has a substantial working interest in several licences. A reduction in the working interest, which can be achieved in a number of ways, reduces the investment in terms of size and risk. The value of the asset is realised and the capital markets have a price tag to value. At 1 January 2012, two minor producing fields in Tunisia were sold to avoid continued investment in these fields and to shift focus onto prioritised assets. In January 2011, PA Resources applied for and was awarded the German licence that borders the Danish licence 12/06 where two discoveries were made during the year. Analysis and appraisal can also result in refinement of the portfolio as in 2011 when a UK licence was relinquished.

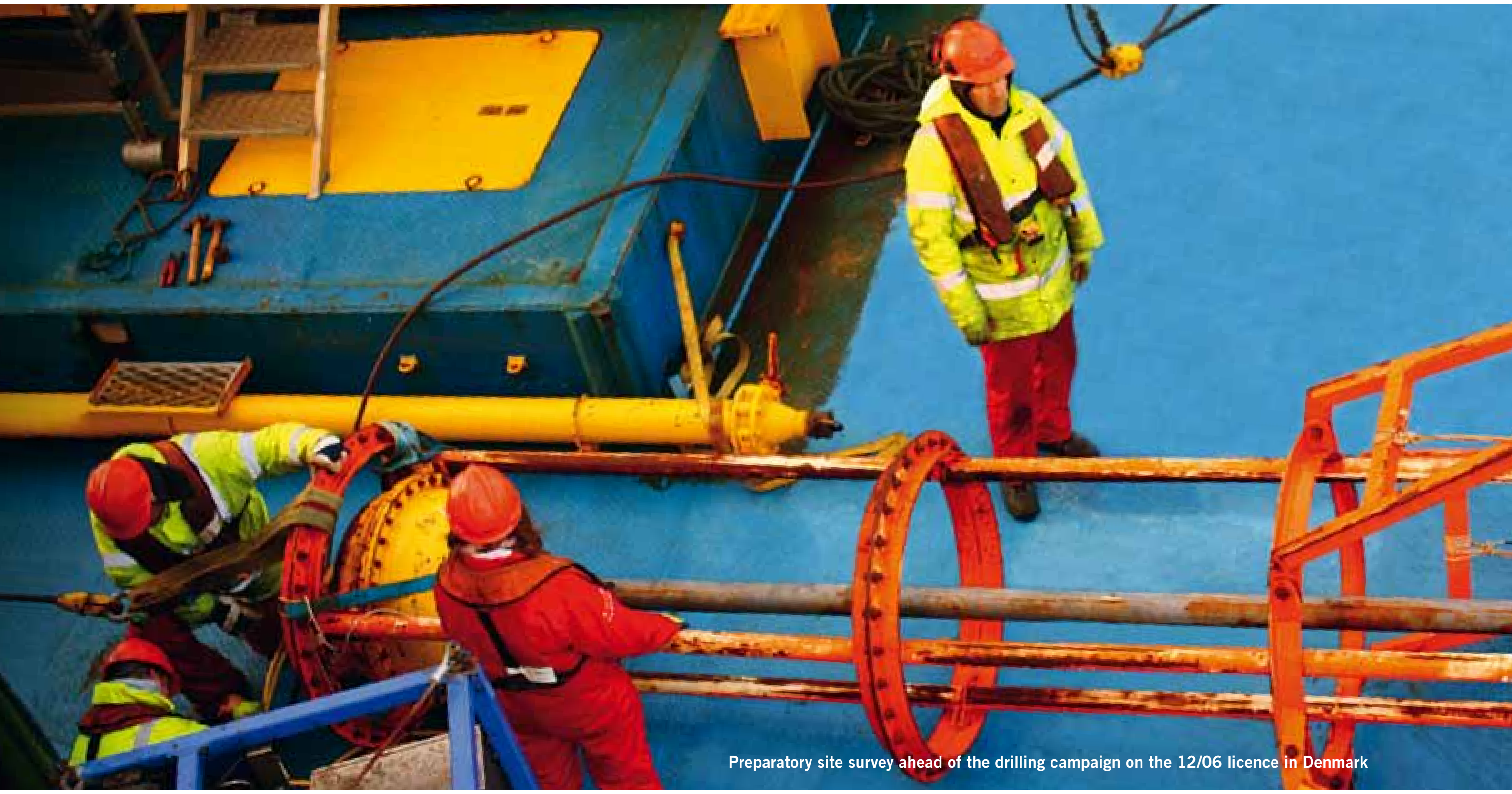
Estimated value of prioritised assets

The illustration shows the net present value of PA Resources' prioritised assets based on net volumes of reserves and resources, the probability of making a discovery, the required investments and the cash flow from when the field is expected to start production. The relative size of the circles illustrate the net present value for PA Resources based on its current working interest, with the exception of Greenland, which illustrates remaining potential after assuming a reduction in working interest. The valuation is based on an oil price of USD 100 per barrel and continued successful activities and development according to plan.



EXPLORATION

PA Resources' goal is to increase reserves and resources in the long-term through selective exploration. Geological expertise and planning are key to the identification and proving of known and new structures through drilling. In 2011, PA Resources drilled a total of five exploration wells in Denmark, Tunisia and the Republic of Congo. Two discoveries were made in Denmark that demonstrate the potential within the existing asset portfolio. Furthermore, seismic analyses were performed for a number of interesting leads and prospects in countries including Greenland and Denmark.



Preparatory site survey ahead of the drilling campaign on the 12/06 licence in Denmark

ACTIVITIES IN 2011

Denmark: Two discoveries on 12/06

In May, PA Resources initiated its drilling campaign on the Danish Licence 12/06. The campaign resulted in the discovery of gas and condensate at Broder Tuck in a Middle Jurassic reservoir. The discovery was confirmed through a sidetrack in August. A second discovery, this time of oil, was made at the Lille John prospect in a Miocene reservoir and confirmed through a sidetrack in November. Read more about the preparation, implementation and results on page 10–12.

The Republic of Congo: Drilling at Marine XIV

In November, drilling started of the Makouala Marine prospect on the Marine XIV licence offshore in the Republic of Congo. The well's target was the Sendji reservoir. Though the well encountered hydrocarbons in the primary and secondary reservoir targets, the pay thickness was insufficient to be commercially viable. Continued evaluation of the licence is ongoing. Costs incurred by PA Resources for the well were borne by the other licence partners pursuant to the farm-out agreement made in 2009.

Tunisia: Drilling campaign at Jelma

Drilling at the first prospect Sidi M'barek was completed in February and production testing started in May. The tests were delayed due to logistical disruptions brought about by the political situation in Tunisia. In the third quarter, the rig was moved to the second prospect Jbil and tests were concluded in October. No commercially viable hydrocarbon deposits were encountered at either of the wells. Work continues on interpretation of the wells' results and the potential of the licence. The licence agreement was extended until the fourth quarter of 2012.

Tunisia: Seismic analysis of Makthar

The 2D seismic survey performed at the end of 2010 was processed and modelled during the year. The work is aimed at identifying prospects for carrying out the licence's commitment to drill a well in late 2012 or early 2013.

UK: Seismic programme in Block 17/4b

In the autumn, a seismic 2D survey was acquired in the Inner Moray Firth at the P1342 licence (Block 17/4b). The area and duration of the study was limited in scope and was performed using lower sound levels than normal to minimise environmental impact.

Greenland:
Prospects of significant size linked to high risk

One of the largest areas in the world that remains to be explored in the hunt for oil and gas is the Arctic. The area is estimated to contain approximately 22% of the world's undiscovered oil and gas resources. PA Resources owns 87.5% of licence Block 8 which contains several prospects and leads of billion barrel scale but rates as being high risk.

In May 2008, PA Resources became the operator for licence Block 8 – Naternaq. The licence covers an area of approximately 11,100 km². It is one of the areas surrounding Greenland with most ice-free days per year. The shallow water depth of 20-120 metres enables a jack-up rig to be utilised for any future drilling programmes. In the summer of 2010, a 6,000 km 2D seismic survey was completed which was later processed.

In 2011, the team at PA Resources' London office completed the analysis and produced an inventory showing 45 prospects and leads of significant size. PA Resources has applied for an extension of the licence. Prior to any drilling within the licence, PA Resources aims to reduce its high working interest through farm-out agreements.

Key facts about Block 8

- Located offshore West Greenland in the Disko–Nuussuaq region
- Water depth mainly <50 meter
- Large scale leads and prospects, high risk
- Relatively high cost operating environment but attractive fiscal terms
- PA Resources is the operator with 87.5%
- Nunaoil (Greenland's national oil company) is a partner with 12.5%

Exploration areas

LICENCES

UNITED KINGDOM	
1 P1342	O
2 Block 22/18c	O

DENMARK	
3 Block 9/06 (Gita)	P
4 Block 9/95 (Maja)	P
5 Block 12/06*	O

NETHERLANDS	
6 Block Q7*	P
7 Block Q10a	P
8 Schagen	P

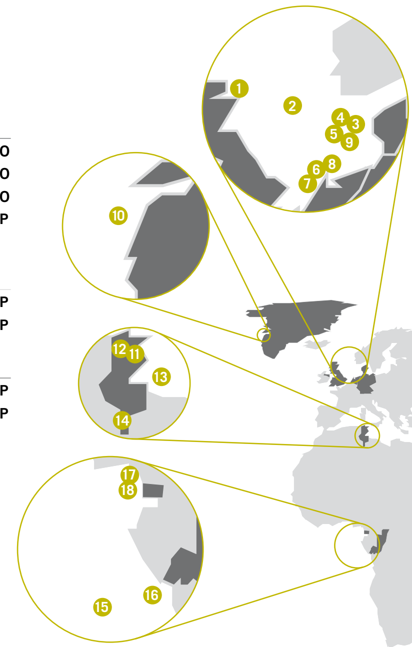
GERMANY	
9 B20008-73	O

GREENLAND	
10 License 2008/17 (Block 8)	O

TUNISIA	
11 Jelma	O
12 Makthar	O
13 Zarat*	O
14 Jenein Centre	P

REPUBLIC OF CONGO (BRAZZAVILLE)	
15 Mer Profonde Sud*	P
16 Marine XIV*	P

EQUATORIAL GUINEA	
17 Block I*	P
18 Block H	P



O = PA Resources Operator P = PA Resources Partner

*Licences where one or more discoveries have been made.

Drilling program 2012/2013

Country/licence	Field/prospect	Date	Type of well
Tunisia: Zarat	Elyssa	Q4 2012/2013	Appraisal
Tunisia: Makthar		Q4 2012/2013	Exploration
Equatorial Guinea: Block H	Aleta	Q4 2012/2013	Exploration

The drilling programme is revised continuously based on the CAPEX budget and prioritised commitments.

Focus in 2012

- Quantify volumes and establish commercial potential for Broder Tuck on 12/06 in Denmark.
- Re-processing of seismic data for Lille John on 12/06 in Denmark to continue evaluation of the discovery and the remaining exploration potential.
- The drilling of an exploration well in Block H in Equatorial Guinea in late 2012.
- Evaluation of the potential of Mer Profonde Sud in the Republic of Congo and of potential prospects for drilling at the end of 2012 or start of 2013.
- Continue analysis of seismic data for Jelma and Makthar, two of the largest licences in Tunisia by area.

APPRAISAL

In the majority of cases, exploration that results in discoveries implies additional appraisal activities before the size of the discovery can be established. PA Resources' asset portfolio contains multiple discoveries that are assessed as having potential to be developed for production. Appraisal is ongoing of discoveries in Denmark, the Republic of Congo, Equatorial Guinea and Tunisia. Efforts aim to determine whether the discoveries are commercially viable and establish development scenarios and development plans on which to base future investment decisions. Furthermore, additional exploration potential can be identified through appraisal based on seismic data and drilled wells.

ACTIVITIES 2011

The Republic of Congo: Mer Profonde Sud

During the year, activities, which are still ongoing, were conducted to evaluate the licence's exploration prospectivity. The objective is to identify additional prospects which can be tied back as satellite fields to the Azurite field's production vessel. Seismic data was processed and analysed together with results obtained from the 2010 drilling campaign and data from previous discoveries, such as, Turquoise and Diamante. PA Resources' efforts are focussed on the Miocene structure, the same reservoir that the Azurite field produces from, as well as, on the deeper Sendji structure which is a new potential target identified by drilling on the licence in 2010.

Tunisia: Zarat field

The Zarat field is one of PA Resources' most substantial assets and the largest known oil and condensate field to date that remains to be developed in Tunisia. PA Resources has 43 million barrels of oil equivalents in booked 2P reserves for the field and, in addition, significant contingent gas resources. The Zarat field discovery extends to the adjacent 7 November licence where the operator drilled an appraisal well at the end of 2010. At the start of 2011, based on this result, negotiations were opened regarding the allocation of the reserves and development planning between the two licences. The project was delayed by political unrest in the region and the Force Majeure declared by the operator of the 7 November licence in June. In the third quarter, collaboration between the licence partners was resumed and efforts focused on the creation of a dynamic reservoir model to enable the implementation of the next phase in a study of the development alternatives. The development project's initial phase comprises the production of floating hydrocarbons with the reinjection of gas.

Equatorial Guinea: Block I

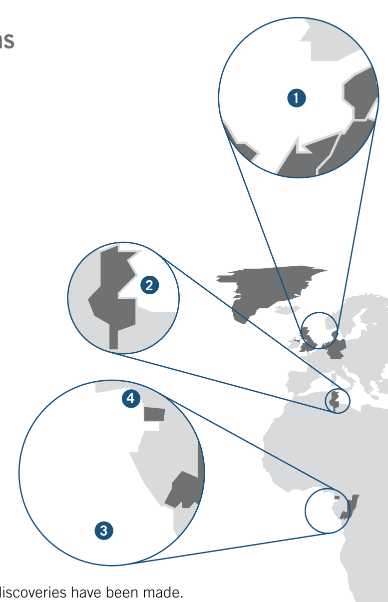
Noble Energy, the operator for Block I and O, is continuing its appraisal to establish concepts and scenarios for development of additional discoveries to the existing infrastructure through the development of the Aseng and Alen fields respectively. Diega is one of the discoveries that were made during the successful drilling campaign in Equatorial Guinea in 2007 – 2008. The Diega accumulation extends from Block O into Block I where PA Resources has a 5.7-percent working interest. During the second quarter, an appraisal well in Block O confirmed the estimated volumes of oil and gas. A total of five wells have found oil and gas.

Tunisia: Elyssa field on the Zarat licence

Oil and gas discoveries were made by two exploration wells and one appraisal well previously drilled in the Elyssa field. During the year, analysis was completed of the 3D seismic study conducted in the south of the Zarat field, where the Elyssa field is located, in 2010. Thereafter, a 3D seismic model of the Elyssa field was updated and, in parallel, 3D seismic data of the Zarat licence that was acquired in 2004 was also processed. Together, these two studies provide a more comprehensive picture of the field which is necessary prior to the planned drilling of an additional appraisal well at the end of 2012 or start of 2013.

The appraisal areas

LICENCES	
DENMARK	
1 Block 12/06*	O
TUNISIA	
2 Zarat + Elyssa*	O
REPUBLIC OF CONGO (BRAZZAVILLE)	
3 Mer Profonde Sud*	P
EQUATORIAL GUINEA	
4 Block I*	P



O = PA Resources Operator
P = PA Resources Partner
*Licences where one or more discoveries have been made.

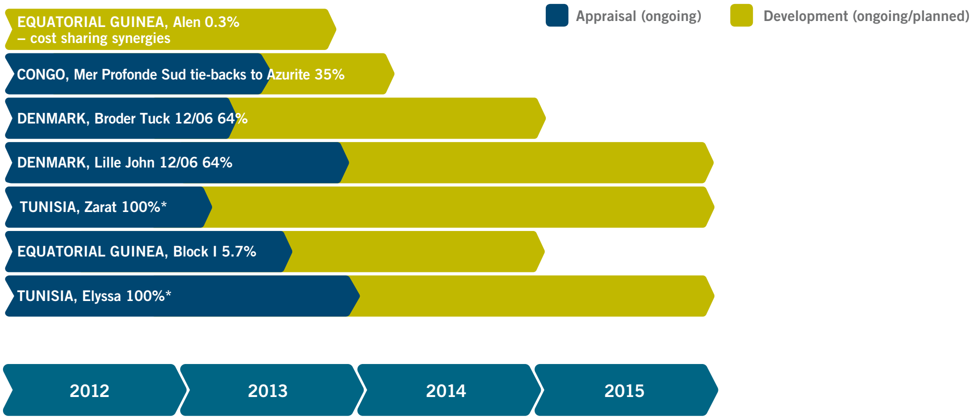
Focus 2012

- Conclusion of the allocation of reserves and submission of a revised development plan for the Zarat field in Tunisia.
- Continuation of the analysis and planning of appraisal drilling on Lille John in licence 12/06 in Denmark.
- Continuation of the appraisal of the Elyssa field in Tunisia and establishment of the location of the appraisal well to be drilled in late 2012.
- Analysis of potential satellite prospects that can be linked to the Didon field in Tunisia.

Maintenance work on the Didon platform in Tunisia

Appraisal and development – prioritised projects, 2012–2015

This plan of prioritised projects is revised on an ongoing basis based on results achieved and investment budget. The percentages show PA Resources' existing working interest.



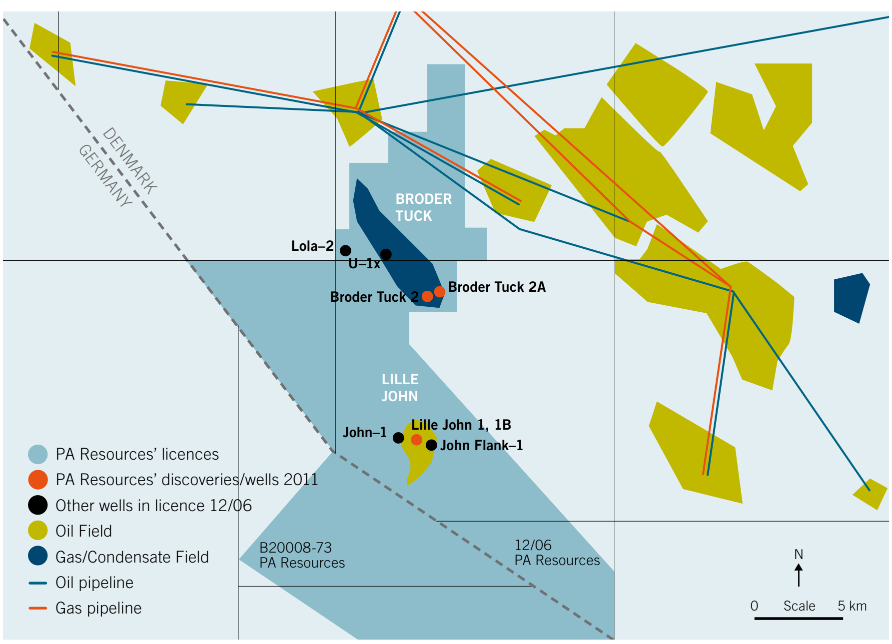
* Fields where the Tunisian state has an option to increase its interest up to 55%

SUCCESSFUL DRILLING CAMPAIGN **ON 12/06 IN DENMARK**

The 2011 drilling campaign operated by PA Resources in licence 12/06 resulted in two discoveries and the emergence of a Miocene sandstone with future potential. The campaign was completed to high standards keeping safety and environment in focus throughout. Thorough geoscience evaluation recognised overlooked prospectivity and led to the successful outcome of both wells. The work and success factors are described on a step-by-step basis below.

Short background

Licence 12/06 is located in the Danish part of the North Sea; adjacent to existing oil and gas infrastructure. In 1975, Chevron drilled one exploration well on what is now the Broder Tuck field and encountered a gas column of undetermined thickness, with an apparent gas-water contact. The licence was relinquished to the Danish authorities after a number of years. PA Resources substantially re-evaluated the geology and geophysics and identified the key prospects Broder Tuck (Middle Jurassic) and Lille John (Miocene, Chalk and Middle Jurassic). PA Resources subsequently applied for and was awarded the adjacent German licence B20008/73 (PA Resources 100%) in January 2011, before the successful drilling.

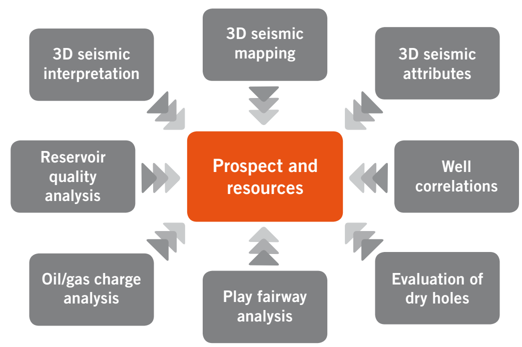


12/06 Licence Group: PA Resources (64%) Operator, Danish North Sea Fund (20%), Danoil Exploration A/S (8%) and Spyker Energy APS (8%).

Step 1: Thorough geoscience evaluation

The exploration team conducted an integrated 3D mapping and geological evaluation of all existing 3D seismic surveys covering 12/06, available wells and adjacent areas. Analysis was conducted to define prospective reservoirs and seal horizons and potential oil and gas charge routes. Key was also to understand all prior successes and failures in wells in the area and ultimately to build an inventory of prospects and leads. The historic well on Broder Tuck was re-evaluated and was deemed likely to have a full gas column, not a gas-water-contact, in the Middle Jurassic reservoir.

Geoscience workflow



Step 2: Drilling campaign preparation

Prospects and their various characteristics, for example, water depth, drilling depth, rock types and formation pressures were identified for the drilling campaign. Thereafter planning and procurement commenced for long lead items, specifically a jackup drilling rig (in this case the Ensco 70) and steel tubular goods. This is the point at which PA Resources decided to 'in-source' the operation with individual contractors working within PA Resources' management system framework and under overall control of PA Resources' management. Extensive drilling planning effort was undertaken to identify drilling conditions, the basis of design for each well, contracting strategy, permitting process and authority requirements. The decision was also made to operate from a temporary office in Esbjerg and to award several critical services to Schlumberger. Other important contracts were procured and awarded to local suppliers such as base facilities and helicopters. The drilling permit required well site geophysical and soil stability surveys which were conducted in 2010. Detailed engineering well plans, chemical plan and oil spill response plan were submitted and the emergency response plan was tested through multiple exercises. PA Resources sought and received permit approvals for the drilling activities from the DEA (Danish Energy Agency) and the DEPA (Danish Environmental Protection Agency).

Step 3: Broder Tuck exploration well and sidetrack

In May, the first exploration well on the Broder Tuck prospect was spudded and in mid-July the well encountered approximately 17 metres of net hydrocarbon pay in the primary Middle Jurassic target. The well was then sidetracked to a location approximately 680 metres from the initial well, where the Middle Jurassic sandstone again contained hydrocarbons, albeit less well developed than in the initial wellbore. This sidetrack was designed to increase the proven resources to assist in achievement of commerciality. A gross hydrocarbon column of at least 360 metres from the crest of the structure down to the base of the Middle Jurassic sandstone was established in this sidetrack. Sample analyses from the initial exploration well confirmed the discovered hydrocarbons to be a high quality gas. The analysis also indicated higher than expected condensate content of approximately 44 degrees API gravity at a ratio of approximately 80-90 barrels of condensate per million standard cubic feet of gas. After the Broder Tuck well was permanently plugged and abandoned, the Ensco 70 rig moved to the Lille John prospect.

Step 4: Lille John exploration well and sidetrack

Drilling of Lille John, the programme's second prospect, commenced in early September. In mid-October, an oil discovery was made at the Miocene sandstone level. Initial analyses of logs and samples confirmed a sweet, light oil of 34–35 degrees API gravity with a gas/oil ratio of approximately 350 standard cubic feet of gas per barrel of oil and no water. However, the well was drilled for the primary and deeper Chalk level, and as a result the well was not optimally located for examination of the Miocene level. Thereafter the well was sidetracked but did not encounter any effective reservoir in the Chalk target. The sidetrack enabled a second penetration of the Miocene sandstone level encountered in the original well, again oil-bearing and with improved reservoir quality compared to the initial penetration. Both penetrations were primarily located for the Chalk target and as such lie outside of the well-imaged Miocene seismic amplitude anomaly interpreted to reflect better developed oil-bearing sandstone. Very significantly, the oil in the Miocene was around 35 API gravity which is extraordinarily light for a depth of around 1,000 metres below mean sea level in the North Sea.

Step 5: Analysing results and the way forward

Following completion of the successful drilling of the Broder Tuck, PA Resources is evaluating in detail the size of the field and development options for the discovery. Meanwhile analysis of the data and samples recovered from the well is ongoing. PA Resources also intends to reprocess seismic data over Lille John and the adjacent area in the first part of 2012 in order to further evaluate both the discovery and the remaining exploration potential. The Miocene is a relatively unexplored reservoir in this part of the North Sea and further work is ongoing to build an exploration prospect inventory at this shallow target depth of around 1,000 metres. It is likely that appraisal drilling will be required on Lille John and PA Resources would expect in due course to reduce from its currently high interest of 64% in order to lower both risk and investments.

Key success factors for the drilling campaign

From an exploration perspective, PA Resources performed careful, diligent work and formed its own evidence-based views on the prospectivity and used those to assess the probability of success regarding the different targets identified and, therefore, PA Resources also maintained its high level of ownership.

PA Resources objective was to conduct a safe drilling campaign with minimal impact, conducted to the highest standards while maintaining a high degree of transparency in the various activities to joint venture partners and the DEA. PA Resources was highly aware of the company's responsibilities but also of the desire to demonstrate to the DEA that a small independent oil company can perform to high standards. This demands stringent diligence, rigorous attention to detail, a professional team and good communication.

During the campaign, an 'independent well examiner' was utilized to maintain oversight of activities and decisions, which is a requirement in the UK but not in Denmark. PA Resources maintained an active programme to raise safety levels which entailed the monitoring and limitation of all chemical usage and for certain sections of the wells, drilling cuttings were packaged and returned for onshore disposal to further reduce risk of marine pollution.

Environment and safety in focus

- **Total working hours;** 184,149 or 7,673 man days with an average of 72 personnel on board during operation
- **Reportable incidents;** 0 environmental incidents, 3 reportable incidents, 0 lost time incidents, 1 first aid case
- **HSE audits;** > 100 audits performed by PA Resources' rig-based HSE supervisor.
- **Transportations;** 6,698 tonnes of equipment moved to/from rig in 68 supply boat sailings
- **Use of chemicals** 238.8 tonnes of chemicals were discharged being 96.3% designated Green substances which pose little or no risk to the environment.
- **Use of environmentally harmful substances;** usage of only 15.6 tonnes of the 221 tonnes in total that PA Resources was permitted to use, of which, zero tonnes was discharged to the environment
- **Disposal;** 76.9 tonnes of waste was shipped from the rig for safe disposal.

*Health, Safety and Environment

The 12/06 team – PA Resources UK

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Geotechnical & HSE Manager

William Tyrrell
Geologist

DEVELOPMENT

When a discovery is appraised and assessed as commercially viable, a development plan can be submitted. Thereafter, those resources that are assessed as recoverable are classified as reserves and the value of the licence increases. The development phase requires significant levels of investment for which cash flow from producing fields comprises a key base. The objective of PA Resources is to develop more commercial discoveries to production. The development of the Azurite and Aseng fields was completed in 2011. Unfortunately, the satellite field Didon North turned out to be a disappointment since the field could not be brought into production. The Alen field will be the next field to be brought into production at the end of 2013.

ACTIVITIES IN 2011

Equatorial Guinea:

The Alen field creates economies of scale with the Aseng field

The Alen field in the Gulf of Guinea offshore in Equatorial Guinea is the second field to be developed out of four fields discovered through the successful drilling campaign in 2007–2008. While the contribution to PA Resources' net production provided by the Alen project is modest, its contribution significantly lowers PA Resources' operational costs since the Alen field utilises the Aseng field for storage. The Alen field will also provide adjacent fields with gas production infrastructure.

The Alen development plan was approved by the authorities in January 2011. PA Resources' working interest is only 0.29% since only a minor portion of the field's accumulation of condensate and gas extends into Block I and the majority is located in the adjacent Block O. Development is being performed in line with plans and budget with an expected production start in late 2013. Experience and technology drawn from the previous successful development project at Aseng was utilised and a rapid pace of development was maintained in 2011. All material contracts have been procured, the wellhead jacket was installed and work on completing the platform is underway. Drilling of the subsea and platform wells was commenced in the fourth quarter 2011 with the help of the semi-submersible drilling rig Atwood Hunter and the jack-up rig Atwood Aurora. In 2012, work will continue on the completion of the production platforms and wells in addition to underwater infrastructure work.

The Alen platform has the capacity to produce up to 40,000 barrels of oil and condensate per day and reinject up to 440 million cubic feet of gas per day. After the Alen field, several additional discoveries will be subject to further evaluation as will the remaining potential for continued exploration on the licence.

Installation of the Wellhead Jacket on the Alen field's platform

Key facts about the Alen field:

- Gas/condensate field in Block I/Block O, the Gulf of Guinea
- Production start late 2013
- About 100 barrels of oil equivalents per day net to PA Resources
- Production of condensate with reinjection of gas
- Utilises the Aseng FPSO for condensate storage and offloading
- Infrastructure for gas development
- 0.29% working interest (after unitisation between Block I/Block O)

The Didon North satellite field could not be brought into production

In May 2011, drilling was started of a production well on the Didon North prospect that was planned as a satellite field to the producing Didon field in Tunisia. When flow tests were performed, despite a favourable level of oil saturation in the reservoir, only a small proportion of hydrocarbons could be extracted. This was due to faults that were unidentifiable from seismic data. Several unsuccessful attempts were made to get the well flowing and subsequently the decision was taken to abandon the well. A comprehensive analysis is ongoing to evaluate the possibility of extracting the oil in the reservoir. Further identified prospects that can be linked to the Didon field are also being evaluated.

READ MORE ABOUT THE DEVELOPMENT OF THE ASENG FIELD ON THE NEXT SPREAD

PRODUCTION

When a field is brought into production, the major investment phase is over. Risk normally declines while the value of the asset, which is based on the amount of reserves, increases. PA Resources produces oil from six fields in West and North Africa that contribute to financing continued investment by the company. In 2011, production from the Azurite field was a disappointment and resulted in a halving of the field's reserves. In Tunisia, performance was relatively stable and, in November, the Aseng field in Equatorial Guinea was brought into production and added a steady cash flow from January 2012. PA Resources produced an average of 8,600 barrels of oil per day in 2011 and at the end of the year 9,500 barrels a day.

PRODUCTION IN 2011

The Republic of Congo: The Azurite field

In 2011, production from the Azurite field in the Republic of Congo was a disappointment. The development and completion of the final wells continued for the first six months of the year and in June, the final production well planned was taken into production. When development was completed, the wells still produced substantially below forecast levels. For PA Resources, the field has proved to be a disappointment since each producing well is significant for the company. The lower than expected levels were due to a poorly developed and more complex reservoir, which could not be foreseen. At the end of 2011, in conjunction with the annual update of reserves, PA Resources therefore reduced the field's booked 2P reserves by six million barrels.

The field has been developed continuously since the first well was brought into production in 2009 as compared to more traditional development projects where several wells are drilled and brought into operation concurrent to starting production. In 2011, PA Resources' efforts were focused on integrating data from the latest wells into a revised production model for the field. Based on this model, the field's production profile is assessed as continuing to follow the current trend. No additional activities are planned at present, instead, PA Resources and the operator are focusing on the identification of potential satellite prospects that can be linked to the Azurite field's production facilities.

Tunisia: Relatively stable production

The Didon field is PA Resources' largest producing field in Tunisia and is supplemented by three smaller fields onshore. In 2011, production in Tunisia remained relatively stable. Operations at the production facility were impacted slightly by the political unrest in North Africa and the country's ongoing process of democratisation. The Didon field produced primarily from two wells during the year and for certain periods from a third well.

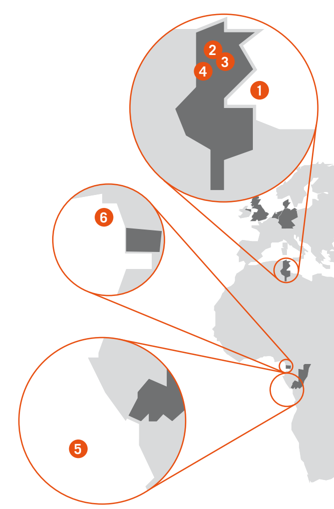
Producing fields

LICENCES

TUNISIA		
1	Didon	O
2	Douleb	O
3	Semmama	O
4	Tamesmida	O
REPUBLIC OF CONGO (BRAZZAVILLE)		
5	Azurite	P
EQUATORIAL GUINEA		
6	Aseng	P

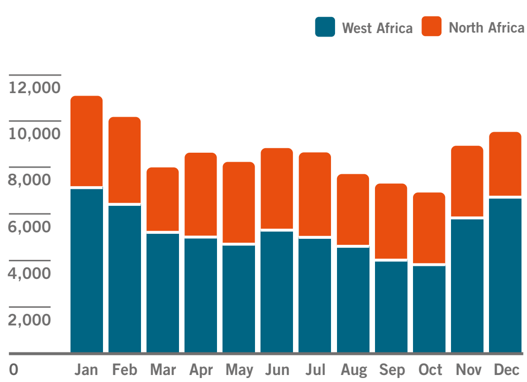
O = PA Resources Operator

P = PA Resources Partner

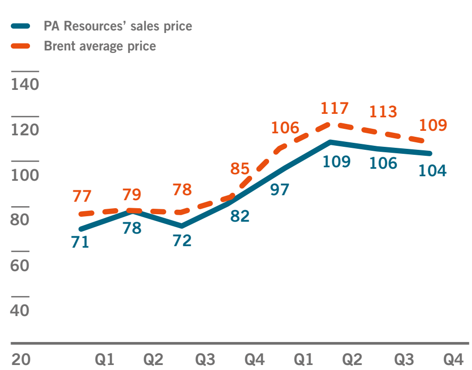


Measurements are taken and measures implemented continuously on an ongoing basis for the purpose of optimising production to compensate for the natural decline of the field. Through the aid of an updated statistical model of the field, a new dynamic 3D model is being produced as the basis for evaluation of the possibility of drilling additional production wells. In the same manner as for the Azurite field, focus is on the identification of additional prospects on the licence that can be developed in a cost-efficient manner and connected to the Didon field's production facilities. At 1 January 2012, the two smaller producing fields El Bibane and Ezzaouia were divested, which together produced an average of 100 barrels per day.

Production in 2011 (barrels per day)



Average sales price per quarter (USD per barrel)



Aseng FPSO safety ceremony

Equatorial Guinea:

The Aseng field adds significant cash flow

In November 2011, the Aseng field in Equatorial Guinea started to produce oil. The field provides PA Resources with about 3,000 barrels of oil per day and is expected to repay the investment of about SEK 500 million after tax during 2012. The expected production plateau for the field is a relatively long period which means that the Aseng field will add significant volume and steady cash flow to PA Resources for several years.

In 2011, gross production for the field was about 50,000 barrels of oil per day which gave PA Resources about 3,000 barrels of oil per day based on working interest. Four of the five production wells and three water injector wells were brought into production. The next step is to reinject gas in the reservoir with the aid of two gas injector wells. The first oil tanker with oil from the field was offloaded at the start of December.

The floating production, storage and offloading vessel Aseng FPSO is designed to produce up to 80,000 barrels of oil and condensate per day as well as to reinject up to 170 million cubic feet of gas per day. The vessel will also be used for the storage and offloading of condensate from the Alen field which is under development.The Aseng infrastructure can also provide a hub for oil and condensate for other future developments of adjacent discoveries.

The development project was completed, under the management of the operator Noble Energy, less than 2.5 years from sanction of the plans. The field was taken into production seven months ahead of the original timetable and the total investment cost was about 13 percent lower than budgeted. This is a successful project from many perspectives due to factors including the following:

- extensive and accurate testing and analysis of the results from the appraisal wells at an early stage
- accurate planning of appraisal and development activities to minimise uncertainty and optimise the location of the wells to optimise recovery of the reservoir
- well-functioning and integrated technical and project organisation as well as comprehensive cost control and planning
- focus on safety issues throughout the project

Other key lessons learnt will be transferred together to the ongoing development of the Alen field and to future development projects.

Key facts about the Aseng field

- Oil field in the Gulf of Guinea, at a water depth of about 1,000 metres
- Development plan sanctioned in July 2009
- Investment cost of about USD 10 per barrel
- About 3,000 barrels net per day to PA Resources
- PA Resources has a working interest of 5.7%
- Operator Noble Energy (38%)
- Other partners: Atlas Petroleum (27.55%), Glencore (23.75%) and GEPetrol (5%)

Focus 2012

- Continued testing and measurement to optimise production at the Didon field in Tunisia and the Azurite field in the Republic of Congo as well as analysis of adjacent prospects that, in time, can be developed to existing production facilities.
- Takingthe fifth production well at the Aseng field into production in Equatorial Guinea.

MONTHLY PRODUCTION REPORTS

At the start of 2011, PA Resources decided that instead of providing production forecasts report actual production on a monthly basis.

RESERVES AND **RESOURCES**

PA Resources' reserves and resources comprise the volumes of oil, gas and other hydrocarbons that are assessed as being located in the bedrock of the Group's fields and licences. In 2011, reserves declined due to production, disposals and downward adjustment, primarily at the Azurite field in the Republic of Congo. In parallel, the amount of resources increased through the Danish discoveries and the completed seismic analysis of the Greenlandic licence.

Changes in PA Resources reserves in 2011

Million barrels o.e.	Working interest (W.I.) Total 1P/P90	Working interest (W.I.) Total 2P/P50	Net Entitlement Total 1P/P90	Net Entitlement Total 2P/P50
Reserves as per 31-12-2010	**46.0**	**72.5**	**31.3**	**49.8**
Production	–3.1	–3.1	–2.0	–2.1
Disposals	–0.2	–0.5	–0.1	–0.4
Revisions	–3.6	–8.7	–3.3	–6.9
Reserves as per 31-12-2011	**39.1**	**60.2**	**25.9**	**40.4**

Reduced reserves

At the end of the year, PA Resources proven and probable 2P oil and gas reserves totalled 60.2 million barrels (72.5) of oil equivalents (o.e.) based on working interest. Proven 1P reserves comprised about 65 percent of 2P reserves. PA Resources' reserves are 100% liquids (oil or condensate) and are contained in producing fields and fields for development. These include the Tunisian fields Didon, Douleb, Semmama, Tamesmida, and Zarat, the Azurite field in the Republic of Congo and the Aseng and Alen fields in Equatorial Guinea.

Changes in 2P reserves in 2011

- The year's oil production in Tunisia, the Republic of Congo and Equatorial Guinea reduced reserves (–3.1 million barrels o.e.)
- The producing fields El Bibane and Ezzaouia in Tunisia were divested (–0.5 million barrels o.e.)
- The reserves in the Azurite field in the Republic of Congo were adjusted down due to the poor performance of the field (–6 million barrels o.e.)
- Volumes at Didon North in Tunisia were reclassified from reserves to contingent resources due to the inability to bring a production well into operation (–2.7 million barrels o.e.)

Increase in resources

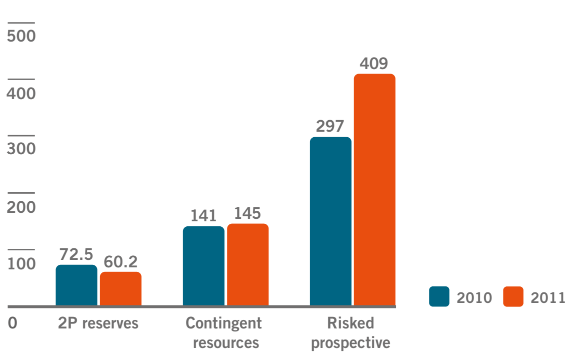
In addition to the reserves, PA Resources has 145 million barrels (141) of contingent resources and 409 million barrels (297) of risked prospective resources. The contingent resources have been proven through drilling and are located in Block I in Equatorial Guinea, Mer Profonde Sud and Marine XIV in the Republic of Congo, Licence 12/06 in Denmark, the Zarat licence in Tunisia and licence Q7 in the Netherlands. Risked prospective resources exist at prospects and leads on exploration licences and have been identified with seismic studies and other methods, but no drilling has been performed.

During the year, PA Resources' contingent resources increased through the successful drilling campaign on licence 12/06. According to an initial assessment, the two discoveries increased contingent resources by 32 million barrels o.e. which were predominantly attributable to the discovery on Broder Tuck. The majority of the discovery at Lille John and the remaining potential are included in prospective resources. Evaluation of the Turquoise discovery at Mer Profonde Sud in the Republic of Congo in 2011 and continued analysis of the Elyssa discovery on the Zarat licence in Tunisia resulted in a reduction of contingent resources by 28 million barrels o.e.

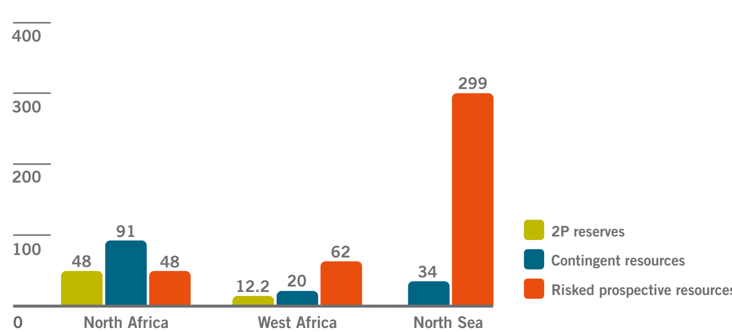
The risked prospective resources increased significantly by 112 million barrels o.e., principally due to the results of seismic surveys of the Greenlandic licence Block 8.

SEE THE GLOSSARY ON PAGE 77 OR WWW.PARESOURCES.SE FOR DEFINITIONS

Comparison of reserves and resources between 2010 and 2011 (Million boe)



Reserves and resources per region per 31 Dec. 2011 (Million boe)



INVESTMENT AND **FUNDING**

Exploration and development of oil and gas assets is a capital intensive and, at the same time, risky operation. The objective is for future investments to be better balanced by cash flow from producing fields. The pace of investment has been high over the past few years. In 2011 the development of the Azurite and Alen fields were completed. The successful drilling campaign in Denmark resulted in additional drilling activities and the unsuccessful well at Didon North became more expensive. 2012 means a significantly lower level of investment, with investment focused on maintenance, appraisal activities and development planning.

Slower pace of investment in 2012

PA Resources made extensive investments in 2011 in an amount of SEK 1,613 million for the full year which was slightly below the forecast of SEK 1,700-1,800 million. Approximately 65 percent of these were investments in development of the Azurite and Aseng fields as well as the satellite field Didon North. Approximately 35 percent was investment in exploration of which a substantial proportion comprised the successful drilling campaign on licence 12/06 and additional activities. In 2012, the pace of investment will decline since there are few planned and firm drilling commitments (see page 7). The forecast for the full year is therefore in the SEK 240–375 million interval.

PA Resources' efforts are primarily focused on appraisal activities and development planning for the coming year as well as minor maintenance investments at producing fields. Those investments necessary to move licence 12/06 in Denmark and the Zarat field in Tunisia forward to the next stage are prioritised as is analysis of satellite prospects which can be tied back to the Azurite field and the continued appraisal of identified prospects in Greenland.

Cash flow and reduced debt

Cash flow will improve with the additional production from the Aseng field from January 2012. The cash flow will finance continued investment but must be combined with a well-balanced debt portfolio. Operating cash flow increased to SEK 812 million in 2011 compared with SEK 416 million the preceding year. Operating cash flow is expected to exceed investments by a healthy margin in 2012.

In 2011, interest-bearing liabilities declined from SEK 4,395 million to SEK 4,027 million and at the start of 2012 the loans were continuing to be amortised. The objective is to continue to reduce the Group's level of debt which is enabled by the cash flow.

From a historical perspective, PA Resources operations have been financed by bond and bank loans as well as by the issue of shares and convertibles. Efforts continue on an ongoing basis to identify and implement a balanced combination of funding forms for every given moment.

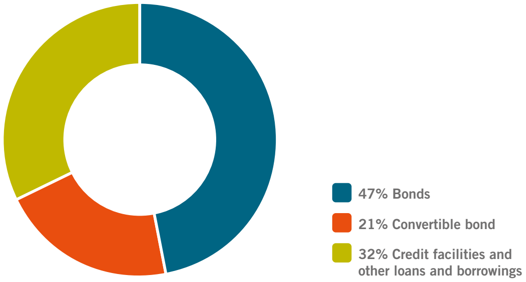
Available credit facilities for PA Resources comprise bank loans and other loans. At the end of the year, PA Resources reduced the ceiling for the reserve-based credit facility from USD 250 million to USD 100 million. At the end of 2011, credit facilities totalled SEK 1,730 million, of which a part comprises pre-financing facilities linked to the sale of oil. The credit facilities are valid for longer agreement periods but may be reduced as needed.

All covenants linked to the company's bond loan and bank loans were met in 2011. The next bond loan matures in October 2013. For more information see Note 22.

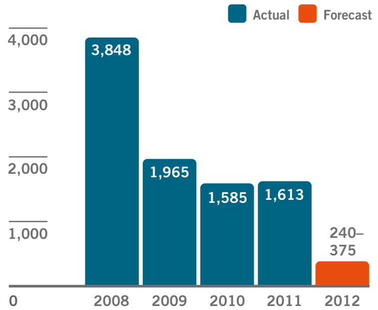
Financing activities in 2011

- A new five-year bond loan of NOK 900 million was issued to refinance bond loans with maturities in 2011 and 2012.
- PA Resources amortised a net total of SEK 408 million in interest-bearing liabilities.

Interest-bearing debt structure per 31 Dec. 2011



Investments (CAPEX) 2008–2012 (SEK million)



MARKET

Over the past year, the oil price was high given the sovereign-debt crisis in many European countries. In parallel, a state of geopolitical anxiety exerted upward pressure on the oil price. In 2011, the price of Brent oil reached its highest ever historical average at USD 111 per barrel. The outlook for the global economy is uncertain over the next year. Should a decrease in the oil price to a level of about USD 90 per barrel occur, this would still provide PA Resources with a healthy cash flow. In the long-term, demand for oil is expected to increase again and be driven by growth economies such as China.

Trend in 2011

During the first few months of the year, the outlook was favourable for a global recovery and increased demand for oil. In addition, political uncertainty in North Africa and the Middle East had an upward impact on the oil price. From January until the end of April, the price of Brent oil rose from USD 94 to USD 127 per barrel. Thereafter, the recovery lost steam and was replaced by a growing sovereign-debt crisis and concern for global growth which resulted in substantial swings in the financial markets. Despite the crisis in many European countries, the oil price remained at a higher than expected level which was a marked difference to the financial crisis in 2009. A key cause of the high oil price was the lack of extra production capacity which gave rise to a contracted market. The high price level was attributable to the improved economic outlook in the US and also to tension in the Middle East. This was despite the European sovereign-debt crisis threatening to push Europe down into recession and countries including China, India and Japan showing signs of moderating growth.

At the end of 2011, the International Energy Agency (IEA) lowered its forecast for global demand for oil in 2011 and 2012. This was attributed primarily to the deterioration in the macroeconomic situation and the sustained high oil price. According to the IEA, global demand for oil amounted to 89.1 million barrels per day (88.3) in 2011, corresponding to an increase of 0.9% compared with 2010. In 2012, the IEA forecasts demand in the region of 89.9 million barrels per day.

In the first half of 2012, the market is expected to become less tight in pace with production starting in Libya and production in Iraq and countries outside of OPEC increasing. The oil price has remained high at the start of 2012 and several analysts have raised their forecasts. Should the oil price decline to a level between USD 90 and 100, this will still provide PA Resources with a healthy cash flow.

Long-term demand

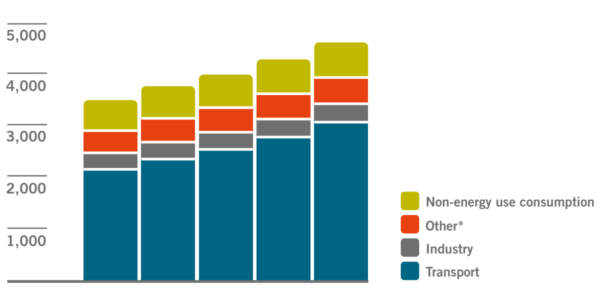
Many analysts forecast a higher oil price from 2013, primarily driven by rapidly rising demand and increased consumption in China and other growth economies outside of the OECD. The IEA predicts that demand will increase by an average of about 1.1 million barrels per day, each year until 2016. Global demand for oil is predicted to increase from 89 million barrels per day in 2011 to 99 million barrels per day in 2035. Demand is primarily driven by the transport sector, which is still oil dependent, and is increasing in pace with population and GDP growth. The number of cars is estimated to rise to 1.7 billion in 2035.

The IEA assesses the natural rate of decline in existing producing fields, both inside and outside of OPEC, at approximately 4% per year. Given the current forecast, an additional 40 million barrels of oil per day, approximately, is needed from new producing fields by 2030 to be able to meet expected demand.

Principal factors that affected the oil price in 2011

1. **The global economy**
The ongoing European sovereign-debt crisis and concern regarding global growth.
2. **Geopolitical concerns**
The Arab Spring and its spill-over effects as well as the tense situation in Iran.
3. **Decline in production capacity**
The natural decline from existing fields that successively reduce capacity for additional production.
4. **OPEC decision**
In December, the production ceiling was raised to 30 million barrels per day, the first change in three years.
5. **Inventory levels**
Declined or remained unchanged over the past year but are expected to rise in pace with increased production in Libya, Iraq and non-OPEC countries.
6. **Growing transport sector**
The transport sector accounts for slightly more than 60% of oil consumption and drives demand, primarily in growth economies such as China.
7. **Trends in the dollar rate**
From May onwards, the Euro weakened against the dollar.
8. **Unforeseen natural disasters**
Earthquakes and the tsunami that struck Japan in March 2011 contributed to a decline in oil consumption.

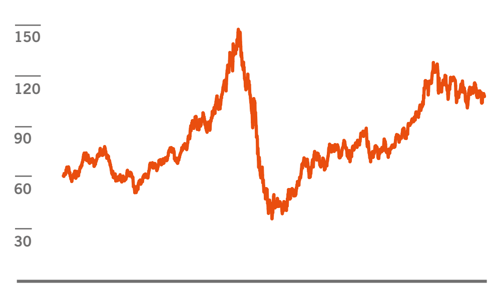
Forecast of global consumption of oil by sector (Million tonnes of oil equivalent)



*Other includes agriculture, commercial and public services, residential and non-specified other

Source: IEA

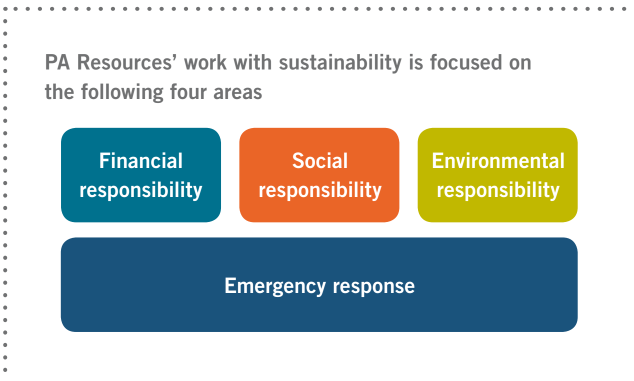
Brent price development 2006–2011 (USD per barrel)



Source: BP

SUSTAINABILITY

Sustainable business activities are a prerequisite for long-term continuity and profitability. As an operator, PA Resources strives to base its operations on high standards with focus on health, safety, the environment and social responsibility in all its business activities. The goal is to pursue a responsible and profitable business.



Responsibility and control

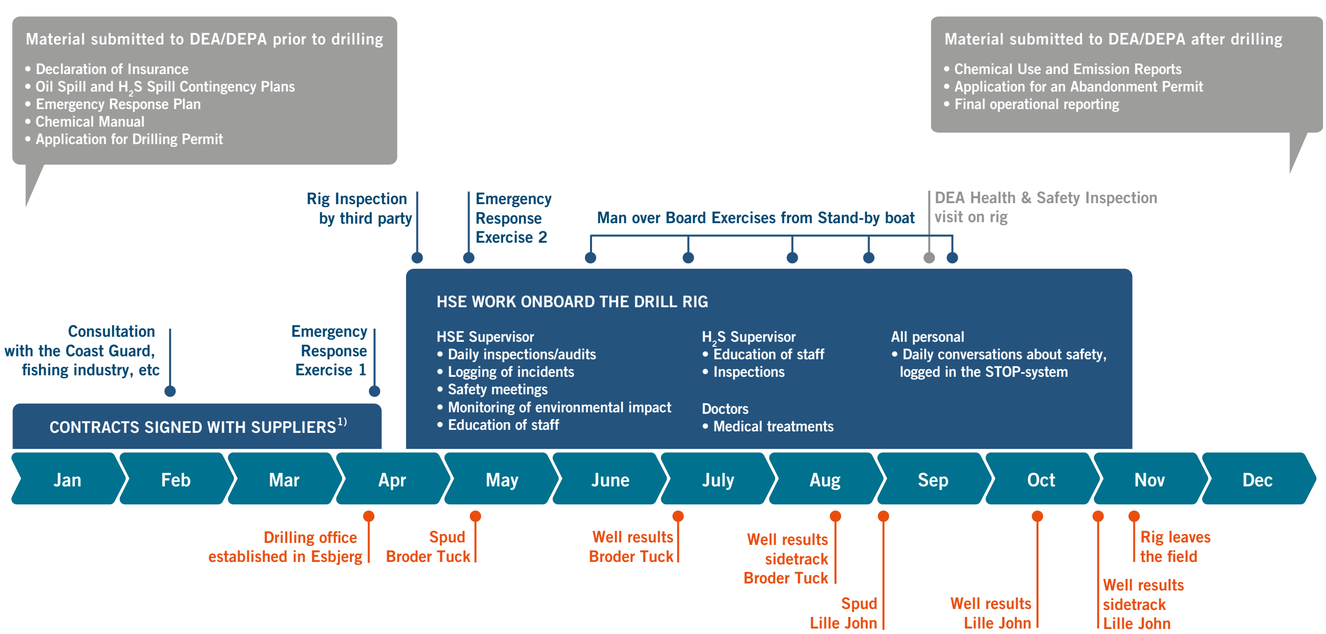
Where PA Resources is licence operator, the Group has direct responsibility for the operations and employees as well as health, safety and environmental (HSE) issues and community relations. For licences in which the Group is a partner, the respective operators have the direct responsibility for this work. The work is also monitored by PA Resources and the licence group's other partners.

Each region in PA Resources has an HSE manager responsible for health, safety and environmental matters. The regions report to the Group Management on a quarterly basis.

The Universal Declaration of Human Rights is the Group's common ethical foundation. PA Resources has policies in the areas of Operations, Health, Safety, Environment, Social Responsibility, Finance, Communication and Human Resources. The objective of these policies is to ensure that business activities are conducted in a responsible and sustainable manner, in compliance with country-specific legislations and with due regard for the environment, people and society. These policies are supported by procedures and guidelines at regional level and for specific projects.

Business activities are largely controlled by the requirements set by the respective authorities in each country. For an example of regulatory and reporting requirements, see the following illustration regarding the Danish drilling campaign on Licence 12/06.

PA Resources' work with health, safety, emergency response and environment during the Danish drilling campaign on Licence 12/06 in 2011



- Activities related to public bodies
- HSE activities performed by PA Resources or its contractors
- Major events relating to the drilling process

Abbreviations:
HSE = Health, safety and Environment
DEA = Danish Energy Agency
DEPA = Danish Environmental Protection Agency
H_2S = Hydrogen Sulphide

1) • Drilling rig (in 2010)
• H_2S equipment and onboard service
• Oil spill equipment
• Personal protective equipment
• Supply and evacuation boat
• Helicopter for transport and evacuation

Social responsibility – Health and safety

At the end of 2011, PA Resources had 133 employees as well as a number of consultants and sub-contractors. PA Resources strives to provide favourable working conditions and competitive terms of employment in all countries where the Group conducts business activities, including countries where democracy and human rights are somewhat curtailed.

One of the most important areas of work is health and safety for employees and contractors as well as minimizing the risk of accidents and incidents that might affect people, the environment, assets and finances. The Group is actively pursuing preventive initiatives in the areas of work environment as well as health and safety with the aim of safeguarding employees and subcontractors from work-related injuries, diseases and workplace accidents. For an example of PA Resources' work, see the illustration about the Danish drilling campaign at Licence 12/06.

PA Resources has measured health and safety statistics since 2006. At the end of 2009, a more comprehensive reporting system was implemented. Accordingly, comparable statistics are only available for the last two years, see table below.

During the past five years, no work-related fatalities have occurred at any production facility where PA Resources is the operator and, furthermore, no serious incidents or accidents have occurred during this period.

This trend continued in 2011. Despite an increase in the total number of work hours at those production facilities where the Group is operator, no incidents occurred that resulted in lost time incidents (LTIs) or recordable injuries. However, two accidents that resulted in LTIs were reported on non-operated licences in Equatorial Guinea.

Health and Safety*	Unit	Operator	2011	2010
Total number of work hours	Hours	PA Resources**	437,853	335,200
		Others	3,557,280	3,306,970
Fatalities	Number	PA Resources**	0	0
		Others	0	0
Lost time incidents (LTI)	Number	PA Resources**	0	2
		Others	2	1
Total recordable injury Rate (TRIR) 1)	Number/million work hours	PA Resources**	0.0	5.9
		Others	2.0	2.4

* Total at all production facilities and licences where PA Resources owns shares.
** Employees and subcontractors of PA Resources
1) Number of accidents per 1,000,000 work hours. Accidents include fatalities, cases with limited or lost work hours and cases requiring medical treatment.

Social responsibility – Community relations

PA Resources is located in wealthy countries that are well-developed and regulated, but also in countries facing problematic socio-economic conditions in which democracy is not a matter of course and corruption occurs. PA Resources strives to contribute positively to social development in all countries where the Group operates.

Anti-Corruption

Bribery and facilitation payments are illegal and cause substantial problems for those companies affected and have an extremely negative impact on business activities, licences and partnerships as well as the host countries in which the Group operates. PA Resources does not accept any kind of bribery or facilitation payments.

In 2011, PA Resources' subsidiary in the UK implemented a new Anti-Corruption Policy containing guidelines aimed at ensuring compliance with the new UK Bribery Act. The new legislation applies to PA Resources UK and its employees as well as its affiliates within the Group and for offences committed in or outside the UK. PA Resources' new policy has been implemented and UK employees have received specific training on the subject. During the year, PA Resources initiated evaluations of corruption risk with regard to new business partners, agents, subcontractors and employees. These efforts continue in 2012.

Contributing to society

PA Resources' activities provide a positive socio-economic impact in the countries in which the Group operates. Revenues from oil production are one of the most important contributors to the GNP development of many African states.

PA Resources helps the countries to build up their own oil industries, for example, through sponsoring undergraduates from Equatorial Guinea in gaining degrees in subjects such as geology, geophysics and accounting. In addition, the Group endeavours to use local labour, equipment and services wherever possible. In certain cases, this is a condition of the operating licence. The Group also provides financial support to social projects in Africa aimed at improving education, health care, infrastructure etc. In 2011, PA Resources has for example supported the following projects:

- Construction of classrooms, bathrooms, kitchens, etc., in three schools in Equatorial Guinea.
- Purchase of ambulances and construction of water wells in the Republic of Congo.
- "Reconstruire ma Tunisie" – collection of funds to buy food, blankets, shoes, medication etc for poor families and hospitals in the area of Kasserine in southern Tunisia.

Tunisia after the Jasmine revolution

Extensive political unrest with clashes between civilians and security forces led to the resignation of the President and government in January 2011 and the subsequent initiation of a process of democratization. In October 2011, the election of a Constituent Assembly was held. The elected Assembly approved a new government, including a Prime Minister, a President and a Speaker for the Parliament. The Assembly is now drawing up a new constitution for the Republic and pave the way for a general election within one year.

In 2011, the situation in Tunisia impacted all operations in the country through social instability. Operations were affected by logistic disturbances, resulting in problems in getting equipment to the licences. PA Resources' production did not suffer from any large-scale disturbances and liftings of sold oil were performed as planned. The unitisation process regarding reserves at the Zarat field as well as development planning of the field was delayed due to civil unrest in the region.

Emergency response

PA Resources implements measures to prevent the occurrence of accidents and incidents such as fires, unintentional emissions of pollutants, maritime or helicopter accidents and fatalities. If an accident or incident occurs, it might have an extremely negative impact on people, the environment and society.

PA Resources has a high level of emergency preparedness in place. The Group as well as each business region has emergency response plans in place for operations where PA Resources is the operator that address how any crisis is to be managed. Emergency response exercises and risk assessments are performed prior to various projects. For oil and gas licences in which the Group is a partner, the operator is responsible for emergency response management at the location.

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SEE PAGE 30–31 OF THE BOARD OF DIRECTORS' REPORT FOR MORE INFORMATION ABOUT RISKS AND RISK MANAGEMENT

Environmental responsibility

All oil-related operations impact the environment and entail environmental risks. PA Resources strives to minimize the environmental impact of Group operations and has an accident and incident rate goal of zero. Naturally the Group as a minimum complies with the environmental legislation and regulations applicable in each country in which it operates.

PA Resources UK has an environmental management system which is certified in accordance with the ISO 14001:2004 standard. In addition, the system is certified to the international standard for office health and safety, ISO 18001. In Tunisia, preparations are being made for ISO 14001:2004 certification in 2012.

Two years ago, PA Resources implemented a system for measurement of the Group's environmental impact. In 2011, the system was developed further. For environmental key ratios, see the table below (2010 figures in brackets).

	Description of environmental impact	Prioritized measures	Outcome 2011 – Environmental ratios*	
Atmospheric emissions	Atmospheric emissions primarily comprise of carbon dioxide emissions through the combustion of gas at our production facilities and fuel for transportation.	To continue to monitor and measure our emissions, which will enable us to set goals for reducing the flaring of natural gas and decreasing our emissions of carbon dioxide.	Flaring natural gas – daily average (Million cubic feet):	3.95 (5.3)
			Flaring natural gas – total (Million cubic feet):	1,440 (1,940)
			Carbon dioxide emissions – flaring gas (Tonnes):	76,670 (106,530)
			Carbon dioxide emissions – fuel consumption (Tonnes)**:	43,440 (24,430)
Emissions to land and sea	Unintentional discharges of oil and chemicals cause injuries to animals and people as well as pollute oceans, land and groundwater.	To work proactively to minimize the risk of accidental emissions, for example through risk assessments, careful planning, improving technology and working methods, education and training as well as monitoring. Minimizing the usage of chemicals is a priority.	Accidental emissions – chemicals (Number of releases):	0 (0)
			Accidental emissions – hydrocarbons (Number of releases):	3 (8)
			Accidental emissions – hydrocarbons (Litres):***	1,040 (1,016)
Produced water	A mixture of oil, gas and water is pumped up from a production well. The water is separated from the mixture but may contain traces of hydrocarbons and chemicals.	To purify the produced water to approved levels before its release into the sea or reinjection into reservoirs.	Emissions - produced water (barrels per day):	8,212 (9,888)
			Total emissions - produced water (barrels)	2,997,560 (3,609,280)
			Concentration of oil in water, average (Ppm/mg/l):	18 (21)
			Total emissions of oil in produced water (Litres):	11,340 (12,110)
Energy consumption	The energy consumption of business activities, primarily of fossil fuels, contributes to increased carbon emissions and climate change.	To increase the efficiency of production facilities thus lowering energy consumption which contributes to lowering costs and reduced carbon emissions.	Natural Gas Consumption – daily average (Million cubic feet):	1.4 (1.16)
			Natural Gas Consumption – total (Million cubic feet):	494 (424)
Waste	The operations utilise natural resources and other material that generate waste such as oil containing mud, drilling mud, chemical residues, construction waste and household waste.	To minimise the amount of waste through recycling and reuse. Fragments of stone that have broken loose from the bedrock can be separated from the thick drilling mud and released, if assessed as being sufficiently clean.	Waste generated is highly dependent on how many and the type of projects being undertaken. PA Resources have not yet commenced to gather and collect these data on a Group basis. In 2011, waste was appropriately disposed of in line with local regulatory and permitting requirements.	
Disturbance of wildlife	Acoustic signals utilised in seismic surveys can temporarily disturb wildlife. On production fields, the noise from drilling rigs, vessels and other machines can disturb wildlife, which can affect their migration routes.	To utilise various methods to minimise disturbance. Seismic surveys in sensitive areas have observers onboard to check that no marine animals are in the vicinity when the survey commences. Soft starts are utilised which entails gradually raising the noise levels.	PA Resources has collaborated with the University of Aberdeen while performing a seismic survey in licence P1342 in the environmentally sensitive area in the Inner Moray Firth in Scotland. Soft start procedures and marine mammal observers were used. The university measured the impact of the seismic survey on wildlife in the firth. The result will be used for scientific purposes by the University.	

* States PA Resources' Working Interest of total volumes and amounts. Statistics depend on produced volumes of oil and the number of drilling projects and development projects conducted during the period.
** Includes liquid fuels from 2011.
*** The stated accidential emissions figures are gross volumes to PA Resources and its licence partners, all other figures in this table state PA Resources' Working Interest of total volumes and amounts.

PA RESOURCES' SHARE

The PA Resources share is listed on NASDAQ OMX Stockholm (segment Mid Cap). The share had high liquidity and an average daily turnover of approximately SEK 30 million in 2011. At the end of 2011, PA Resources' market capitalisation was SEK 1,351 million.

Liquidity

The ticker symbol of the share is PAR and the trading lot is 200 shares. In 2011, 2,103 million shares were traded with a value of SEK 7,546 million on the NASDAQ OMX Stockholm. As in preceding years, share turnover – or liquidity in the PA Resources share – was high. Share turnover amounted to 328 percent, compared with 52 percent for Mid Cap and 102 percent for Large Cap in Stockholm. On average, share turnover amounted to 8.3 million shares per day with a value of SEK 29.8 million.

The alternative markets provided by Chi–X, Burgundy, Turquoise and BATS Europe provided additional share turnover of 182 million PA Resources shares, corresponding to about 8 percent of the total share turnover.

Share price trend

Over the year, PA Resources' share price declined by 72 percent and the closing bid price for the share at the end of 2011 was SEK 2.12 corresponding to a market capitalisation of SEK 1,351 million. The highest price paid for the share was SEK 8.25 on 4 January and the lowest was SEK 1.47 on the 2 November. The average price was SEK 3.59.

Ownership structure

At 31 December 2011, the total number of shareholders was 26,745 (26,045). The number of private shareholders via Avanza's, Nordnet's and Swedbank's endowment insurance increased over the year and, as in 2010, the largest institutional shareholder in PA Resources was Länsförsäkringar fonder. Aside from private shareholders through endowment policies, the major shareholders in PA Resources were primarily Swedish and international institutions and funds. The proportion of foreign ownership amounted to 24 percent of the total number of shares.

Delisting from the Oslo Stock Exchange

PA Resources' shares and convertible bonds were delisted from the Oslo Stock Exchange with the last day of trading on 31 January 2011, in parallel, the PA Resources share and convertible bond received a primary listing on the NASDAQ OMX Stockholm on 1 February 2011. The shares were delisted from the Oslo Stock Exchange due to a substantial decline in trading in the shares and a lack of trading volume for the convertible.

Share capital

At the end of the year, the share capital amounted to SEK 318.7 million spread over a total of 637,476,893 shares (637,475,843) with a quotient value of SEK 0.50. All the shares have equal voting rights and equal claims on the company's capital and earnings.

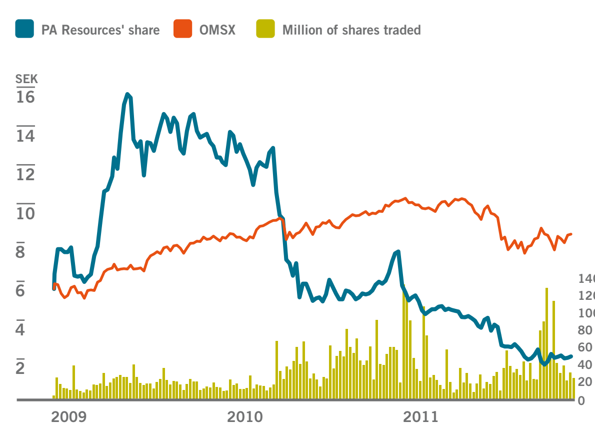
PA Resources' convertible bond

PA Resources' convertible bond (PAR KV1) is traded on the NASDAQ OMX Stockholm. A trading block amounts to SEK 16.00 which is equal to the nominal amount of SEK 16.00. The lifetime of the convertible bond extends until 15 January 2014 with a fixed annual interest of 11 percent. Interest is paid annually on 15 January and for the final time in 2014. The convertible bonds can be converted into shares in September each year with the final occasion in September 2013. The former conversion price of SEK 16.00 was adjusted to SEK 8.52 due to the new issue of shares in 2010. See Note 22 on page 64 for information regarding convertible bonds outstanding.

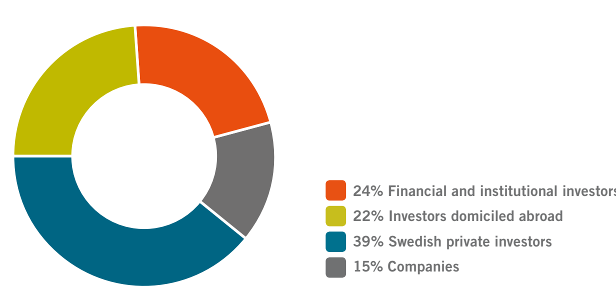
Dividend policy

The primary objective is to add value for the company's shareholders and employees through continued investment in business activities that create profitable and long-term production growth. Over time, the total return to shareholders is expected to increasingly become attributable more to the increase in share price than to dividends received. As in previous years, the Board of Directors recommends that no dividend be paid for 2011.

The share price history 2009–2011



Holdings by shareholder category



Distribution of holdings by size per 31 December 2011

	Number of shareholders	Number of shares	Holding
1–1,000	7,995	3,916,735	0.6%
1,001–10,000	12,700	56,165,496	8.8%
10,001–50,000	4,661	109,991,771	17.3%
50,001–100,000	755	55,977,445	8.8%
100,001–500,000	523	107,376,846	16.8%
500,001–1,000,000	54	38,789,972	6.1%
1,000,001–5,000,000	44	90,513,221	14.2%
5,000,001–	13	174,745,407	27.4%
Total	**26,745**	**637,476,893**	**100.0%**

Ownership structure – 10 largest shareholders

The 10 largest shareholders 31 Dec. 2011	Number of shares	Capital/votes
Avanza Pension	52,884,791	8.3%
Nordnet Pensionförsäkring AB	23,651,621	3.7%
Länsförsäkringar fondförvaltning AB	22,469,233	3.5%
Robur Försäkring	12,344,590	1.9%
AB Traction	10,778,014	1.7%
CBNY–DFA–INT SML CAP V	10,419,541	1.6%
Skandinaviska Enskilda Banken S.A., NQI	9,528,986	1.5%
JP Morgan Bank	9,166,030	1.4%
VOB & T Holding AB	8,249,125	1.3%
JPM Chase NA	7,408,311	1.2%
Total – 10 largest shareholders	**166,900,242**	**26.2%**
Total – other shareholders	470,576,651	73.8%
Total number of shares	**637,476,893**	**100%**

Per share data – five-year overview

	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Operating profit per share after dilution, SEK	–2.39	0.94	1.35	4.64	6.08
Income after financial items per share after dilution, SEK	–2.94	0.34	1.00	2.74	5.96
Earnings per share after dilution, SEK	–3.27	–0.61	0.04	3.08	3.14
Equity per share before dilution, SEK	5.13	8.24	13.41	15.86	11.12
Equity per share after dilution, SEK	5.13	8.24	13.41	15.80	10.79
Share price at end of period, SEK	2.12	7.50	11.93	5.58	24.74
Share price/Equity per share before dilution	0.41	0.91	0.89	0.35	2.23
P/E multiple per share	–0.65	–12.36	295.22	1.81	7.81
Number of shares outstanding before dilution	637,476,893	637,475,843	345,814,769	299,968,388	298,937,668
Number of shares outstanding after dilution	637,476,893	637,475,843	345,814,769	300,999,108	308,059,540
Average number of shares outstanding before dilution	637,476,105	521,614,740	318,998,246	299,427,260	298,937,668
Average number of shares outstanding after dilution	637,476,105	521,614,740	318,998,246	300,921,829	301,700,581

Share capital history

Year	Type of changes	Quota value, (SEK/share)	Changes in shares outstanding	Total shares outstanding	Change in share capital (SEK)	Total share capital (SEK)
2006–2007	Private placement*	0.5	5,000,000	145,014,004	2,500,000	72,507,002
2008	New issue – share warrant program	0.5	100,000	145,114,004	50,000	72,557,002
2008	New issue – share warrant program	0.5	200,000	145,314,004	100,000	72,657,002
2008	New issue – share warrant program	0.5	150,000	145,464,004	75,000	72,732,002
2008	New issue – share warrant program	0.5	50,000	145,514,004	25,000	72,757,002
2009	Private placement	0.5	11,000,000	156,514,004	5,500,000	78,257,002
2009	Conversion, convertible bonds	0.5	11,239,978	167,753,982	5,619,989	83,876,991
2010	Rights issue	0.5	469,711,149	637,465,131	234,855,575	318,732,566
2010	Conversion, convertible bonds	0.5	10,712	637 475 843	5,356	318 737 922
2011	Conversion, convertible bonds	0.5	1,050	637,476,893	525	318,738,447

* The private placement of 5,000,000 new shares was initiated on 12 December 2006, with registration on 23 March 2007.

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FOR A COMPLETE STATEMENT OF CHANGES IN THE SHARE CAPITAL SINCE 1994 SEE WWW.PARESOURCES.SE/INVESTORS/THE SHARE

LICENCE OVERVIEW

North Sea Region and Greenland

	LICENCES	OPERATOR	PARTNERS
	UK		
1	P1342	PA Resources (100%)	
2	Block 22/18c	PA Resources (33.34%)	Valiant Exploration Limited (33.33%), First Oil Expro Limited (33.33%)
	DENMARK		
3	Block 9/06 (Gita)	Maersk Olie og Gas (31.2%)	PA Resources (26.8%), Danish North Sea Fund (20%), Noreco (12%), Danoil (10%)
4	Block 9/95 (Maja)	Maersk Olie og Gas (31.2%)	PA Resources (26.8%), DONG (20%), Noreco (12%), Danoil (10%)
5	Block 12/06	PA Resources (64%)	Danish North Sea Fund (20%), Spyker Energy (8%), Danoil (8%)
	NETHERLANDS		
6	Block Q7	Smart Energy Solutions (30%)	Energie Beheer Nederland (40%), PA Resources (30%)
7	Block Q10a	Smart Energy Solutions (30%)	Energie Beheer Nederland (40%), PA Resources (30%)
8	Schagen	Smart Energy Solutions (30%)	Energie Beheer Nederland (40%), PA Resources (30%)
	GERMANY		
9	B20008-73	PA Resources (100%)	
	GREENLAND		
10	Licence 2008/17 (Block 8)	PA Resources (87.5%)	NunaOil (12.5%)

North Africa Region

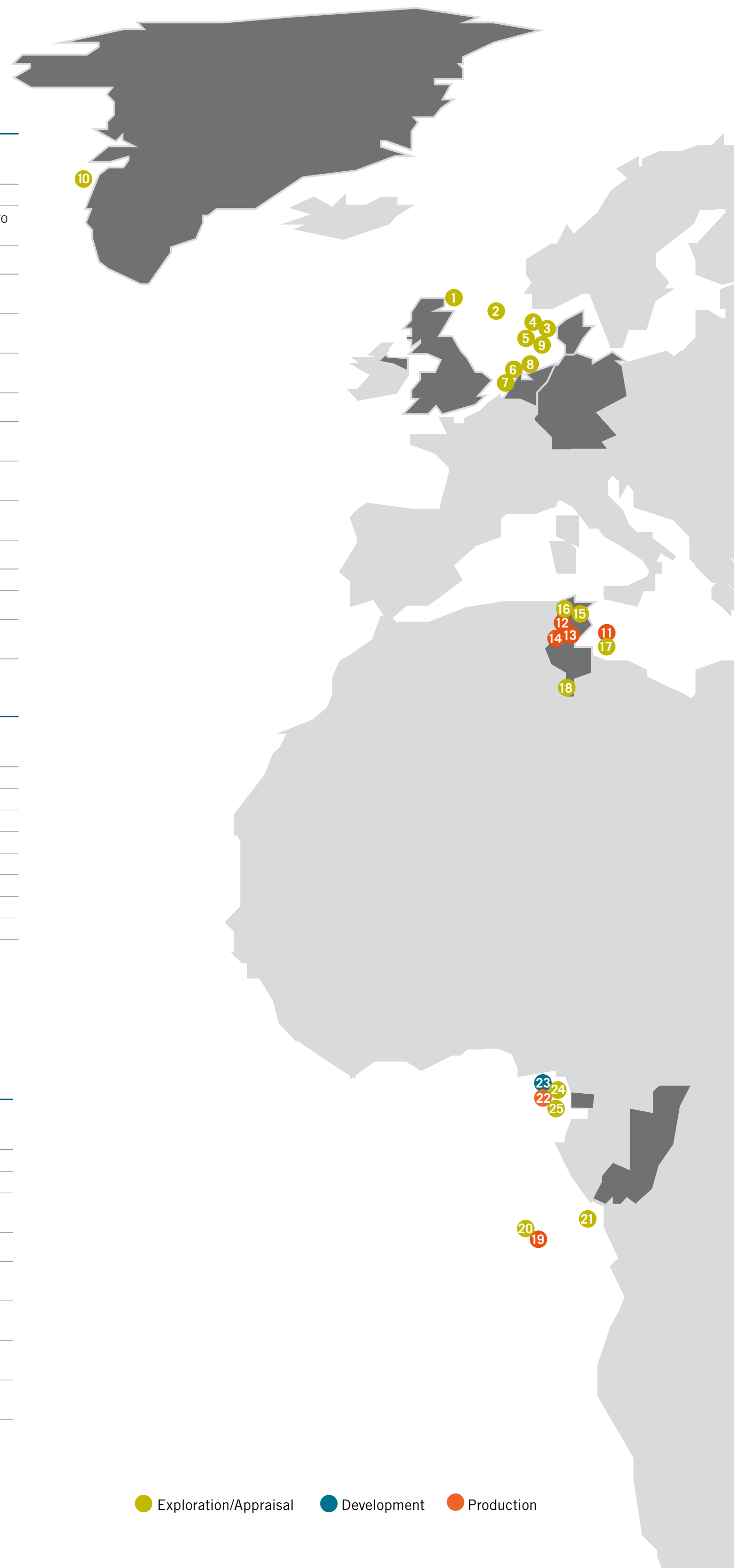
	LICENCES	OPERATOR	PARTNERS
	TUNISIA		
11	Didon	PA Resources (100%)	
12	Douleb	PA Resources (70%)*	Serept (30%)
13	Semmama	PA Resources (70%)*	Serept (30%)
14	Tamesmida	PA Resources (95%)*	Serept (5%)
15	Jelma**	PA Resources (70%)	Topic (30%)
16	Makthar**	PA Resources (100%)	
17	Zarat**	PA Resources (100%)	
18	Jenein Centre***	Chinook Energy Inc (65%)	PA Resources (35%)

* Operatorship outsourced to Serept.
** ETAP has the right to take a 50% interest in the Jelma licence and 55% in the Makthar and Zarat licences once discoveries have been made on the licence and a development plan has been submitted. Until such time, ownership is shared as shown above.
*** ETAP is the sole licence holder, but has signed a production-sharing agreement with PA Resources and Chinook Energy.

West Africa Region

	LICENCES	OPERATOR	PARTNERS
	REPUBLIC OF CONGO (BRAZZAVILLE)		
19	Azurite*	Murphy (50%)	PA Resources (35%), SNPC (15%)
20	Mer Profonde Sud*	Murphy (50%)	PA Resources (35%), SNPC (15%)
21	Marine XIV*	SOCO (29.4%)	Lundin Petroleum (21.55%), Raffia Oil (21.55%), SNPC (15%), PA Resources (12.5%)
	EQUATORIAL GUINEA		
22	Aseng**	Noble Energy (38%)	Atlas Petroleum (27.55%), Glencore (23.75%), PA Resources (5.7%), GEPetrol (5%)
23	Alen***	Noble Energy (44.65%)	GEPetrol (28.75%), Glencore (24.93%), Atlas Petroleum (1.38%), PA Resources (0.29%),
24	Block I**	Noble Energy (38%)	Atlas Petroleum (27.55%), Glencore Exploration (23.75%), PA Resources (5.7%), GEPetrol (5%)
25	Block H**	White Rose Energy (46.31%)	Atlas Petroleum (23.75%), Roc Oil (19%), PA Resources (5.94%), GEPetrol (5%)

* Working interests are reported inclusive of the rights to participating interests of the state-owned company SNPC.
** Working interests are reported from and including 2011 inclusive of the rights to participating interests of the state-owned company GEPetrol.
*** 95% of the Alen field is located in Block O and 5% in Block I. PA Resources has a 5.7% Working interest in Block I, which provides 0.285% of the field in total.



BOARD OF DIRECTORS' REPORT 2011

PA Resources AB (publ), corporate identity number 556488-2180, registered office, Stockholm

PA Resources is an international oil and gas group with its Parent Company in Stockholm, Sweden. The Group carries out exploration to find new oil reserves, development of new production facilities and production of crude oil and gas. PA Resources is active in three geographical regions: West Africa, North Africa and the North Sea including Greenland.

REGIONS

North Sea including Greenland

PA Resources conducts exploration in the UK, Denmark, the Netherlands, Germany and Greenland and is the operator of five out of a total of ten licences. No production comes from this region and work is lead from the regional office in London.

SEK 347 million in investments in 2011

SEK 758 million in non-current assets

Significant events in 2011

- **Two discoveries on the Danish licence 12/06**
  A discovery of gas and condensate was made on the Broder Tuck prospect in July and was confirmed through a sidetrack. An oil discovery was made in the Miocene structure on the Lille John prospect in October and was confirmed through a sidetrack.
- **Seismic analysis completed in Greenland**
  The seismic analysis was completed of the Greenlandic licence and resulted in a list of a number of potential major leads and prospects.
- **New licence in Germany**
  PA Resources was awarded a new licence offshore Germany that directly borders the Danish licence 12/06. Miocene structures also exist on this licence.

North Africa

PA Resources has been operating in Tunisia since 1998 and the Group has interests in four exploration licences and four producing fields, of which Didon is the largest. PA Resources is the operator of seven of the licences. The largest proportion of the Group's employees is stationed on the production fields and at the regional office in Tunis.

SEK 486 million in investments in 2011

SEK 3,848 million in non-current assets

3,300 barrels/day in production 2011

Significant events in 2011

- **Allocation of reserves on the Zarat field**
  Development planning and negotiations regarding the allocation of reserves between the part of the Zarat field that lies under PA Resources' Zarat licence in Tunisia and the neighbouring licence 7 November. Work was delayed during the summer due to political unrest in the region but could be restarted in the autumn.
- **Development of Didon North**
  The drilling of a production well on the satellite field Didon North was completed but flows proved too poor for the well to be brought into production. The well was plugged and abandoned.
- **Exploration at Jelma**
  Tests of the two exploration wells drilled at Jelma in Tunisia were completed but without success. No commercially viable levels of hydrocarbons were encountered.

West Africa

PA Resources' two largest producing fields are located in the region, the Aseng field in Equatorial Guinea and the Azurite field in the Republic of Congo. The development of the Alen field is also ongoing in Equatorial Guinea. The Group also has working interests in four exploration licences. PA Resources is not operator for the fields or the licences in the region. Operations in the region are run from the London office.

SEK 780 million in investments in 2011

SEK 3,304 million in non-current assets

5,300 barrels/day in production 2011

Significant events in 2011

- **Production start at the Aseng field**
  The Aseng field in Equatorial Guinea was brought into production at the start of November which increased PA Resources' average production. Cash flow from the field has been recognised from January 2012.
- **Lower production than expected at the Azurite field**
  Development of the Azurite field was completed but production did not reach expected levels in 2011, which resulted in a write down of the field's booked reserves of 6 million barrels. The write-down also impacted earnings in the fourth quarter.
- **New fiscal terms in the Republic of Congo**
  Fiscal terms applicable to the production sharing contract for the Azurite field in the Republic of Congo were enhanced.
- **Development of the Alen field**
  The development plan for the Alen field in Block I in Equatorial Guinea was sanctioned at the start of the year. Development activities were ongoing during the year and production start for the field is expected in the fourth quarter of 2013.
- **Completed drilling campaign at Mer Profonde Sud**
  The drilling campaign at Mer Profonde Sud in the Republic of Congo was completed without making any new discoveries. One of the appraisal wells encountered non-commercially viable oil in the deeper Sendji structure.
- **Dry well at Marine XIV**
  At the end of the year, the exploration well at Marine XIV in the Republic of Congo encountered hydrocarbons but no commercially viable flows.

THE GROUP'S BUSINESS ACTIVITIES

Other events during the year

- PA Resources' share was delisted from Oslo Stock Exchange and obtained a primary listing on the NASDAQ OMX Stockholm on 1 February
- PA Resources issued a five-year unsecured bond loan of NOK 900 million in April

Market demand

The oil prices were high in 2011. The price of Brent crude reached an historic average high over the year of USD 111 (80) per barrel. The price of Brent rose from the start of 2011, when the year's lowest price of USD 94 per barrel was noted before reaching its highest price of USD 127 per barrel in April and finishing the year at levels around USD 107 per barrel.

Global demand for oil increased by 0.9 percent in 2011, which was a somewhat smaller increase than expected and was due to the decline in the economic climate in combination with high oil prices. According to the International Energy Agency (IEA), demand amounted to 89.1 million barrels of oil per day (88.3). IEA expects the demand to amount to 89.9 million barrrels per day in 2012. Production growth is expected to be limited over the next few years. For more information see the Market chapter on Page 18.

Production and sales

Production

In 2011, oil was produced from eight fields of which six were located in Tunisia, one in the Republic of Congo and, from 1 November, one in Equatorial Guinea. The Azurite field in the Republic of Congo was the Group's largest producing field followed by the Aseng field in Equatorial Guinea and the Didon field in Tunisia. PA Resources produced a total of 3.1 million barrels of crude oil (3.9) in 2011 based on working interest. Average production over the year was 8,600 barrels per day (10,700). At the end of the year, average production amounted to 9,500 barrels per day.

Sales and customers

In total 2.3 million barrels of oil (2.9) were sold at an average price of USD 103 per barrel (76) in 2011. PA Resources' crude oil was sold primarily in the world market to a few major international oil and trading companies with discounts or premiums depending on the quality. In Tunisia, about 20 percent was sold to the local market with discounts pursuant to the licence terms. For more information see Note 6.

Royalties

The licence agreements for the Republic of Congo, Tunisia and Equatorial Guinea involve royalties, which are paid to the state in oil or as a monetary royalty. In 2011, PA Resources' royalty costs amounted to SEK 267 million (269). For more information, see Note 2.1 and Note 5.

Oil inventory

The oil inventory, including royalty and other taxes, amounted to 302,961 barrels (262,156) on 31 December 2011. The oil inventory outstanding on the balance sheet date is reported as if the oil inventory is sold. For more information, see Note 2.1.

Changes in ownership in 2011

PA Resources has not made any acquisitions or divestments of companies or shares in companies in 2011, nor formed any new companies. Three companies without operation were liquidated through voluntary liquidation; PA Resources Arctic ApS, PA Resources Greenland ApS and PA Resources Nuna ApS.

At the start of 2011, the Group was awarded 100 percent working interest in the German licence B20008-73. The Group relinquished the UK licence P 1529 to the authorities since the possibilities of discovering oil on the licence were assessed as small.

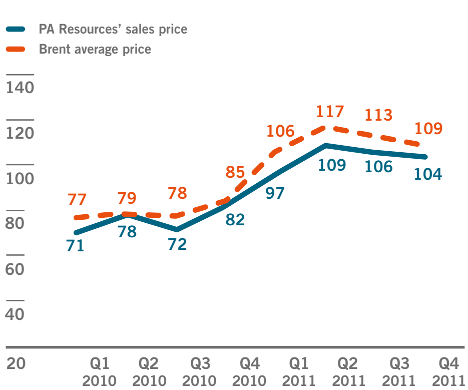
After the end of the year, PA Resources disposed of its working interest in the producing fields El Bibane and Ezzaouia in Tunisia. At the end of 2011, they contributed about 100 barrels per day net to PA Resources. The transaction is conditional on approval of partners and the Tunisian government.

Employees

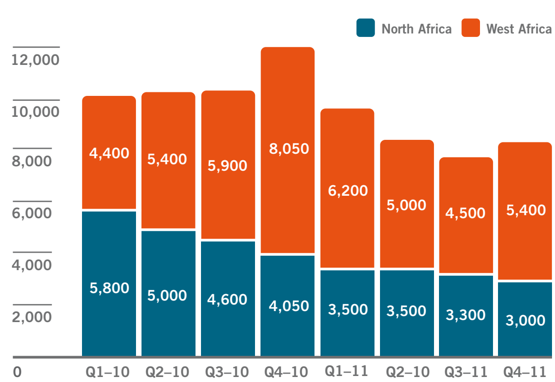
At the end of the year, the PA Resources Group had a total of 133 (135) employees. Of these, 109 (113) were men and 24 (22) women. The average number of employees was 133 (133). In addition, contractors and consultants are engaged for preparation for and performance of drilling campaigns and development projects etc.

PA Resources endeavours to provide good working conditions, a safe working environment and competitive employment terms. For more information, see the Sustainability chapter.

PA Resources' average sales price per quarter in 2010–2011 (USD/barrel)



Average production per region 2010–2011 (Barrels per day)



Remuneration of senior executives

Remuneration of the President and other senior executives comprises fixed salary, variable remuneration, other benefits and pensions as detailed in Note 8 on page 57. The guidelines for remuneration of the Group's senior executives were adopted by the 2011 Annual General Meeting and are presented in the Corporate governance report on page 35.

The environment

All oil-related operations impact the environment and entail risk. The Group complies with the environmental legislation and regulations applicable in each country. Typical areas regulated include air pollution, water use, discharges to watercourses, handling of hazardous substances and waste, land and groundwater contamination, and restoration of the environment around the facilities after operations have ceased.

In Sweden, the group has no operations that require notification or permits under the Environmental Code.

PA Resources strives to minimise the environmental impact and avoid the occurrence of accidents. Therefore, the Group strives to produce the oil as efficiently as possible, to continuously improve working methods and to select equipment that enables a reduction in environmental impact. Efforts primarily focus on measures within the following areas:

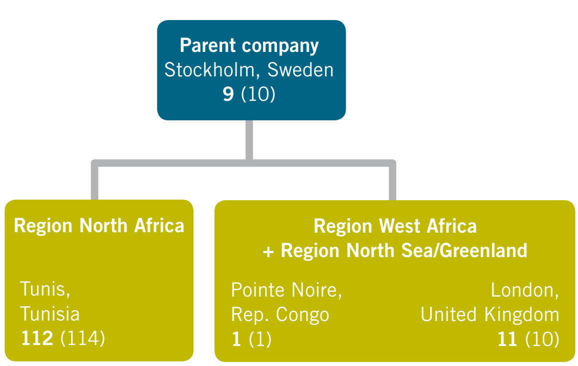
- Atmospheric emissions
- Emissions to land and water
- Handling of produced water
- Energy consumption
- Waste management

In 2011, the Group developed further the environmental ratios that PA Resources started to measure and monitor in 2010. PA Resources works with preventative measures to minimise the risk of accidents occurring that could impact the environment or people and crisis management plans have been implemented that are to be followed. For more information, see the chapter on Sustainability.

Disputes

At the time of publication of the Annual Report, PA Resources was not involved in any significant disputes with other parties.

Number of employees per 31 December 2011



Shares and ownership

PA Resources' shares were delisted from the Oslo Stock Exchange on 1 February 2011 and obtained a primary listing on the NASDAQ OMX Nordic Exchange in Stockholm. For more information, refer to the chapter PA Resources share.

Pursuant to the valid Articles of Association for PA Resources, as adopted by the Extraordinary General Meeting on 3 August 2010, the share capital must be a minimum of SEK 200 million and a maximum of SEK 800 million allocated between a minimum of 400 million shares and a maximum of 1,600 million shares. In October 2011, 1,050 new shares were issued when convertibles were converted to shares. On 31 December 2011, PA Resources' share capital amounted to SEK 318,738,446.50 (318,737,921.50) allocated over a total of 637,476,893 (637,475,843) shares with a quotient value of SEK 0.50 per share. All the shares have equal voting rights since only one class of shares exist for the company. On 31 December 2011, PA Resources had no owners with more than 10 percent of the shares in the company. PA Resources AB had no holding in its own shares.

There are no rules in Swedish legislation or in the Articles of Association of PA Resources AB that would limit opportunities to transfer shares in PA Resources. Neither is the company aware of any agreements between major shareholders in the company concerning PA Resources' shares. There are no rules in PA Resources' Articles of Association or supplements thereto relating to the appointment or removal of Board members at a general meeting. Regarding severance pay in the event of significant changes in ownership see Note 8.

Future prospects

The outlook for the global economy in the coming year is still uncertain at the same time as positive signals from the US and heightened tension in the Middle East contributed to continued high oil prices. In 2011 the price of Brent crude reached an historic average high at USD 111 per barrel, and the foundation for this price level is expected to remain in 2012. Even if the oil price should decline to a level of USD 90-100, PA Resources will still have a healthy cash flow.

PA Resources primarily produce oil from the three fields Aseng, Azurite and Didon. The Aseng field started production in November 2011 and rapidly reached expected production levels. The field provides a steady cash flow and investments in its development are expected to be repaid during the first year of production. The expected production plateau for the field will extend for several years and will generate significant cash flow. Production levels at Azurite field and the Didon field are difficult to estimate since both fields have entered a natural phase of decline. PA Resources has decided not to make any production forecasts for 2012 and will continue to publish monthly production reports.

To maintain production levels and cash flow in the long-term, PA Resources is focusing on exploration in the vicinity of the Azurite field to identify new possible satellite prospects that can be tied back to existing infrastructure as well as continuing appraisal activities of the discoveries on licence 12/06 in Denmark and the Zarat field in Tunisia.

The company's financial performance is principally impacted by trends in oil prices, exchange rates, interest rates, costs for purchasing and rental of services and equipment as well as production levels.

Significant events after the end of the period

- The shares in the two producing oil fields El Bibane and Ezzaouia in Tunisia were divested on 1 January 2012. The transaction is conditional on approval of partners and the Tunisian government.

FINANCIAL SUMMARY

Group revenue and profit

(SEK million)	2011	2010	Change analysis
Revenue	2,154	2,227	Revenue declined slightly compared with 2010, primarily attributable to lower production. This was countered by an increase in the average sales price, which amounted to USD 103 per barrel (76). Revenue was also impacted by a weaker USD.
EBITDA	1,295	1,276	EBITDA improved during the year due to lower costs. Cost of sales including royalties decreased to SEK 707 million (759). Of this, production costs totalled SEK 441 million (490) and the decrease was primarily due to a weaker USD. Despite lower production levels, royalty costs remained unchanged and amounted to SEK 267 million (269) due to higher oil prices. Other external expenses also decreased during the year.
Operating profit	508* (–1,527)	490* (490)	Operating profit amounted to SEK 508 million (490) excluding one-off costs. Depreciation and amortisation amounted to SEK 787 million (773) and was impacted by the downward adjustment of reserves in the Azurite field somewhat countered by lower production. Operating profit was impacted by a significant one-off costs of SEK 2,035 million (0) attributable to impairment of the Azurite field in an amount of SEK 1,436 million and in Tunisia of SEK 599 million regarding the production well at Didon North as well as the divestment of the fields Ezzaouia and El Bibane.
Profit before tax	158* (–1,877)	179* (179)	Profit before tax was impacted by the Group's net financial items which amounted to SEK –350 million (–311) for the full year. The difference was primarily attributable to a decrease in interest income together with somewhat lower exchange gains.
Profit for the year	–326* (–2,084)	–316* (–316)	The profit for the year was impacted by reported tax that during the year amounted to SEK –207 million (–496). The decrease was primarily attributable to one-off effects in conjunction with the impairment of SEK 277 million. Paid tax was SEK 45 million (230).

* Excluding non-cash, one-off costs.

Investments

In 2011, investments were substantial due to completion of the development of the two oil fields Azurite and Aseng in the West Africa region. Substantial investments were also made in the successful, and thus expanded, drilling campaign in Denmark and in the unsuccessful development of the satellite field Didon North in Tunisia.

Investments totalled SEK 1,613 million (1,585) during the year. Investments in intangible assets amounted to SEK 559 million (273) of which SEK 346 million (110) comprised investments in exploration drilling in the North Sea region. Investments in tangible non-current assets amounted to SEK 1,054 million (1,312), of which SEK 568 million (1,132) was attributable to West Africa and SEK 486 million (179) to North Africa.

For the full year 2012, the pace of investment is expected to decline substantially and the forecast is in the SEK 240–375 million interval.

Capital structure

The objective for the Group's capital structure is to create a balance between equity and loan financing, to ensure financing of the business at a reasonable cost. As far as possible, the Group endeavours to finance growth and ongoing investments from its own cash flow. The operations are capital-intensive and cash flow has historically been supplemented with bond and bank loan financing and through the issue of new shares and convertibles.

Financing activities in 2011

Bond loans

In 2011, PA Resources issued a five-year, unsecured bond loan of NOK 900 million (approx. SEK 1,035 million). The bond is an amortising bond with final maturity in April 2016. The net proceeds from the issue were utilised for early redemption of an existing bond loan of USD 100 million (approx. SEK 692 million) with maturity in June 2011 and the major portion of a bond loan of USD 70 million (approx. SEK 484 million) with maturity in March 2012 and for general group purposes. The remaining portion of the USD 70 million loan which amounts to USD 6.2 million was repaid in March 2012. The next bond that matures is a SEK 850 million bond that matures in October 2013.

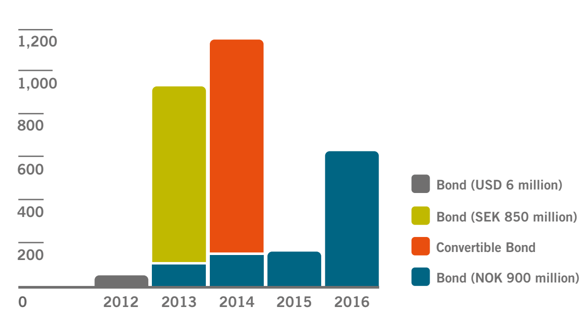
Credit facilities and other interest-bearing loans and borrowings

At the end of the year, credit facilities and other interest-bearing loans and borrowings totalled SEK 1,299 million (1,052), of which SEK 814 million (409) was recognised as short-term interest-bearing loans and borrowings. PA Resources has available credit facilities of SEK 1,730 million that include prefinancing facilities linked to the sale of oil and to a reserve-based credit facility with collateral in the West Africa region. For more information, see Note 22.

Amortisation

During the year, PA Resources paid down a net total of SEK 408 million in interest-bearing liabilities. The Group's total interest-bearing liabilities, of which approximately half are unsecured bond loans, amounted to SEK 4,027 million (4,395) as per 31 December 2011. For more information, see Note 22.

Maturity structure of bonds and convertibles (SEK million)



Group liquidity and financial position

	2011	2010	Change analysis
Cash flow from operations (SEK million)	812	416	Cash flow from operations improved compared with the preceding year and was positively affected by higher oil prices, partly offset by lower production. In addition, cost of sales and other external expenses were lower year-on-year and tax paid decreased in 2011.
Net cash flow after financing and capital expenditure (SEK million)	–1,209	1,152	Total investments amounted to SEK 1,613 million (1,585) and were predominantly attributable to the development of the Azurite and Aseng fields, the production well at Didon North and the drilling campaign in Denmark. Cash flow from financing activities was affected by amortisation of interest-bearing liabilities in a net amount of SEK 408 million, which should be compared with the preceding year's net borrowings of SEK 2,321 million including a new issue of shares in an amount of SEK 1,641 million.
Cash and cash equivalents at year end (SEK million)	44	1,260	Cash and cash equivalents amounted to SEK 44 million (1,260) at year end. Available lines of credit amounted to about SEK 1,730 million, of which SEK 1,299 million was utilised.
Total interest-bearing liabilities including convertibles (SEK million)	4,027	4,395	Total interest-bearing liabilities, long-term and short-term, decreased during the year. A bond loan of NOK 900 million (approx. SEK 1,035 million) was issued in March to refinance two existing bond loans. A bond loan of USD 100 million (approx. SEK 692 million) was redeemed in June, and the majority of a bond loan of USD 70 million (approx. SEK 484 million) was redeemed in March. The remainder was redeemed in March 2012.
Equity at balance sheet date (SEK million)	3,270	5,250	Equity decreased primarily due to significant one-off costs. The equity/assets ratio amounted to 37% (48%) at year end.
Debt/Equity ratio (%)	122 (76*)	60 (38*)	The debt/equity ratio increased during the year despite a decrease in interest-bearing liabilities. This was primarily attributable to a reduction in adjusted equity subsequent to significant one-off costs in 2011.

* assuming full conversion of convertibles outstanding.

Financial control and goals

Liquidity is monitored and planned on an ongoing basis to meet expected payment flows. Bank relations and borrowing needs as well as currency and liquidity management are coordinated by the Group's central Treasury function. The liquidity risk is balanced through planning the maturity structure of the Group's outstanding financial liabilities. Ultimately, the Board of Directors monitors the Group's capital structure and financial management, approves issues concerning acquisitions, investments, borrowing and monitors the exposure to financial risk on an ongoing basis. To a greater extent, continued investment will be financed by operating cash flow and the objective is to continue the reduction in the company's debt.

Financial covenants

All PA Resources' bond loans contain financial covenants. These apply to the level of book equity and the possibility of paying a dividend and the buy-back of the company's shares. In 2011, PA Resources has met all covenants. For more detailed information, see Note 22.

Reporting of financial instruments

Neither PA Resources AB nor its subsidiaries carry out hedge accounting for reporting purposes but may elect to implement various hedging measures in respect of interest-bearing liabilities.

During the year, PA Resources has used currency and interest rate swap contracts to match the currency and interest rate exposure of the Group's bond loans. Currency swap contracts were used to hedge loans in local currencies against the USD. Interest rate swap contracts, for which the interest rate can be changed from variable to fixed, and vice versa, were utilised to manage interest rate exposure. The Group had no currency or interest rate swap contracts outstanding as per 31 December 2011.

During the second half of 2011, PA Resources chose to hedge the oil price for a minor portion of its production through the purchase of put options, which provided the Group with a right, but not an obligation, to sell a volume of oil at a predetermined price during a predetermined period. The put options were never utilised since the oil price remained higher during the year. No other hedging measures were used during the year. For more information, see Note 32.

Parent Company's profit/loss and financial position

The Parent Company's revenue amounted to SEK 26 million (27) in 2011 and was primarily attributable to sales of services to other Group companies. Net financial items amounted to SEK –1,451 million (–279) and was negatively affected by the impairment of intra-Group receivables in an amount of SEK 1,436 million. The profit after tax amounted to SEK –1,452 million (–291).

Intangible assets amounted to SEK 88 million at year-end (0). The increase was attributable to intra-Group restructuring. Equity amounted to SEK 2,399 million (3,851) at year-end and was mainly affected by the impairment of intra-Group receivables.

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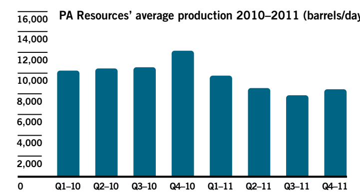
FOR A BRIEF GUIDE TO SIGNIFICANT ITEMS THAT IMPACT PA RESOURCES' PROFIT AND ACCOUNTING, SEE PAGE 78

SIGNIFICANT RISKS AND RISK MANAGEMENT

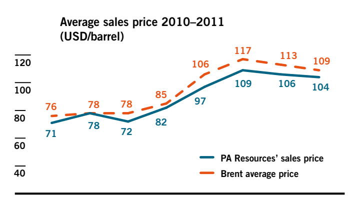
Operational risks

I Financial impact if the risk occurs

Description of risks	PA Resources' risk management	Outcome 2011	I
Declining production levels			
PA Resources produces at a limited number of fields. This means that natural decline in production and production disruptions at individual wells or facilities have a negative impact on total production levels and revenue. In conjunction with work on producing oil fields, production levels may be subject temporarily to negative impact.	PA Resources works with exploration and development of new oil fields to maintain production levels and cash flow. A long-term objective is to increase the number of producing fields. Improvements are implemented at existing production facilities to optimise production.	The Aseng field in Equatorial Guinea was brought into production in November and is the Group's most important field. The Azurite field in the Republic of Congo produced below expectations. The Didon field in Tunisia had relatively stable production, but the new production well at the satellite field Didon North could not be brought into production because of poor flows.	High

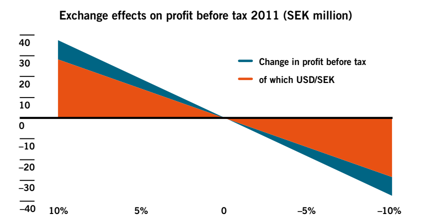


Description of risks	PA Resources' risk management	Outcome 2011	I
Decline in reserves			
Without new reserves being added, PA Resources' reserves and production will decrease over time. New oil and gas reserves must be found or acquired and then developed for production.	PA Resources carries on exploration activities in existing licences and develops discoveries for production. The Group strives to have a balanced portfolio of licences with a good spread across the stages of exploration, appraisal, development and production.	During the year, reserves declined to 60.2 million barrels oil equivalents (72.5) based on working interest and was impacted by the year's production, the downward adjustment of the Azurite field, reclassification of the reserves at Didon North and the divestment of two fields in Tunisia. The contingent resources and the risked prospective resources increased significantly. See page 16.	High
Fluctuations in the price of oil			
The world market price of oil fluctuates from day to day and is influenced by a wealth of factors including global economic growth, size of inventories, geopolitical unrest, weather, availability of oil, investment costs and competing energy sources. Major price fluctuations are negative since lower revenues and increased uncertainty impact the size of investments.	When required, PA Resources hedges the oil price of future sales. The investment budget and plans are continuously reviewed and costings revised based on the prevailing market situation. Deferment of certain investments, primarily in those fields where the Group is operator or major owner, is common in periods of low oil prices.	In 2011, the price of Brent varied between USD 94 and 127 per barrel and at year end amounted to USD 107 per barrel. Lack of production capacity, the improved economic prospects in the US and unrest in the Middle East kept prices high despite the ongoing debt crisis in Europe and the slowdown in growth in China, India and Japan. Read more on page 18.	High

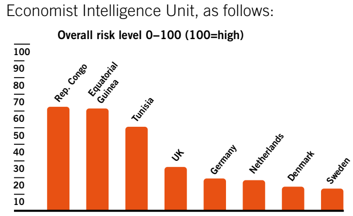
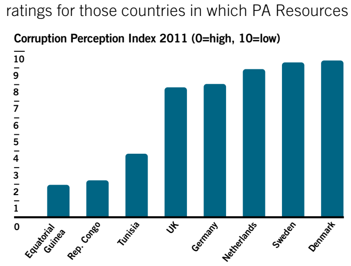


Description of risks	PA Resources' risk management	Outcome 2011	I
Accidents, damage and delays			
PA Resources may suffer accidents and damage to facilities, environmental damage or personal injuries. For example, fires, explosions, blowouts, accidental leaks and shipping accidents can occur. Delays can arise due to bad weather, poorly performed work by external partners, changes in government requirements and delayed deliveries of equipment.	Efforts are actively pursued in the areas of health, the environment and safety to minimise the risk of accidents, injuries and delays. Safety and risk assessments are performed and measures taken ahead of drilling, seismic surveys and the development of fields. The Group has property and liability insurances in line with international standards, but the Group is not fully insured against all types of risks.	No accidents occurred in 2011. The political situation in Tunisia gave rise to delays due to disturbance of logistics and delayed deliveries.	Low–High
Geological risks			
All estimations of oil and gas reserves and resources involve a certain degree of uncertainty. The risk exists that the estimated volumes will not accord with reality. The probability of discoveries of oil or gas is generally around 20 percent with drilling. If a well proves to be dry, there will be no return on the investment. Even if an oil discovery is made, the qualities of the bedrock may prevent production.	PA Resources strives to employ staff with a high level of geological expertise in order to minimise the risk of inaccurate estimates. When estimating reserves and resources the probability of the volumes existing in reality is also assessed. Also considered is the fact that, in statistical terms, a certain proportion of the wells drilled will be dry. The reserves and resources are classified differently depending on this probability, which provides a measurement of the geological risk.	PA Resources' exposure to this risk is comparable with that of other oil companies. In 2011, discoveries of commercial hydrocarbons were made in two of five exploration wells drilled. The two discoveries were made in Denmark and confirmed through the drilling of sidetracks. The new production well at Didon North could not be brought into production because of the nature of the bedrock which prevented the oil from flowing into the well.	Medium

Financial risks

Description of risks	PA Resources' risk management	Outcome 2011	
Market risk – Currency risk			I
PA Resources' reporting currency is SEK but operations are conducted in a number of different countries. The assets in oil and gas licences are valued by the market and generate revenue in USD. Costs are incurred and borrowing takes place primarily in USD, but also in SEK and other currencies. Currency risks mainly impact the Group through transaction risks and translation risks. Read more in Note 32.	Expected and budgeted current transactions are not normally hedged since the majority occur in USD. When borrowing in currencies other than USD, the currency of the loan can be converted into USD by means of currency swaps.		Medium
Market risk – interest rate risk			I
The net interest expense is affected by the balance between variable and fixed interest rates in the financing in relation to changes in market interest rates. The effect of a change in interest rates on the profit depends on the fixed term applicable. Future increases in interest rates could have a negative impact on results and business opportunities.	Interest swaps can be utilised to manage interest rate exposure. These agreements mean that fixed and variable interest payments are exchanged at specific intervals with reference to an agreed capital amount.	The average fixed-interest period was 2.0 years (1.3) at year end. *Sensitivity analysis 2012:* A concurrent shift in the interest-rate curve of one percentage point for all the Group's loans would have an impact on net financial items of ± SEK 2.5 million (11.9) in 2012. See Note 32 for more information.	Low–High
Liquidity risk			I
PA Resources' business activities are capital intensive. Exploration and development of fields requires access to financing as a supplement to cash flow from operations. The ability to make investments may be impaired if the cash flow were to be insufficient or external sources of capital limited.	Continuous work is performed on raising capital and refinancing through for example bond loans and other types of facilities. The objective is to reduce debt.	In 2011, refinancing activities were conducted to strengthen the capital structure. On the balance sheet date, cash and cash equivalents amounted to SEK 44 million (1,260). The net debt/equity ratio amounted to 76 percent (38) assuming full conversion and following the impairment of assets performed in 2011.	Medium–High

Political risks and risks related to society

Description of risks	PA Resources' risk management	Outcome 2011	
Political and economic instability			I
PA Resources conducts business activities in countries where a substantial level of risk exists in respect of political instability. The concept, political instability, comprises financial vulnerability and vulnerability to unrest. Unrest, political and economic instability in society, can hinder the company from conducting business, cause production interruptions, delays and pose a threat to safety among other items.	PA Resources avoids establishing operations in new countries where the level of instability is deemed too high. If instability or unrest arises in those countries where the Group is already established, the risks are evaluated to facilitate management of the situation. For guidance on the management of difficult situations, the Group uses the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones among other tools. Read more on www.sweden.gov.se.	The political situation in the North Africa region had a certain degree of impact on the operations of PA Resources, principally through disruption of logistics and delays in negotiations regarding the Zarat field's reserves. Read more on page 20. The assessed risk level in those countries in which PA Resources conducts operations are according to the Economist Intelligence Unit, as follows: 	Medium–High
Corruption			I
Business activities are also, to a certain extent, conducted in countries where corruption can occur. Bribes and other forms of corruption lead to significant problems for those companies that become involved.	PA Resources does not accept bribes or facilitating payments. A new policy with guidelines against corruption was implemented and staff in the UK trained for the purpose of ensuring that the new UK anti-corruption legislation is complied with. See page 20 for more information.	Transparency International's Corruption Perceptions Index ratings for those countries in which PA Resources operates: 	Low–High

PA Resources' exposure to the following risks is assessed as relatively low at present, both in respect of the likelihood of the event occurring in 2012 and in respect of its impact on the Group's operations:

- Availability of personnel and equipment
- Change in long-term demand
- Competition
- Negative changes in fiscal terms
- Disputes regarding agreements
- Revocation of licences
- Natural disasters
- Increased costs for dismantling facilities
- Credit risks

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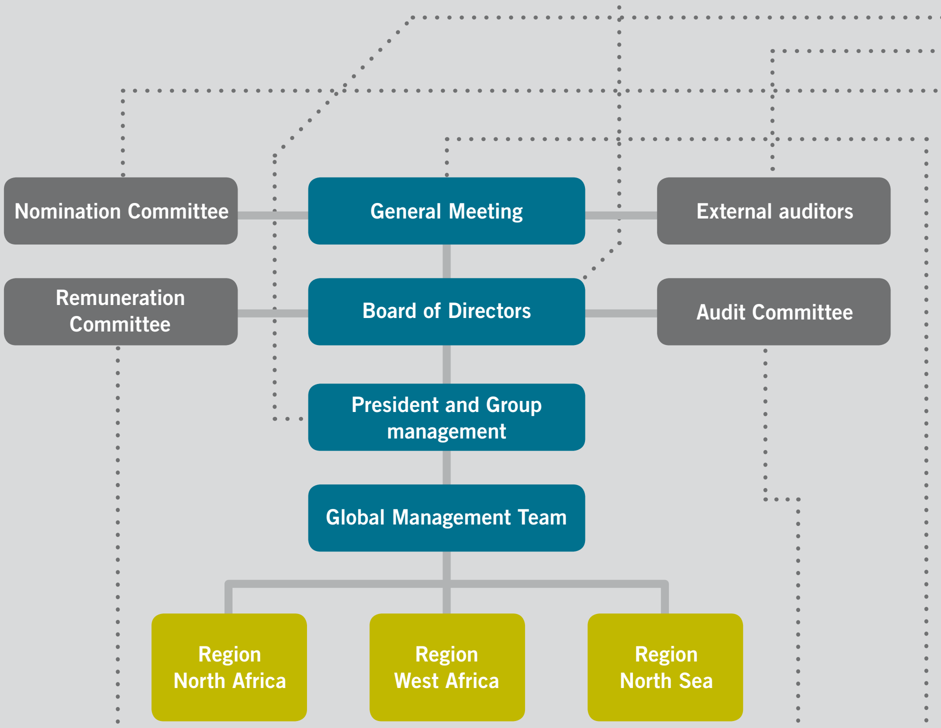
READ MORE ABOUT THESE RISKS ON WWW.PARESOURCES.SE

CORPORATE GOVERNANCE REPORT 2011

The role of corporate governance at PA Resources is to promote long-term sustainable and profitable operations. The objective is to create favourable conditions for active and responsible ownership, a clear structure and a well-balanced allocation of responsibility between the Board of Directors and the company management as well as transparency towards stakeholders including shareholders, the capital markets, partners, employees and society in general. The figure below illustrates PA Resources' corporate governance model and how the central bodies interact. Corporate governance is not only about efficient procedures and controls; it also presupposes a highly ethical basic outlook that pervades the entire organisation. This corporate governance report has been prepared as part of the application by PA Resources of the Swedish Code of Corporate Governance (the Code). PA Resources reports no deviations from the Code for 2011.

Governance of PA Resources



The Nomination Committee

The Nomination Committee represents the shareholders of the company and is tasked solely with preparing recommendations on election and remuneration issues for decision at the Annual General Meeting (AGM) as well as, in certain cases, proposing procedural questions ahead of the next Nomination Committee. The Nomination Committee is appointed each year for PA Resources in line with the resolution passed at the AGM. The Nomination Committee comprises the Chairman of the Board together with representatives of the three largest shareholders in the company at the end of the third quarter, who have elected to be represented on the Nomination Committee.

General Meeting

The shareholders' meeting is the highest decision-making body of PA Resources, where all shareholders are entitled to attend, to raise a matter for discussion and to exercise their voting rights for all their shares. The Board of Directors is elected at the company's Annual General Meeting (AGM). In addition, the AGM adopts the company's and the Group's income statements and balance sheets as well as elects the company's external auditors. In addition, the AGM passes resolutions regarding Board fees and adopts guidelines governing the remuneration of senior executives.

Remuneration Committee

The Remuneration Committee prepares decisions for the Board in matters relating to remuneration guidelines and other terms of employment for the company's senior executives. The Committee monitors and evaluates programs for variable remuneration, the application of resolutions passed by general meetings on guidelines for remuneration of senior executives and the structures and levels for remuneration applicable within the Group. The Remuneration Committee prepares proposals for decision and recommends that the Board approve the proposed decisions.

Audit Committee

The Audit Committee monitors financial reporting, the efficiency of the company's internal control, internal audit and risk management. The Committee ensures it stays informed regarding the audit, examines and monitors the impartiality and independence of the auditor as well as assists the Nomination Committee with proposals for the election of auditors at the AGM. The Audit Committee prepares proposals for decision and recommends that the Board approves the proposed decisions.

External auditors

The company's auditing firm is Ernst & Young AB and the auditor in charge is Authorised Public Accountant Jaan Kubja. Ernst & Young, who were appointed the company's auditors at the 2009 AGM for a mandate period of four years, conduct audits of all significant companies in the Group. In conjunction with the company's year-end financial statement, the auditor examines the company's annual accounts, consolidated financial statements and accounting as well as whether the administration of the Board of Directors and President was performed in compliance with accepted auditing standards in Sweden. The auditor performs a review of the interim report for the first six months. The auditor works according to an established audit plan and reports observations to the Audit Committee on an ongoing basis over the year. Furthermore, the auditor provides an audit report and participates in the AGM.

The Board of Directors

The Board has overriding responsibility for managing the affairs of the company in the best possible manner on behalf of the shareholders. The Board's work follows an annually established formal work plan. The Board supervises the President's work by performing an ongoing follow-up of business activities. Furthermore, the Board monitors that the company's organisation, management and guidelines are appropriately structured and that internal control is adequate. The Board sets strategies and goals, takes decisions on major investments, acquisitions and divestments of operations and assets. The Board also appoints the company's President and sets the salary and other remuneration of the President and other senior executives. Pursuant to the Articles of Association, the Board of PA Resources must consist of a minimum of three and maximum of eight members with a maximum of eight deputy members. The Chairman directs the work of the Board and is responsible for it being well-organised and efficiently performed. This includes ongoing monitoring of the company's operations through dialogue with the President and responsibility for ensuring other Board members receive information and supporting documentation that ensures discussion of high quality with adequate supporting documentation for Board decisions. The Chairman leads the evaluation of the Board's and the President's work and represents the company in ownership issues.

President, Group management and the Group Management Team

PA Resources' President and CEO is responsible for leading and developing the ongoing activities of the company in line with the Board's guidelines and instructions. The Board's formal work plan and the Board's special instructions for the President detail, among other items, the division of work between the Board and the President. In consultation with the Chairman, the President prepares documentation and supporting data for the Board's work. The CFO provides the President with support and together with the President comprises the company's Group management. The management of PA Resources also includes a Group Management Team (GMT), which is comprised of the Group management and the respective managing directors of region North Africa and region West Africa and North Sea. When required, other key personnel are included from project management, investment and communication. The PA Resources Group has a decentralised organisational structure in which the respective regions have responsibility for the development of their respective activities through established goals, strategies and budgets. The regions are responsible for their operating income, capital and cash flow which are followed up on a monthly basis at the business review meetings. Operational activities are followed up by the Group management on a daily basis and weekly GMT meetings are held by telephone.

Key internal rules and regulations

- Articles of Association
- The Board's formal work plan and the Board's special instructions for the President including instructions pertaining to financial reporting to the Board and instructions for committees
- Guidelines for remuneration of senior executives
- Policy documents (for example, finance, communication, HR and environment) and instructions (such as, authorisation and payments)

Key external rules and regulations

- The Swedish Companies' Act
- NASDAQ OMX Stockholm's rules and regulations
- Swedish Code of Corporate Governance
- Accounting standards

Work during 2011

Annual General Meeting

The Annual General Meeting was held on 17 May 2011 in Stockholm. 95 shareholders attended the meeting, either in person or through a proxy, which corresponded to about 7 percent of the shares and votes in the company. The then Chairman of the Board Sven Rasmusson was elected Chairman of the meeting. Resolutions passed at the Annual General Meeting included:

- to adopt the income statements and balance sheets for the Parent Company and the Group as well as grant the members of the Board and the President a discharge from liability for their administration
- not to pay any dividend to the shareholders
- to re-elect Hans Kristian Rød, Catharina Nystedt-Ringborg, Lars Olof Nilsson and Paul Waern and newly elect Per Jakobsson as ordinary members of the Board, as well as, to newly elect Hans Kristian Rød as Chairman of the Board
- to adopt the principles for appointment of the Nomination Committee prior to next year's AGM, which will comprise the Chairman of the Board and representatives of the three largest shareholders of the company at the end of the third quarter in 2011 who have elected to be represented on the Nomination Committee
- to approve that a board fee of a total of SEK 1,650,000 would be paid, of which SEK 550,000 of the fee would be allocated to the Chairman and SEK 275,000 to each of the other members of the Board
- to adopt the guidelines for remuneration of the President and other senior executives as proposed by the Board of Directors.

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FURTHER INFORMATION ON PA RESOURCES' CORPORATE GOVERNANCE IS AVAILABLE AT WWW.PARESOURCES.SE

The complete minutes and additional information concerning the AGM are available at www.paresources.se

The Nomination Committee's work

The Annual General Meeting 2011 resolved that the Nomination Committee prior to the Annual General Meeting 2012 is to be comprised of the Chairman of the Board and representatives of the company's three largest directly registered shareholders as at 30 September 2011, according to Euroclear Sweden's share register as of the same date, who have elected to be represented on the Nomination Committee. In the event that such a shareholder does not wish to appoint a representative of the Nomination Committee, the fourth-largest registered shareholder is asked, and so on.

Members of PA Resources' Nomination Committee prior to the Annual General Meeting 2012

Representative	Shareholder	Holding/votes*
Jesper Bonnivier	Länsförsäkringar Fondförvaltning AB	5.7% (3.5)
Bengt Stillström	AB Traction	1.7% (1.7)
Carina Lundberg Markow	Folksam	0.7% (0.6)
Hans Kristian Rød	Chairman of the Board	N/A

*Figures in brackets pertain to the percentage of votes at the end of 2011.

Of the three owner representatives, Jesper Bonnivier was appointed Chairman of the Nomination Committee. The Nomination Committee met on four occasions. The Chairman of the Board informed the Nomination Committee about the work of the Board and the committees during the year and presented the annual evaluation of the Board of Directors.

PA Resources' Annual General Meeting 2012 will be held on 22 May in Stockholm, see page 80. Shareholders have had opportunity to submit proposals to the Nomination Committee. The proposals of the Nomination Committee prior to the Annual General Meeting 2012 are detailed in the notice convening the meeting and through information published on www.paresources.se.

The work of the Board

In 2011, the Board comprised five ordinary Board members and held a total of 18 meetings. The Board members were provided with a written agenda and complete information and decision documentation prior to each ordinary Board meeting. The company's President and CFO attended to give presentations and minutes were kept by the Board secretary. At each ordinary Board meeting, the President submitted an update of business activities that included production and sales data, financial reporting, oil-price trends, share-price trends, analysts' estimates, shareholder statistics and a review of the company's ongoing projects. The Board's work was intensive and focused on the areas described in the figure below.

The Remuneration Committee's work

In 2011, the Remuneration Committee comprised the Chairman of the Board and Board members Lars Olof Nilsson and Catharina Nystedt-Ringborg. The Chairman of the Board is also Chairman of the Committee. A total of four meetings were held during the year and the work primarily dealt with the following areas:

- The Remuneration Committee's evaluation of remuneration to senior executives
- Proposals for guidelines for remuneration of senior executives
- The structure of the new bonus scheme for key employees of the PA Resources Group

The Audit Committee's work

The Audit Committee comprised the Chairman of the Board and the Board members Per Jakobsson and Lars Olof Nilsson. Lars Olof Nilsson is Chairman of the Committee and the company is represented by the President and CFO. A total of four meetings were held during 2011 and the work principally focused on review and approval of the company's interim reports and year-end report. At the meeting held in conjunction with year-end report in February a deeper review was performed of the auditor's report.

The Board's work in 2011

First quarter

- Year-end report
- Evaluation of the Board's work in 2010
- Refinancing of bond loans
- Annual Report and proposed allocation of profit
- Agenda for the AGM and proposed guidelines for remuneration of senior executives
- The Remuneration Committee's evaluation of remuneration to senior executives

Second quarter

- Interim report for the first quarter
- Capital and financing issues
- Follow-up of Liquidity
- More in-depth review of ongoing operational projects with particular focus on Didon North and Aseng

Third quarter

- Interim report for the second quarter
- Capital and financing issues
- More in-depth review of ongoing operational projects with particular focus on Azurite, Didon North, the drilling campaign in Denmark and Aseng
- New bonus scheme for key employees of the PA Resources Group

Fourth quarter

- Interim report for the third quarter
- Capital and financing issues
- Budget and programme of work for 2012
- Annual in-depth review of the asset portfolio, strategies, long-term goals and prioritised projects
- Evaluation of 2011's drilling programme
- Evaluation of the President's work in 2011

Evaluation of the Board's work

An annual evaluation of the Board's work was performed by the Norwegian consulting firm Mindex. The evaluation focused in part on the Board's external relationships to shareholders, business activities, transparency and reputation and in part on internal issues pertaining to decision quality, the Board's administration as well as the Board's composition and competence. The results were presented to and discussed by the Board and have also been distributed to the Nomination Committee.

External auditors

The company's auditors reported their observations from reviews of internal control, financial reporting and the annual financial statements to the Audit Committee. Through the Audit Committee, the Board had one additional meeting with the company's auditor in 2011. The appointed auditor is Ernst & Young AB, with Authorized Public Accountant Jaan Kubja as auditor in charge. Jaan Kubja has been the company's auditor since 2005. In addition to the audit assignment, Ernst & Young provided PA Resources within consultancy services in the tax field as well as in regard to various accounting and financial matters. Ernst & Young is obligated to test its independence prior to determining whether to provide separate consulting services to PA Resources in addition to its auditing assignment.

Remuneration of Management and Board

Guidelines for remuneration

Guidelines for the remuneration of senior executives at PA Resources is adopted at the Annual General Meeting and apply to the existing President and the company's CFO who are members of the Group management. PA Resources offers a total remuneration package at market rates that enables qualified senior executives to be recruited and retained. Fixed salary and other remuneration must be proportional to the employee's level of responsibility and authority. The total remuneration package includes:

- fixed salary
- variable remuneration linked to clearly defined and measurable goals, which is not permitted to exceed fixed salary paid over the applicable time period
- defined-contribution based pension provisions
- other benefits including company car, computer and mobile phone
- termination pay and severance pay which may not exceed 18 months' fixed salary

The Board's proposal for remuneration guidelines prior to the Annual General Meeting 2012 agrees with the policies applied thus far. The Board's full proposal regarding guidelines and other material ahead of the Annual General Meeting 2012 will be available on www.paresources.se/corporate governance.

Long-term bonus scheme

In 2011, the Board resolved to implement a new bonus system for the PA Resources Group to replace the preceding bonus system implemented in 2008. The objective of a long-term bonus scheme is to promote the long-term interests of the company by motivating and rewarding the company's leading executives and other key staff. Like the preceding bonus system, the new bonus system encompasses three different categories "senior executives, key staff and other qualified employees". The programme comprises a share-price linked bonus element and a prerequisite for payment of the bonus is the employee remaining in the employ of PA Resources. The bonus programme affords an opportunity to receive a salary-based remuneration based on the performance of the company's share price over a three-year qualifying period. The bonus programme is not based on warrants, staff warrants, synthetic warrants or other securities; it affords an opportunity to receive a salary-based bonus based on the performance of the company's share price over a three-year qualifying period. The programme is a rolling scheme which means that a new three-year bonus period starts on completion of each twelve-month period. The first occasion the bonus is payable is three years following the start of the programme and thereafter every year based on the performance of the share price over the respective three-year qualification period. The same reference date and reference price applies for all employees encompassed by the programme's qualification period. The reference date for the first period is 1 September 2011 with SEK 2.64 as the reference price. The bonus ceiling applicable for the respective three-year qualification periods amounts to one year's salary for senior executives, six months' salary for key staff and one month's salary for other qualified employees. See also Note 7 on page 56.

Remuneration of senior executives

Senior executives are defined as the President and CFO who are part of PA Resources' Group management. Their remuneration in 2011 is reported under Note 8 on page 57. According to the terms of employment applicable to the company's President, Bo Askvik, he is entitled to an individual performance-based bonus amounting to a maximum of three month's salary per year and he is encompassed by the company's new long-term share-based bonus scheme in the "senior executives" category, which includes the possibility of a maximum bonus corresponding to one year's salary for the respective qualification period of three years. According to the terms of employment applicable to the company's CFO, Nicolas Adlercreutz, he is entitled to an individual performance-based bonus amounting to a maximum of three month's salary per year and he is encompassed by the company's new long-term share-based bonus programme in the "senior executives" category, which includes the possibility of a maximum bonus salary corresponding to one year's salary for the respective three-year qualification period.

The performance-based bonus is set individually with clearly defined measurable goals and is designed to support the Group's strategic and financial goals. Payment of any individual performance-based bonus requires that the individual concerned has not been given notice of dismissal or given notice of resignation at the date payment is effected.

Remuneration of Board of Directors

Fees to the Board of Directors of PA Resources are set at the Annual General Meeting in line with proposals from the Nomination Committee. In 2011, fees were paid as detailed on page 37.

Remuneration of Auditors

In 2011, fees paid to auditors were as detailed in Note 10 on page 57.

Internal control pertaining to financial reporting

The purpose of internal control is to ensure correct and reliable financial reporting and accounting in compliance with applicable laws and regulations, accounting standards and other requirements applicable to listed companies. PA Resources follows an internal control process based on the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) framework that encompasses five main areas: the control environment, risk assessment, control activities, information and communication as well as follow-up.

Control environment

The Board of Directors has overriding responsibility for financial reporting. The internal control structure of PA Resources builds on a clear division of responsibilities between the Board and the President as well as the bodies established by the Board, that is, the Audit Committee and the Remuneration Committee. This written procedure is updated and adopted each year by the Board. The mandate of the Audit Committee is to monitor and ensure quality is maintained for the company's financial reporting. Efforts focus on assessing the effectiveness of the company's internal controls and on assessments of estimates and reported values that could impact the quality of reporting. The Audit Committee keeps informed about the audit of interim reports, the Annual Report and consolidated financial statements through the presence of the company's auditor. The President and CFO of PA Resources attend Audit Committee meetings and the members of the Audit Committee also have ongoing contact with these two officers. The control environment at PA Resources determines individual and collective attitudes within the Group and is defined and maintained primarily by:

- The organisational structure, the corporate culture, employee competence, decision-making paths and methods of conducting operations
- Overriding policy documents encompassing policies and directives for the various business activities and functions
- Responsibilities and authorities defined through various policies, instructions pertaining to signing authority, manuals, procedures and codes
- Laws and external rules and regulations.

Financial reporting to the Board

The Board's formal work plan states which supporting documentation and which financial information is to be presented to the Board in conjunction with each ordinary meeting. The President is responsible for the Board receiving the necessary reports to enable the Board to assess the company's and the Group's financial position. The information comprises presentation and analysis of the earnings trend, cash flow and financial position as well as budget and forecasts including ongoing follow-up of these. Furthermore, the formal work plan defines which information is to be dealt with at which Board meeting during the year.

External financial reporting

The quality of external financial reporting is secured through various activities and procedures. The President is responsible for ensuring that all information, for example, press releases with financial content and presentation material for various meetings with the media, owners and investors, is correct and of adequate quality.

Risk assessment

The risk of material errors or deviations from the disclosure requirements may exist in conjunction with the accounting and valuation of assets, liabilities, revenue and expenses. Risk assessment in the financial reporting is aimed at establishing the material risks that impact reporting in Group companies and various processes. A controlling framework has been established with regard to reporting, procedures and detailed timetables for closing the accounts and forecasts for the purpose of minimising these risks. The Board and management of PA Resources assess the ongoing reporting from a risk perspective. Comparisons are made of income statement and balance sheet items with regard to materiality and complexity and of earlier reporting and budget. The internal control structure is adjusted to meet any change that occurs in the risk assessment.

In addition to the assessment of risk in the financial reporting, the Board and management work on an ongoing basis to identify and manage material risks that impact the business activities of PA Resources from an operational and financial perspective. The most significant risks are described in the section Risks and risk management on page 30–31 and in Note 32, but are not encompassed by the internal control structure.

Control activities and follow-up

Control activities involve all levels of the organisation. The activities limit identified risks and ensure correct and reliable financial reporting. The Group's central controller function analyses and follows up budget deviations, produces forecasts, follows up any material variations between periods and reports higher up in the organisation thus minimising any risk of errors in the financial reporting. Control activities also encompass the follow-up and comparison of earnings trends or any individually significant items, the reconciliation of accounts and balance statements as well as approval of all business transactions and collaboration agreements, instructions pertaining to powers of attorney or signing authorisation and accounting and valuation policies. The Group's central accounting function performs regular internal follow-ups of outcomes, deviations and forecasts together with the local regional accounting manager, which also address current accounting and reporting issues. To ensure the efficiency and standardisation of accounting, reporting and consolidation processes, the company has implemented a joint consolidation system and is in the process of implementing a single standard accounting system for all subsidiaries.

The joint venture agreements, concluded by PA Resources within the framework of its business activities, contain standardised conditions pertaining to audit right that provide PA Resources, as a partner in the licence, with the opportunity of performing an audit of the party that is the operator of the licence. The purpose of the audit is to ensure that reporting and accounting procedures are adhered to and expenses recognised pursuant to the joint-venture agreement.

Information and communication

The provision of information at all levels within the Group and with the external parties concerned is a key component of internal control. Relevant policies, guidelines and principles for accounting are made available to all employees affected which should contribute to complete, correct and timely financial reporting. In addition, regular updates are provided and messages regarding changes in accounting policies as well as requirements applying to reporting and the provision of information. All subsidiaries and operative units submit regular financial reports and reports covering their operations to the Group's central accounting function and to the Group management.

A communication policy is in place that describes how, by whom and in which manner external information is to be communicated to ensure that such external provision of information is correct, complete and that it complies with those requirements applicable to listed companies. On the company's website, www.paresources.se, financial reports, production reports, press releases, presentation material, webcasts, teleconferences and various key ratios are published on an ongoing basis.

Activities in 2011

- Revised reporting with increased scope from subsidiaries and regions to the company management and the Group's central accounting function that includes forecasts, project follow-ups and key financial ratios.
- Focus on liquidity and cash flow reporting as well as follow-up from the regions.
- Provision of the Board with revised financial reporting of increased scope.
- The continued development and implementation of the Group-wide consolidation system that also comprises IT security.
- The ongoing implementation of one common accounting system for all subsidiaries.
- The continued improvement of processes and procedures for interim reports to enable increased efficiency and quality assurance.
- Training at local level.
- Follow up of the Group's process-based controls.

THE BOARD OF DIRECTORS

	Hans Kristian Rød	Per Jacobsson	Lars Olof Nilsson	Catharina Nystedt-Ringborg	Paul Waern
					
Function	Chairman of the Board*	Board member	Board member	Board member	Board member
Year of election	Board member since May 2009, Chairman since May 2011	May 2011	May 2008	May 2006	May 2009
Born	1953	1969	1962	1951	1950
Education	Master of Business Administration	M.Sc. in Economic history and B.Sc. in Business administration	M.Sc. in Business and Economics	Bachelor of Economics, Master of Political Science and MBA in International Business Management and interpreter training, Sorbonne	M.Sc. in Mining
Position	Corporate Representative for the Fortum Corporation in Norway	Managing Director for the investment company Ulla Seaton Invest AB and for the management consultancy company Celvic Investments AB, as well as private investor through Celvigo AB	Board work and consultant for Evli Bank	Board work and advisor in the energy sector	Drilling Supervisor at Norsk Sockel
Other Board assignments	Board member of Hafslund ASA, Infratek ASA, North Energy AS and Fredrikstad Energi AS. Member of the industry organisation Energy Norway's Committee for Economic Policy and Chairman of a number of subsidiaries in the Fortum Group	Board member of Kenol-Kobil Ltd – an oil company listed on the Nairobi Stock Exchange	Chairman of Lappland Goldminers AB, AGL Treasury Support AB, AGL Transaction Services AB and Kaptensbacken AB as well as Board member of BE Group AB	Board member of CN-R Affärsutveckling AB, Svenskt Pantlotteri AB and Antrepo AB	Board member of Selena Oil & Gas AB
Previous experience	President of Fortum Corporation Exploration and President of Fortum Petroleum AS	Director at Jakobsson Fastighetsförvaltning i Stockholm AB, and Sales Manager respectively Budget Controller at Kobil Petroleum Ltd and Kenya Oil Company Ltd in Kenya. Previously a Board member of subsidiaries to the Kenya Oil Company Ltd	Head of Group Treasury and Group Business Development at Trelleborg AB, Board member of a number of companies	Board member of several international energy companies and Managing Director of Swedish Water Development AB, Senior VP of ABB Ltd and Fläkt AB as well as other positions in AGA Systèmes Infrarouges SARL, Swedish Government Offices and OECD	30 years' international experience from the oil and gas industry
Shareholding in PA Resources, 31 Dec 2011	100,000 shares No convertibles	200,000 shares No convertibles	52,254 shares 1,000 convertibles	195,000 shares 12,500 convertibles	150,000 shares No convertibles
Independent**	Yes	Yes	Yes	Yes	Yes
Attendance at – Board meetings	18 of 18	13 of 18***	18 of 18	17 of 18	17 of 18
Attendance at – Remuneration Committee	3 of 4***	—	4 of 4	4 of 4	—
Attendance at – Audit Committee	4 of 4	2 of 4***	4 of 4	—	—
Annual fee for Board work including committee work	SEK 550,000	SEK 275,000	SEK 275,000	SEK 275,000	SEK 275,000

* The post of Chairman of the Board was held by Sven Rasmusson until the Annual General Meeting on 17 May 2011 when he stepped down and Hans Kristian Rød was elected.
** According to the Code, the member is considered independent of the company, its management and major shareholders of the company (shareholding larger than 10%).
*** Elected at the Annual General Meeting 17 May 2011.

GROUP MANAGEMENT

Bo Askvik

Nicolas Adlercreutz

	Bo Askvik	Nicolas Adlercreutz
Function	President and CEO	CFO
Year of employment	2007. Current position since 2010	2010
Born	1958	1970
Education	M.Sc. Business and Economics	M.Sc. Business administration
Previous experience	CFO of Sanitec Corp, Intrum Justitia AB and SAPA and other positions at Borealis Coordination Centre, Neste Sverige AB, Östgöta Enskilda Bank and Nordstjernan AB	Vice President Group Control and other positions at Svenska Cellulosa Aktiebolaget SCA (publ).
Board assignments	None	None
Shareholding in PA Resources, 31 Dec 2011	395,000 shares 12,500 convertibles	10,000 shares No convertibles

REGIONAL MANAGEMENT

Mohamed Messaoudi

Graham Goffey

	Mohamed Messaoudi	Graham Goffey
Function	Managing Director PA Resources Tunisia and Regional Manager of North Africa	Managing Director PA Resources UK and PA Resources Congo SA and Regional Manager of West Africa and the North Sea
Year of employment	2007	2009
Born	1952	1964
Education	M.Sc. Engineering and MBA	M.Sc. Petroleum Geology and MBA
Previous experience	Leading international positions at Storm Ventures, Nexen, MBC Consulting, Shell, International E&P (in Oman, Nigeria, Gabon, Tunisia and the Netherlands) as well as Elf	Senior positions in exploration and leading positions at LASMO, Paladin Resources plc, Sterling Energy plc, etc.
Shareholding in PA Resources, 31 Dec 2011	—	32,000 shares 16,000 convertibles

Auditors

Ernst & Young AB, for the period 2009–2013. Since 2005, the auditor in charge has been Authorized Public Accountant Jaan Kubja.

Board Secretary

Lawyer Ulrika Magnusson, Ulrika Magnusson Advokat AB. Board Secretary since 2008.

INCOME STATEMENT
GROUP

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Revenue	4	2,153,808	2,226,732
Cost of sales	5, 11	–707,401	–758,828
Other external expenses	10, 11	–85,057	–125,169
Personnel expenses	7, 8, 9	–66,100	–67,059
Depreciation, amortisation and impairment losses *	15, 16, 17	–2,821,859	–785,252
Operating profit	6	**–1,526,609**	**490,424**
Financial income	12	63,695	182,890
Financial expenses	12	–414,042	–494,033
Total financial items		**–350,347**	**–311,143**
Profit before tax		**–1,876,956**	**179,281**
Income tax	13	–206,940	–495,668
Profit for the year *		**–2,083,896**	**–316,387**
Profit for the year attributable to:			
Owners of the parent		–2,083,896	–316,387
Earnings per share before dilution	14	**–3.27**	**–0.61**
Earnings per share after dilution	14	**–3.27**	**–0.61**

Earnings per share are attributable to owners of the parent.

* Figures for the full year 2011 include one-off costs of SEK 2,034,666 thousand (0) before tax and SEK 1,758,077 thousand (0) after tax.

STATEMENT OF COMPREHENSIVE INCOME
GROUP

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Profit for the year		**–2,083,896**	**–316,387**
Other comprehensive income			
Exchange differences during the year		103,794	–712,429
Exchange difference effect from liquidation		–328	0
Available-for-sale financial assets	25	–22	–1,065
Income tax relating to available-for-sale financial assets	13	2	284
Total other comprehensive income		**103,446**	**–713,210**
Total comprehensive income		**–1,980,450**	**–1,029,597**
Total comprehensive income attributable to:			
Owners of the parent		–1,980,450	–1,029,597

STATEMENTS OF FINANCIAL POSITION
GROUP

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
ASSETS			
Non-current assets			
Intangible assets	15, 17	2,296,485	1,728,771
Property, plant and equipment	16, 17	5,596,475	7,202,660
Machinery and equipment	16	15,499	18,397
Construction in progress	16	332	327
Financial assets	25	1,482	2,185
Total non-current assets		**7,910,273**	**8,952,340**
Inventory	18	59,313	5,034
Accounts receivable and other receivables	19	840,722	677,117
Current tax assets		7,069	3,168
Cash and cash equivalents	20	44,465	1,260,393
Total current assets		**951,569**	**1,945,712**
Assets held for sales	29	29,923	0
TOTAL ASSETS		**8,891,765**	**10,898,052**
EQUITY			
Equity attributable to owners of the parent	21		
Share capital		318,738	318,738
Other capital contributions		3,764,144	3,764,137
Reserves		–851,465	–954,911
Retained earnings and profit for the year		38,130	2,122,026
Total equity		**3,269,547**	**5,249,990**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	22	3,170,186	2,767,310
Deferred tax liabilities	13	289,024	409,031
Provisions	23	571,458	429,884
Total non-current liabilities		**4,030,668**	**3,606,225**
Current liabilities			
Provisions	23	8,447	0
Current tax liabilities		89,644	70,746
Derivative financial instruments	25	0	9,523
Current interest bearing loans and borrowings	22	856,369	1,627,695
Accounts payable and other liabilities	24	634,355	333,873
Total current liabilities		**1,588,815**	**2,041,837**
Liabilities referred to assets held for sale	29	2,735	0
TOTAL EQUITY AND LIABILITIES		**8,891,765**	**10,898,052**
PLEDGED ASSETS	27	**1,347,736**	**2,179,630**
CONTINGENT LIABILITIES	27	**14,000**	**14,000**

STATEMENT OF CHANGES IN EQUITY
GROUP

		Equity attributable to owners of the parent				
SEK 000s	Notes	Share capital	Other capital contribution	Reserves	Retained earnings and profit for the year	Total
Balance at 1 January 2010		83,877	2,357,593	–241,701	2,438,055	4,637,824
Profit for the year					–316,387	–316,387
Total other comprehensive income				–713,210		–713,210
Transactions with shareholders						
New share issue		234,856	1,526,561			1,761,417
Issue expenses			–120,087			–120,087
Redemption convertible shares	21, 22	5	70			75
Share-based payments	9				358	358
Closing balance at 31 December 2010		**318,738**	**3,764,137**	**–954,911**	**2,122,026**	**5,249,990**
Balance at 1 January 2011		318,738	3,764,137	–954,911	2,122,026	5,249,990
Profit for the year					–2,083,896	–2,083,896
Total other comprehensive income				103,446		103,446
Transactions with shareholders						
Redemption convertible shares	21, 22	0	7			7
Closing balance at 31 December 2011		**318,738**	**3,764,144**	**–851,465**	**38,130**	**3,269,547**

The number of shares outstanding after conversions in 2011 was 637,476,893. No dividend was paid for the 2010 financial year or earlier financial years. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the 2011 financial year. Reserves at the beginning of the year pertained to effects from translation of operations in foreign currency and to changes in the revaluation reserve. At year-end reserves pertained only to effects from translation of operations in foreign currency.

STATEMENT OF CASH FLOW
GROUP

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Cash flow from operating activities			
Income after financial items ***		–1,876,956	179,281
Adjustments for non-cash items		2,723,783	348,359
Income tax paid		–45,227	–229,639
Total cash flow from operating activities before changes in working capital		**801,600**	**298,001**
Cash flow from changes in working capital			
Change in inventory		–50,851	–6,392
Change in receivables		–198,709	–168,613
Change in liabilities		259,526	293,218
Cash flow from operating activities *		**811,566**	**416,214**
Cash flow from investing activities			
Investments in intangible assets	15	–558,675	–273,189
Investments in property, plant and equipment	16	–1,053,939	–1,312,150
Cash flow from investing activities		**–1,612,614**	**–1,585,339**
Cash flow from financing activities			
New share issue		0	1,641,330
Loans raised		2,131,298	2,272,818
Amortisation of debt		–2,539,515	–1,593,182
Cash flow from financing activities		**–408,217**	**2,320,966**
Cash flow for the year		**–1,209,265**	**1,151,841**
Cash and cash equivalents at the beginning of year	20	1,260,393	123,874
Exchange rate difference in cash and cash equivalents		–6,663	–15,322
Cash and cash equivalents at end of year	20	**44,465**	**1,260,393**
Adjustments for non-cash items			
Depreciation, amortisation and impairment losses	15, 16	2,821,859	785,252
Accounting fair value of financial instruments		–9,523	8,271
Oil sales attributable to Net Entitlement Method (net)		0	33,153
Valuation oil sales **		–322,994	0
Other items including accrued intrest and exchange differences (net)		234,441	–478,317
Total		**2,723,783**	**348,359**

* Starting in 2011, PA Resources reports changes in working capital excluding exchange differences, which were previously reported in the items Other items including accrued interest and exchange differences and Working capital.

** Starting in 2011, PA Resources reports the effects from fair valuation of inventory and reported differences between Working Interest and Net Entitlement in the item Valuation oil sales.

*** The amount includes interest received at SEK 9,914 thousand (21,041), of which SEK 0 thousand (0) is attributable to current operations, and SEK 9,914 thousand (21,041) to financing activities and interest paid at SEK 264,297 thousand (230,570), of which SEK 0 thousand (0) is attributable to current operations and SEK 264,297 thousand (230,570) to financing activities.

INCOME STATEMENT
PARENT COMPANY

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Net sales	4	26,300	26,677
Other external expenses	10, 11	–19,842	–23,932
Personnel expenses	7, 8, 9	–19,038	–23,883
Depreciation, amortisation and impairment losses	16	–144	–193
Operating profit	6	**–12,724**	**–21,331**
Result from participations in Group companies	30	–1,461,753	0
Financial income and similar	12	479,516	427,612
Financial expenses and similar	12	–469,111	–707,092
Total financial items		**–1,451,348**	**–279,480**
Profit before tax		**–1,464,072**	**–300,811**
Income tax	13	12,116	10,082
Profit for the year		**–1,451,956**	**–290,729**

STATEMENT OF COMPREHENSIVE INCOME
PARENT COMPANY

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Profit for the year		**–1,451,956**	**–290,729**
Other comprehensive income			
Available-for-sale financial assets	25	–22	–1,065
Income tax relating to available-for-sale financial assets	13	2	284
Total other comprehensive income		**–20**	**–781**
Total comprehensive income		**–1,451,976**	**–291,510**
Total comprehensive income attributable to:			
Owners of the parent		–1,451,976	–291,510

BALANCE SHEET
PARENT COMPANY

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
ASSETS			
Intangible assets	15	88,082	0
Machinery and equipment	16	102	246
Financial assets			
Shares in subsidiaries	26	2,190,812	2,217,387
Receivables Group companies	25	5,874,008	6,131,277
Other long-term receivables	25	0	791
Total non-current assets		**8,153,004**	**8,349,701**
Current tax assets		984	984
Other receivables	19	1,552	2,044
Prepaid expenses and accrued income	19	8,074	9,404
Cash and cash equivalents	20	21,286	1,081,247
Total current assets		**31,896**	**1,093,679**
TOTAL ASSETS		**8,184,900**	**9,443,380**
SHAREHOLDERS´ EQUITY	21		
Restricted equity			
Share capital		318,738	318,738
Statutory reserve		985,063	985,063
Revaluation reserve		0	20
Total restricted equity		**1,303,801**	**1,303,821**
Non-restricted equity			
Share premium reserve		2,748,716	2,748,709
Profit/loss brought forward and result for the year		–1,653,542	–201,586
Total non-restricted equity		**1,095,174**	**2,547,123**
Total shareholders´ equity		**2,398,975**	**3,850,944**
LIABILITIES			
Liabilities Group companies	25	2,637,681	2,610,248
Interest-bearing loans and borrowings	22	2,789,399	1,650,448
Deferred tax liability	13	32,881	44,999
Total non-current liabilities		**5,459,961**	**4,305,695**
Accounts payable	24	3,221	1,046
Other liabilities	24	391	506
Derivative financial instruments	25	0	9,523
Current interest-bearing loans and borrowings	22	173,085	1,150,602
Accrued expenses and prepaid income	24	149,267	125,064
Total current liabilities		**325,964**	**1,286,741**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**8,184,900**	**9,443,380**
PLEDGED ASSETS	27	**1,347,210**	**2,123,060**
CONTINGENT LIABILITIES	27	**14,000**	**14,000**

CHANGES IN EQUITY
PARENT COMPANY

		Restricted equity			Non-restricted equity			
SEK 000s	Notes	Share capital	Statutory reserve	Reserves	Other capital contribution	Retained earnings	Profit for the year	Total equity
Balance at 1 January 2010		83,877	985,063	801	1,342,166	267,739	–178,939	2,500,707
Transfer of previous year's result						–178,939	178,939	0
Profit for the year							–290,729	–290,729
Total other comprehensive income				–781				–781
Transactions with shareholders								
New share issue	21	234,856			1,526,561			1,761,417
Issue expenses	21				–120,087			–120,087
Redemption convertible shares	21, 22	5			69			74
Share-based payments	9					343		343
Closing balance at 31 December 2010		**318,738**	**985,063**	**20**	**2,748,709**	**89,143**	**–290,729**	**3,850,944**
Balance at 1 January 2011		318,738	985,063	20	2,748,709	89,143	–290,729	3,850,944
Transfer of previous year's result						–290,729	290,729	0
Profit for the year							–1,451,956	–1,451,956
Total other comprehensive income				–20				–20
Transactions with shareholders								
Redemption convertible shares	21, 22	0			7			7
Closing balance at 31 December 2011		**318,738**	**985,063**	**0**	**2,748,716**	**–201,586**	**–1,451,956**	**2,398,975**

STATEMENT OF CASH FLOW
PARENT COMPANY

SEK 000s	Notes	Jan.–Dec. 2011	Jan.–Dec. 2010
Cash flow from operating activities			
Income after financial items*		–1,464,072	–300,811
Adjustments for non-cash items		1,256,465	337,566
Income tax paid		0	320
Total cash flow from operating activities before change in working capital		**–207,607**	**37,075**
Cash flow from changes in working capital			
Change in receivables		1,906	41,370
Change in liabilities		–112,426	–124,337
Cash flow from operating activities		**–318,127**	**–45,892**
Cash flow from investing activities			
Loans given to subsidiaries		–794,598	–307,273
Intra Group acquisition intangible assets	15	–83,305	0
Investments in intangible assets	15	–4,777	0
Investments in property, plant and equipment	16	0	–54
Cash flow from investing activities		**–882,680**	**–307,327**
Cash flow from financing activities			
New share issue		0	1,641,330
Loans raised		1,279,992	890,893
Amortisation of debt		–1,139,146	–1,148,036
Cash flow from financing activities		**140,846**	**1,384,187**
Cash flow for the year		**–1,059,961**	**1,030,968**
Cash and cash equivalents at the beginning of year	20	1,081,247	50,279
Cash and cash equivalents at the end of year	20	**21,286**	**1,081,247**
Adjustments for non-cash items			
Depreciation, amortisation and write-downs	15, 16	144	193
Impairment losses participations in Group companies	26, 30	26,049	0
Impairment losses Intercompany receivables	30	1,435,704	0
Accounting fair value of financial instruments		–9,523	8,271
Other items including accrued interests and exchange gains and losses (net)		–195,909	329,102
Total		**1,256,465**	**337,566**

* The amount includes interest received at SEK 4,654 thousand (20,882) of which SEK 0 thousand (0) is attributable to current operations and SEK 4,654 thousand (20,882) to financing activities and to interest paid SEK 218,286 thousand (183,191) of which SEK 0 thousand (0) is attributable to current operations and SEK 218,286 thousand (183,191) to financing activities.

CONTENT NOTES

NOTE 1 Company information

The Parent Company PA Resources AB (publ) is a Swedish limited company domiciled in Stockholm (corporate identity number 556488-2180). The Group's business consists of the acquisition, development and production of oil and gas reserves as well as exploration to find new reserves. The Parent Company's functional currency, and the currency in which the accounts are presented, is Swedish kronor (SEK). This annual report and the consolidated accounts of PA Resources AB (publ) for the year ending 31 December 2011 were approved for publication by the Board of Directors on 28 March 2012 and will be submitted for adoption at the Annual General Meeting on 22 May 2012.

NOTE 2 Accounting principles etc

Note 2.1 Description of significant accounting principles

The sections within this Annual Report which are classified as formal financial reports according to IFRS are:

- the consolidated Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows
- the Parent Company's Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cash Flows
- the notes to the financial reports

Basis for preparation of the financial statements

The consolidated financial statements are based on historical acquisition costs except in the case of financial instruments, which are reported at fair value and outstanding Group crude oil inventories which are given a market value at the balance sheet date and recognised as if the inventories had been sold. Unless otherwise indicated, all amounts are reported in thousands of Swedish kronor (SEK thousand).

Statement of conformity with regulations applied

The consolidated financial statements and the financial statements for the Parent Company have been prepared in accordance with International Financial Reporting Standards (IFRS) including interpretation statements issued by the International Financial Reporting Interpretations Committee (IFRIC) and in accordance with Swedish laws. Since the Parent Company is a company within the EU, only IFRS adopted by the EU are applied. In addition, the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for the Group have been applied. The financial statements for the Parent Company have been prepared applying recommendation RFR 2, Accounting for Legal Entities, statements from the Swedish Financial Reporting Board and the Annual Accounts Act.

Consolidated financial statements

Basis of consolidation:

The consolidated financial statements encompass the Parent Company and its subsidiaries. The financial reports for the Parent Company and the subsidiaries included in the consolidated financial statements cover the same period and have been prepared in accordance with the same accounting principles as apply to the Group.

All intra-group transactions and accounts, as well as gains and losses on transactions between Group companies are eliminated entirely.

A subsidiary or its assets and liabilities are included in the consolidated financial statements from the acquisition date, which is the day a controlling influence in the subsidiary arises, and are included in the consolidated financial statements until the day the controlling influence ceases. Controlling influence means the right to formulate the subsidiary's operational and financial strategies with a view to obtaining financial benefits.

Acquisitions of operations are reported in the consolidated financial statements using the purchase method of accounting. The purchase method of accounting means, among other things, that the acquisition cost of the shares is distributed to the assets, commitments taken over and liabilities acquired at the acquisition date based on their fair values at the time. If the acquisition cost exceeds the fair value of the acquired company's net assets, the excess value is first allocated to acquired oil and gas assets and thereafter, any difference is recognized as goodwill. If the acquisition cost is lower than the fair value of the acquired company's net assets, the difference is reported directly in the income statement.

Segment reporting

The Group is organised and managed by geographical regions which correspond with the reportable operating segments that are followed up internally at operational level. The geographically organised operating segments include all reporting units in their respective regions, excluding the exceptions described in Note 6 *Segment information*. Segment information is presented from a management perspective, which means that the information is presented in the same way as it is used in internal reporting, in accordance with the principles applied by the company's chief operating decision maker (CODM) in its operational governance, internal reporting and follow up. The Group has identified the Group Management as the CODM in this context. Reportable operating segments are lines of business or combined lines of business that fulfil certain specific criteria. The starting point for identification of reportable operating segments is internal reporting as made to and monitored by the CODM. The segments reported follow the same accounting policies as the Group in their reporting.

Translation of foreign currency

Functional currency and reporting currency

The functional currency of each unit within the Group is determined by reference to the economic environment in which the units carry on their respective operations. Monetary receivables and liabilities in each subsidiary that are expressed in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. All translation differences are reported in the income statement. The Group continuously analyses circumstances that could indicate a change in the functional currency from local currency to USD in the Group's subsidiaries.

Translation of foreign operations

The consolidated financial statements of PA Resources are presented in Swedish kronor (SEK), which is the Parent Company's functional and reporting currency. Assets and liabilities in other functional currencies are translated into SEK at the exchange rate effective on the balance sheet date. Income statements are translated at the average exchange rate for the year. Translation differences arising on the translation of foreign operations are reported directly against equity in the statement of comprehensive income.

Exchange rates

The following exchange rates were used in the preparation of the financial statements:

	Closing day rate 31 Dec. 2011	**Average rate Jan.–Dec. 2011**
1 EUR in SEK	8.94	9.03
1 USD in SEK	6.92	6.50
1 TND in SEK	4.60	4.61
1 NOK in SEK	1.15	1.16
1 GBP in SEK	10.68	10.41
1 DKK in SEK	1.20	1.21

	Closing day rate 31 Dec. 2010	Average rate Jan.–Dec. 2010
1 EUR in SEK	9.00	9.54
1 USD in SEK	6.80	7.20
1 TND in SEK	4.75	5.09
1 NOK in SEK	1.15	1.19
1 GBP in SEK	10.55	11.13
1 DKK in SEK	1.21	1.28

Revenue recognition

Group revenue primarily refers to revenue from sales of oil and gas. Revenue is based on sales which are managed by yearly contracts signed with a small number of major international oil and gas companies in which oil and gas sold is priced at the applicable world market price less any discounts and plus any premiums due to the quality of the oil and gas equivalents. Pricing occurs during a predetermined time period prior to and following the day on which physical delivery is made from vendor to vendee. PA Resources recognizes revenue based on the working-interest share of a field's total number of barrels of oil produced. This means that PA Resources always recognises revenue corresponding to reported production for the period before deductions for taxes, such as royalties and Tax Oil. Revenue is recognised in the period production occurs, which means that any crude oil inventory is carried at fair value and recognised as sold.

Interest income is recognised in accordance with the effective rate method and primarily refers to interest income from cash and cash equivalents and receivables. The majority of the Parent Company's revenue is made up of sales of services to other companies within the Group.

Royalties

Current licence terms for some producing oil fields require royalties to be paid. The Group pays the royalty either in kind through the supply of oil or by paying a monetary royalty. Royalties are reported gross in the income statement, where total revenue includes produced royalty oil and the corresponding royalty expense is included in the income statement item Cost of sales.

Jointly owned assets in the form of licenses

Oil and gas operations are conducted by the Group in the form of wholly-owned or jointly-owned licences. The Group's financial reports reflect the Group's share of production, capital and operating expenses and current assets and liabilities in the jointly-owned licences.

Remunerations to employees, Board of Directors and senior executives

Short-term remunerations

Salaries, other remuneration and benefits as well as social security contributions are reported as personnel expenses in the income statement when they arise.

Post-employment remunerations

Pension costs for defined-contribution plans are reported as personnel expenses in the income statement. The personnel in Sweden, including senior executives, have defined contribution pension schemes under which the company makes fixed monthly payments to external life insurance companies during the period of employment. The pension schemes are plans for remuneration at an agreed retirement age. PA Resources has no legal or informal duty to pay further charges if at the time payment is due to be made the external life insurance company does not have sufficient assets to pay all employees the benefits relating to premiums paid and the period of this. The schemes therefore provide entitlement to payments which primarily depend on the outcome of the life insurance companies' administration of the funds. Monthly payments to the life insurance companies are made up until the date agreed in the pension schemes. More information regarding the expenses during the financial year is provided in Note 7, *Employees, salaries and other remuneration.*

Recognition of intangible and tangible oil and gas assets

Expenditures for exploration and development of oil and natural gas assets are reported according to the Full Cost Method. All costs attributable to exploration, drilling and development of such interests are capitalised in full. The expenditures are accumulated separately for each licence right and the capitalisation of intangible/tangible fixed assets depends on the development phase that has been reached. The total oil and gas assets are the sum of intangible and tangible oil and gas assets reported in the consolidated balance sheet. The balance sheet item intangible fixed assets refers to acquired licence/concession rights, drilling rights as well as other capitalised exploration and development expenditure. The balance sheet item oil and gas assets refers both to capitalised expenditure on producing oil fields and to intangible fixed assets that have been reclassified as they have moved from the exploration and development phase into the production phase. In conjunction with reclassification from intangible assets to oil and gas assets, the assets are tested for any possible need for impairment, for the purpose of ascertaining their value.

Depreciation/amortisation

Depreciation/amortisation of intangible assets and oil and gas assets commences in conjunction with the start of production and are calculated using the Unit of Production Method and are depreciated in line with the year's production in relation to the estimated total proven and probable reserves of oil and gas.

Technical installations and equipment are linear depreciated over the assets' expected useful life. The estimated useful life is ten years for technical installations and five years for equipment.

Recognition of other tangible fixed assets

Other tangible fixed assets comprise machinery and equipment as well as construction projects in progress. Machinery and equipment is valued at acquisition value after a deduction for accumulated depreciation and eventual impairment. Linear depreciation is applied over the assets' expected useful life. The estimated useful life for machinery and equipment is 3–5 years.

Construction projects in progress are valued at acquisition value and are not subject to depreciation. When a construction project in progress is completed it is reclassified as part of the balance sheet item Oil and gas assets, and the reclassified asset is depreciated in accordance with the Unit of Production Method.

Impairment losses

PA Resources assesses its intangible fixed assets and its oil and gas assets for possible impairment losses once yearly or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in raw materials prices leading to lower revenues and, for oil and gas assets, downward revisions of estimated reserve quantities.

Testing for impairment losses is performed for each cash generating unit, which corresponds to licence right, production sharing agreement or equivalent owned by PA Resources. A cash generating unit thus usually corresponds to each acquired asset in each country in which PA Resources carries on exploration and development operations. Impairment testing means that the balance sheet item amount for each cash generating unit is compared to the recoverable amount for the assets, which is the higher of the fair value of the assets less sales expenses and the value in use. The value in use of the assets is based on the present value of future cash flows discounted by weighted average cost of capital (WACC); see also Note 17 *Impairment testing of intangible fixed assets and oil and gas assets.*

If it is not possible to determine significant independent cash flows to an individual asset when testing for impairment losses, the assets should be grouped at the lowest level at which it is possible to identify significant independent cash flows (a cash generating unit). An impairment loss is recorded when an asset's or a cash generating unit's recorded value exceeds the value in use. Impairment losses are charged to the income statement.

Reversal of impairment losses

At least once every year an assessment is made as to whether there are any indications that impairment losses reported previously are no longer justified or have reduced in extent. If such indications exist, a new calculation of the recoverable amount is made. A previously recognised impairment loss is reversed only to the extent that the asset's reported value after reversal does not exceed the reported value the asset would have had if the impairment loss had never been recognised. If this is the case, the book value of the asset is increased to its recoverable amount.

After a reversal the depreciation charge is adjusted in future periods to distribute the asset's revised book value over its expected remaining useful life.

Inventory

Outstanding inventory consist of other supplies and materials and is valued at the lower of cost and net realisable value. When assessing obsolescence of inventory items, consideration is given to the age of the inventory, the material and the rate of turnover. Any impairment of the inventory affects operating profit.

Crude oil inventory

Total outstanding crude oil inventory in number of barrels is carried at fair value as per the balance sheet date and is reported as if the inventory had been sold. Valuation is performed at the Brent price as per the balance sheet date less any discounts. The fair value of the crude oil inventory is recognised in the income statement as accrued income and in the balance sheet as an accrued receivable.

Financial instruments

PA Resources' financial instrument assets comprise derivatives, other financial non-current assets, accounts receivable, other receivables and cash and cash equivalents. Financial instrument liabilities comprise interest-bearing loans and borrowings and the short-term portion thereof, derivatives, accounts payable and other liabilities.

Recognition and derecognition in the balance sheet

PA Resources reports a financial asset or a financial liability in the balance sheet when the company becomes a party to the instrument's contractual terms. The company derecognises a financial liability or part thereof when the obligation stated in the relevant contract is fulfilled or otherwise terminated.

PA Resources currently reports all its financial instruments gross, but net reporting is possible where there is a legal right of offset. Recognition and derecognition in the balance sheet are reported on the transaction date, which is the day on which PA Resources undertakes to acquire or sell the financial instrument in question.

Classification by means of measurement

Initial measurement

PA Resources initially recognises its financial instruments at fair value plus a supplement for directly attributable transaction expenses, usually the transaction price. This principle is applied to all financial instruments apart from those in the category financial assets or liabilities carried at fair value through profit or loss, which are recognised at fair value excluding transaction expenses. At PA Resources, this category comprises only derivatives.

PA Resources classifies its financial instruments in the following categories based on the purpose for which the instrument was acquired. This classification generally forms a basis for how the financial instrument is measured after it is first reported. On each closing date the company tests all its financial assets for impairment, apart from those in the category financial assets or liabilities carried at fair value through profit or loss.

In the Parent Company the same measurement principles are applied, subject to the restrictions contained in Chapter 4 § 14 of the Swedish Annual Accounts Act; at present these restrictions result in no differences between the Parent Company and the Group.

After initial recognition, the company's financial instruments are reported as described below.

Subsequent measurement

Financial assets measured at fair value through profit and loss

In this category PA Resources classifies derivatives with a positive fair value as a separate subcategory. These are continually measured at fair value with changes in value through profit and loss. At present PA Resources has no hedging instruments that are identified as effective, and instead reports all its positive derivatives in this subcategory.

Loans and receivables

PA Resources classifies mainly receivables generated by the company in its operations in this category, but acquired receivables can also be included. At present it contains deposits for leased drilling equipment, accounts receivable, receivables from partners, accrued interest income, accrued income from oil inventories and cash and cash equivalents. These are measured at amortised cost, using the effective interest method established at the time of acquisition. Where accounts receivable are concerned, provision for impairment is made if there is objective evidence that the Group will not receive the amount due according to the original terms of the receivables. Impairment of accounts receivable is reported in the operating result.

Available-for-sale financial assets

PA Resources sees this category as a residual category containing long-term assets not classified in any other category. For the current year, there are no assets in this category and the comparative period contains other assets and interests. The assets are measured at fair value directly through other comprehensive income, except where impairment is applied. No impairment was applied during the year and any change in value is recognised in other comprehensive income.

Financial liabilities measured at fair value through profit and loss

In this category PA Resources classifies derivatives with a negative fair value as a separate subcategory. These are continually measured at fair value with changes in value through profit and loss. At present PA Resources has no hedging instruments that are identified as effective, and instead reports all its negative derivatives in this subcategory.

Other financial liabilities

In this category PA Resources includes Interest-bearing loans and borrowings, which are measured at amortised cost using the effective interest method which is the category's main assessment method. Within this category, secured loans can be measured at fair value. However, at present there are no loans that are secured. The company also places in this category accounts payable, the short-term portion of interest-bearing loans and borrowings as well as other financial liabilities such as liabilities to partners as well as accrued interest expenses and accrued exploitation and drilling expenses.

Compound financial instruments

A compound financial instrument contains both a liability component and an equity component, which are each classified separately. PA Resources reports its convertible debentures in this way, with the liability component reported under Interest-bearing loans and borrowings within the category Other financial liabilities.

Measurement of fair value

PA Resources bases the fair value of financial instruments depending on available market data at time of valuation. Data are categorised into three categories; Level 1: quoted prices in active markets. Level 2: valuation based on observable market data. Level 3: Valuation techniques incorporating information other than observable market data. The reported value – after any impairment – of accounts receivable and accounts payable is assumed to equate to their fair value, since these entries are short-term in nature.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value at the time the contract was entered into, with subsequent recognition within the categories of financial assets or financial liabilities measured at fair value through profit or loss. PA Resources manages its financial hedging based on identified risks, which are described in Note 32 *Financial risk*. From time to time, the company carries out various hedging measures to secure these risks. The company has chosen not to apply hedge accounting. The company may change this in the future, since IAS 39 allows the possibility of commencing hedge accounting.

Embedded derivatives

An embedded derivative is a contract with derivative-like properties, but which forms part of another contract. An embedded derivative is to be distinguished from the host contract and recognised as a separate derivative where the economic properties and risks are not closely related to those of the host contract. PA Resources holds embedded derivatives in its bond loans, known as call options, which means that the company can call for early redemption at a value in excess of the nominal amount. However, these are considered to be closely related, and as a result they are not reported separately.

Borrowing costs

Borrowing costs are capitalised when these refer to the purchase, construction or production of assets which necessarily take considerable time to complete for their intended use or sale. Capitalisation only takes place if it is assessed that this will involve probable economic advantage. Interest on loans referring to the acquisition and development of oil and gas assets, for which the borrowing costs can be included in the acquisition value, is capitalised during the period of time necessary to finalise the work and complete the asset for its intended use. Capitalisation of interest expenditures is begun when an acquisition is made and when investment and development costs arise, either in the oil and gas assets where the Group is operator or as allocated through invoices from operators of oil and gas assets in which the Group is a partner. The interest is capitalised throughout the development phase until the asset is finally ready to start production. Other loan expenses are distributed over the terms of the loans using the effective interest method.

Provisions

Provisions are reported in the balance sheet where there is a formal or informal commitment as a result of an event that has occurred and it is likely that an outflow of resources will be required in order to settle the commitment and the amount can be reliable estimated. The amount is discounted to present value in those cases where the time effect in each provision is significant.

In some oil fields, where the Group has an obligation to contribute to, for example restoration of the environment, dismantling, removal, clean-up and similar actions around the drilling sites both onshore and offshore, provisions are reported based on the present values of the expenses expected to be required to discharge the obligations, using estimated cash flows. The discount rate used considers the time value of money and the risk specifically attributable to the provision, as assessed by the market. Provisions for asset retirement obligations are revised on a continual basis depending on future changes in estimated cash flows, the discount rate and risks attributable to the provision. An obligation arises either at the time when an oil field is acquired or when the Group starts to utilise these and as a counterpart to the provision an asset is recorded as one part of the Group's total oil and gas assets. The asset is depreciated over the life of the oil field based on the oil field's production.

Income tax
Income tax consists of current tax and deferred tax. Income taxes are recorded in the income statement when they refer to income statement items. Income taxes referring to items in other comprehensive income are recorded in total other comprehensive income and recorded directly against equity when the underlying transaction is recorded directly against equity.

Current tax
Current tax is tax that is to be paid or received for the current year, applying the tax rates and the tax legislation used and in force on the balance sheet date. This includes adjustment of current tax attributable to previous periods. Current tax receivables and liabilities for current and prior periods are valued at the amount expected to be recovered from or paid to the tax authorities. Taxes on oil production are paid in accordance with local legal and fiscal terms in each country and these terms can vary within each country depending on which oil field they relate to. The tax is calculated on taxable profit for each individual oil field at the current local tax rates. Current tax receivables and liabilities attributable to each company are reported net in the balance sheet. Under the valid licence terms of certain producing oil fields, tax must be paid in the form of tax oil. The Group pays tax oil in kind through the delivery of oil. Payment of tax oil is recognised gross in the income statement where total revenue includes the number of barrels of tax oil produced and a corresponding expense is recognised in the income statement item Income tax.

Deferred tax
Deferred tax is calculated based on temporary differences between the fiscal and book values of assets and liabilities. Deferred tax receivables are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will exist against which the deductible temporary differences and the carry-forward of unused tax losses can be utilised. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised.

The recorded values of deferred tax receivables are tested as of each balance sheet date and reduced if there is no longer a probability that there will be sufficient taxable profit to utilise the deferred tax receivables against.

Deferred tax receivables and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or exist in practice at the balance sheet date. Deferred tax receivables and liabilities are reported net in the balance sheet provided that the tax payment will be made at the net amount.

Leasing as lessee
The Group's lease agreements where all risks and benefits associated with the ownership do not accrue to the Group are classified as operating leases. The Group has only assets that are reported as operating leases. Lease payments are recorded as costs in the income statement and are distributed linearly over the term of the agreement. Also see Note 11 *Leasing*.

Cash flow statement
The cash flow statement shows cash receipts and cash payments and the indirect method has been used. In addition to cash and bank balances, short-term deposits with an original term of less than three months are classified as cash and cash equivalents, exposed to insignificant in fluctuations in value.

Contingent liabilities
A contingent liability is recognised when there is a possible obligation relating to past events, the existence of which is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or when there is an obligation which is not recognised as a liability or a provision because it is unlikely that an outflow of resources will be required to settle the obligation.

Differences between accounting principles of the Group and of the Parent Company
According to the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, legal entities having securities listed on a Swedish stock exchange or authorised market on the balance sheet date shall as a general rule apply those IFRS standards that are applied in the consolidated financial statements. Recommendation RFR 1, Supplementary Accounting Rules for Groups, details certain exceptions from and additions to this rule depending on legal provisions – principally those in the Annual Accounts Act – and the relationship between accounting and taxation.

In the Parent Company, shares in subsidiaries are reported at acquisition value with a deduction for possible impairment losses. Also in the Parent Company, shareholders' contributions to subsidiaries are recorded as an increase in the value of the shares in the subsidiary on the grounds of increased value within the subsidiary. These shareholders' contributions are eliminated against the subsidiaries' equity in the consolidated financial statements.

Note 2.2 Changes in accounting principles and disclosures
The same accounting principles have been applied in this Annual Report as in the Annual Report for the financial year 2010. During the year the Group did not apply in advance any new or amended standards and interpretations from IFRIC adopted by the EU.

Note 2.3 Standards, amendments and interpretations which have not yet entered into force and have not been applied in advance by the Group, but which have been adopted by the EU
The comments below apply only to the standards, amendments and interpretations that have not yet entered into force, but which have been adopted by the EU and are deemed to be relevant to and may have an effect on PA Resources' future financial reports.

IFRS 7, Financial Instruments: Disclosures – Amendment
It will be applied in for financial years that start 1 July 2011 or later. The amendment means that additional quantitative and qualitative disclosures are necessary when financial items are derecognised from the balance sheet. In addition, disclosure is required if an asset is not derecognised in its entirety. Furthermore, any continuing involvement in the asset on the part of the company must also be disclosed. The Group will apply the amendment for the financial year starting on 1 January 2012. No comparative information needs to be disclosed for the periods preceding implementation of the amendment.

IFRS 9, Financial Instruments: Recognition and Measurement (As yet, not adopted by the EU and no timetable for approval has been established at present)
IFRS 9 will, in all likelihood be applied for financial years beginning on or after 1 January 2015. The standard implies a reduction in the number of valuation categories for financial assets and means that the main category for recognition of accrued cost and fair value will be through profit and loss. Pending the adoption of all the parts of the standard the Group has yet to evaluate the impact of an implementation of the standard.

IFRS, 10 Consolidated Financial Statements replaces parts of IAS 27, Consolidated and Separate Financial Statements.
IFRS 10 is effective for financial years that start on or after 1 January 2013. Standard is to be applied retroactively in line with IAS 8 with certain modifications. The Group will apply the standard from 1 January 2013, but this is not expected to impact the financial statements of the Group or Parent Company.

IFRS 11, Joint Arrangements and IAS 28, Investments in Associates and Joint ventures
This will be applied to for financial years that start 1 January 2013 or later. IFRS 11 deals with the accounting for joint arrangements that are defined as contractual arrangements where two or more parties have joint control. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The standard will be applied with a modified retroactive effect. The Group will apply the standard from 1 January 2013. IAS 28 are essentially similar to previous IAS 28 and shall apply to financial years beginning on or after 1 January.

Note 2.4 Critical accounting principles, estimates and assumptions
In the course of preparing the financial statements, the management of PA Resources has to make estimates and assumptions that will affect recorded asset and liability items as well as revenue and expense items. Uncertainties in estimates and assumptions could have an effect on reported values of assets, liabilities and consolidated results. Estimates and assumptions are reviewed regularly on the basis of historical experience and other factors, including expectations of future events. The main estimates and assumptions are shown below:

Estimates and assumptions of oil and gas reserves
Accounting for oil and gas discoveries is subject to accounting rules that are unique to the oil and gas industry. The accounting principles and areas which require the most significant estimates and assumptions when preparing the consolidated financial statements relate to oil and natural gas accounting, including estimates of and assumptions concerning reserves.

The valuation of oil and gas assets is based on estimates and assumptions concerning both proven and probable oil reserves at the time of acquisition of the oil fields and the expected oil that can be produced yearly. Estimates and assumptions of proven and probable oil reserves are performed with the aid of third party valuations and reserves are adjusted annually in the light of the volume of oil and gas produced as well as new discoveries made during the year. However, there is always a certain amount of uncertainty surrounding the valuations performed, and should there be any new estimates and assumptions showing a decrease in oil reserves or if the oil production does not encounter potentially economically profitable oil and gas quantities there is a significant risk that the recorded oil and gas assets for specific wells will have to be written down. This is assessed in impairment testing.

The results of third-party appraisals are analysed and an assessment performed of any discrepancies identified between estimated proven and probable oil and gas reserves compared with Group internal appraisals. Assessments are performed by the management in respect of how the appraisals are utilised.

Impairment testing of intangible fixed assets and oil and gas assets
During impairment testing of recorded intangible assets and oil and gas assets an estimate of the value in use is required for the cash generating units. When calculating present value an estimate is required of the cash generating units' future cash flows as well as the discount rate to be applied for calculating present value. When assessing impairment the management has to decide the method to be used to establish values in use, what underlying variables should affect the method of calculating the values in use and whether there are different risks in the cash generating units. The management must therefore assess whether different discount factors should be used when calculating values in use.

For information on the reported values of total intangible assets and of oil and gas assets on the balance sheet date refer to Note 15 *Intangible fixed assets*, Note 16 *Tangible fixed assets* and Note 17 *Impairment testing of intangible assets and oil and gas assets.*

Estimation of and assumptions concerning taxes
In order to determine current tax receivables and liabilities and capitalisation of provisions for deferred tax receivables and liabilities, significant estimates and assumptions have to be made by the management. This process includes analysing the tax result of each of the legal entities in which PA Resources conducts its business. The process includes analysing exposure to current tax and establishing temporary differences that arise because certain assets and liabilities are valued in different ways in the financial statements and in the income declarations. The management also has to assess the probability that deferred tax receivables can be realised against future taxable revenues as well as repayments of accrued exploration expenses. The actual outcome could differ from these assessments, for example depending on future changes in business conditions and investment decisions, currently unknown changes in fiscal legislation or as a result of the final examination by tax authorities or courts of law of tax declarations submitted.

For information on the reported values of total current tax and total deferred tax receivables and tax liabilities on the balance sheet date refer to Note 13 *Income tax.*

Estimation of and assumptions concerning provisions for asset retirement obligations
Provisions for asset retirement obligations are based on estimates of expected future obligations and requirements relating to dismantling, removal, clean-up and similar actions around the drilling sites on the oil fields. The estimates are based on legal requirements from the authorities, estimated close-down expenses from operators in oil fields where the Group merely owns shares as well as the management's own assessments concerning future close-down where the Group is operator. Actual future cash outflow may differ from the provisions for asset retirement obligations due to changes in these factors. In order to take any changes into account the recorded values of the provisions for asset retirement obligations are reviewed regularly. When calculating the provisions for future asset retirement obligations the management must make assessments concerning future investments and development on the oil fields, any changes in the requirements of the local authorities concerning asset retirement obligations as well as other factors which may significantly affect the provision.

For more information on the values reported for total asset retirement obligations per balance sheet date refer to Note 23 *Provisions.*

Note 2.5 Significant judgments in the application of the Group's accounting principles
Subsidiaries' assets and liabilities in foreign currencies as at the balance sheet date are translated from the functional currency of the unit concerned into the Group's reporting currency (SEK). The company assesses annually whether the subsidiaries' functional currency is affected by any changes in the local economic environments in which the subsidiaries conduct their business. During the current financial year, none of PA Resources units changed its functional currency.

NOTE 3 Acquisitions of operations and license shares

No operations or license shares have been acquired by the Group during the financial years 2011 and 2010. However, PA Resources has been awarded a German offshore licence, B20008-73, with 100% working interest and operatorship and relinquished the licence P 1529 offshore UK.

NOTE 4 Revenue

Group revenue primarily refers to sales of oil and gas, but also to consulting services provided to external clients. Most of the Parent Company's revenue refers to sale of services to other Group companies.

	Group		Parent company	
SEK 000s	Jan.–Dec. 2011	Jan.–Dec. 2010	Jan.–Dec. 2011	Jan.–Dec. 2010
"Working interest" production	2,123,414	2,082,116	—	—
Revenue, internal	—	—	26,261	26,314
Other revenue	30,394	144,616	39	363
Total revenue	**2,153,808**	**2,226,732**	**26,300**	**26,677**

NOTE 5 Cost of sales

The Parent Company has no expenses classified as cost of sales.

	Group	
SEK 000s	Jan.–Dec. 2011	Jan.–Dec. 2010
Operation costs	352,809	379,397
Operating rental costs	67,743	73,324
Maintenance costs	6,659	33,496
Royalties	266,852	268,749
Other costs	13,338	3,862
Total cost of sales	**707,401**	**758,828**

NOTE 6 Segment information

The Group is organised and followed up according to geographic regions, which correspond to the operating segments for which information is provided. Operating segments per geographic region correspond to the reporting local units within the respective regions, except for working interests in PA Resources AB, which are reported in the North Sea segment. During the third quarter of 2011, in connection with intra-Group restructuring, the working interests were sold to the Parent Company from the companies that were liquidated during the third quarter: PA Resources Arctic ApS, PA Resources Greenland ApS and PA Resources Nuna ApS. For the distribution of local units by region, see Note 26 *Shares in subsidiaries*.

During the fourth quarter of 2011, PA Resources changed its internal follow-up of financial items, which are shown in the tables below. The presentation of items within the segments differs from the manner of presentation in the 2010 Annual Report. As a result, the comparison period in 2010 has been recalculated. The reporting is not affected by changed accounting policies.

The reportable operating segments are accounted for according to the same accounting policies as for the Group. The reportable operating segments' revenue, expenses, assets and liabilities include items directly attributable to and items that can be allocated to a specific operating segment in a reasonable and reliable manner. During the year, the Group centralised its handling of financial assets and liabilities. As a result of this, financial items and financial assets and liabilities are reported as joint-Group items.

Externally reported revenue for all operating segments except for "Other" pertains to sales of oil and services related to exploration and production of oil and gas. Group management (the CODM) follows up the profit/loss measure "Operating profit". The column "Other/Group" includes – in addition to the companies listed above – also eliminations of Group transactions in "Total expenses" and "Joint-Group transactions". In the segment "Other segments" intra-group transactions amounted to MSEK 26.3 (26.7) and are eliminated in the table below.

	January–December 2011				
Income Statement (SEK 000s)	North Africa	West Africa	North Sea	Other/ Group	Total
Revenue	856,654	1,292,065	5,050	39	2,153,808
Total expenses	–282,906	–549,981	–7,975	–17,696	–858,558
Impairment losses	–598,962	–1,435,704	–541	0	–2,035,207
Depreciation and amortisation	–407,868	–376,651	–1,989	–144	–786,652
Operating profit	**–433,082**	**–1,070,271**	**–5,455**	**–17,801**	**–1,526,609**
Total financial items					–350,347
Profit before tax					–1,876,956
Income tax					–206,940
Profit for the year					**–2,083,896**

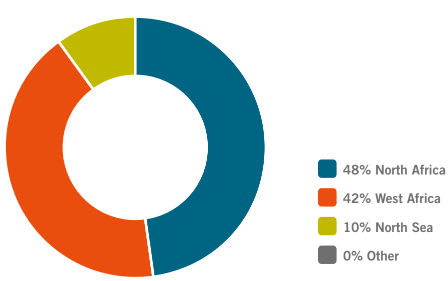
	January–December 2010				
Income Statement (SEK 000s)	North Africa	West Africa	North Sea	Other/ Group	Total
Revenue	1,009,790	1,209,259	7,320	363	2,226,732
Total expenses	–353,402	–558,072	–18,075	–21,507	–951,056
Impairment losses	0	0	–12,733	0	–12,733
Depreciation and amortisation	–582,636	–189,050	–640	–193	–772,519
Operating profit	**73,752**	**462,137**	**–24,128**	**–21,337**	**490,424**
Total financial items					–311,143
Profit before tax					179,281
Income tax					–495,668
Profit for the year					**–316,387**

CONT. NOTE 6

	31 December 2011				
Balance sheet (SEK 000s)	**North Africa**	**West Africa**	**North Sea**	**Other/ Group**	**Total**
Non-current assets	3,848,073	3,304,118	757,980	102	7,910,273
Current assets	304,080	633,311	12,140	31,961	981,492
Total assets	**4,152,153**	**3,937,429**	**770,120**	**32,063**	**8,891,765**
Equity					3,269,547
Non-current liabilities	687,028	140,573	0	3,203,067	4,030,668
Current liabilities	399,235	116,964	61,028	1,014,323	1,591,550
Total equity and liabilities	**1,086,263**	**257,537**	**61,028**	**4,217,390**	**8,891,765**
Investments in intangible assets	—	212,255	346,420	—	558,675
Investments in property, plant and equipment	486,376	567,532	31	—	1,053,939

	31 December 2010				
Balance sheet (SEK 000s)	North Africa	West Africa	North Sea	Other/ Group	Total
Non-current assets	4,356,346	4,192,799	402,158	1,037	8,952,340
Current assets	282,443	541,397	28,125	1,093,747	1,945,712
Total assets	**4,638,789**	**4,734,196**	**430,283**	**1,094,784**	**10,898,052**
Equity					5,249,990
Non-current liabilities	775,016	32,900	0	2,798,309	3,606,225
Current liabilities	184,303	75,121	18,574	1,763,839	2,041,837
Total equity and liabilities	**959,319**	**108,021**	**18,574**	**4,562,148**	**10,898,052**
Investments in intangible assets	—	162,910	110,279	—	273,189
Investments in property, plant and equipment	179,410	1,132,185	501	54	1,312,150

Book values Non-current assets



CONT. NOTE 6

The Group's customers consist of a small number of major international oil and trading companies. Information on external revenue pertaining to the region where the operating segments are registered and outside the region is shown below. The table also shows revenue from individual external customers, where the revenue amounts to 10% or more compared with total external revenue for the Group.

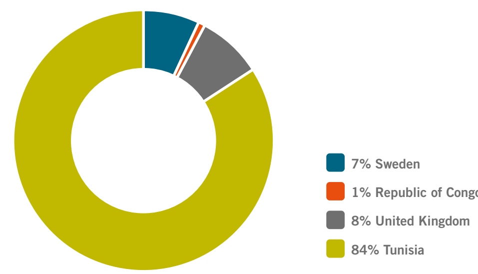
	January–December 2011				
SEK 000s	North Africa	West Africa	North Sea	Other	Total
Revenues from external customers within the region	293,753	—	5,050	39	298,842
Revenues from external customers outside the region	562,901	1,292,065	—	—	1,854,966
Total revenues, external	**856,654**	**1,292,065**	**5,050**	**39**	**2,153,808**
Revenues from external customers exceeding 10% of total Group revenue					
Customer 1	546,504	—	—	—	546,504
Customer 2	328,861	—	—	—	328,861
Customer 3	—	293,365	—	—	293,365
Customer 4	—	290,505	—	—	290,505
Percentage of revenues from external customers exceeding 10% of total Group revenue					
Customer 1	25%	—	—	—	25%
Customer 2	15%	—	—	—	15%
Customer 3	—	14%	—	—	14%
Customer 4	—	13%	—	—	13%

	January–December 2010				
SEK 000s	North Africa	West Africa	North Sea	Other	Total
Revenues from external customers within the region	301,080	1,209,259	7,320	363	1,518,022
Revenues from external customers outside the region	708,710		—	—	708,710
Total revenues, external	**1,009,790**	**1,209,259**	**7,320**	**363**	**2,226,732**
Revenues from external customers exceeding 10% of total Group revenue					
Customer 1	249,217	—	—	—	249,217
Customer 2	483,326	—	—	—	483,326
Customer 3	—	1,209,259	—	—	1,209,259
Percentage of revenues from external customers exceeding 10% of total Group revenue					
Customer 1	11%	—	—	—	11%
Customer 2	22%	—	—	—	22%
Customer 3	—	54%	—	—	54%

NOTE 7 Employees, salaries and other remuneration

	Jan.–Dec. 2011		Jan.–Dec. 2010	
	Average number of employees	Of which men in percent	Average number of employees	Of which men in percent
Parent company	9	67	9	57
Subsidiaries	124	83	126	84
Group	**133**	**82**	**135**	**82**
Of which Sweden	9	67	9	57
Of which Republic of Congo	1	100	1	0
Of which United Kingdom	11	73	11	73
Of which Tunisia	112	84	114	86
Group Total	**133**	**82**	**135**	**82**

Average number of employees



Average number of persons broken down for Board of Directors and senior executives

	Jan.–Dec. 2011		Jan.–Dec. 2010	
Parent company	Number	Of which men in %	Number	Of which men in %
Board of Directors	5	80	5	80
Group management	2	100	2	100
Group				
Board of Directors	5	80	5	80
Group management	2	100	2	100

Salaries, remuneration, social security contributions and pension costs

	Jan.–Dec. 2011			Jan.–Dec. 2010		
SEK 000s	Salaries and other remuneration	Social security contributions	Of which pension costs	Salaries and other remuneration	Social security contributions	Of which pension costs
Sweden (Parent company)	13,751	6,536	1,788	15,004	8,539	3,762
Subsidiaries	29,970	6,455	1,687	29,141	5,122	1,702
Group	**43,721**	**12,991**	**3,475**	**44,145**	**13,661**	**5,464**

Total salaries and other remunerations include salaries, director fees and other remuneration. During the financial year salaries including social expenses and other remuneration amounting to SEK 19,738 thousand (24,670) were capitalised and reported within the framework of oil and gas assets. PA Resources only has defined-contribution pension plans.

Salaries and other remuneration broken down for Board of Directors, senior executives and other personnel

	Jan.–Dec. 2011			Jan.–Dec. 2010		
SEK 000s	Board of Directors	Senior executives	Other personnel	Board of Directors	Senior executives	Other personnel
Sweden (Parent company)	1,444	6,680	5,627	2,133	8,802	4,069
Subsidiaries	—	—	29,970	—	—	29,141
Group Total	**1,444**	**6,680**	**35,597**	**2,133**	**8,802**	**33,210**

Bonus programme

In 2011, the Board resolved to implement a new bonus system for the PA Resources Group to replace the preceding bonus system implemented in 2008. Like the preceding bonus system, the new bonus system encompasses three different categories "senior executives, key staff and other qualified employees". The programme comprises a share-price linked bonus element and a prerequisite for payment of the bonus is the employee remaining in the employ of PA Resources. The bonus programme is not based on warrants, staff warrants, synthetic warrants or other securities; it affords an opportunity to receive a salary-based bonus based on the performance of the company's share price over a three-year qualifying period. The programme is a rolling scheme which means that a new three-year bonus period starts on completion of each twelve-month period. The first occasion the bonus is payable is three years following the start of the programme and thereafter every year based on the performance of the share price over the respective three-year qualification period. The same reference date and reference price applies for all employees encompassed by the programme's qualification period. The reference date for the first bonus period is 1 September 2011 with SEK 2.64 as the reference price. The bonus ceiling applicable for the respective three-year qualification periods amounts to one year's salary for senior executives, six months' salary for key staff and one month's salary for other qualified employees.

The cost of the bonus programme is accrued as incurred.

NOTE 8 Remuneration and other benefits; Board of Directors and senior executives of the Parent

Jan.–Dec. 2011 (SEK 000s)	Salary/Directors fee	Remunerations	Other benefits	Pension costs	Other remunerations	Total
Hans Kristian Rød (Chairman)	344				115	459
Lars Olof Nilsson (Board of Director)	241				1	242
Paul Waern (Board of Director)	241				1	242
Catharina Nystedt-Ringborg (Board of Director)	241				97	338
Per Jakobsson (Board of Director)	103				4	107
Sven Rasmusson (prior Chairman)	275					275
Group Management (2 pers)	5,221	928	258	856		7,263
Jan.–Dec. 2010 (SEK 000s)						
Sven Rasmusson (Chairman)	550					550
Lars Olof Nilsson (Board of Director)	275				208	483
Paul Waern (Board of Director)	275				4	279
Catharina Nystedt-Ringborg (Board of Director)	275				65	340
Hans Kristian Rød (Board of Director)	275					275
Group Management (2 pers)	4,650	560	128	439		5,777

Total remunerations and other benefits correspond to what has been paid during the period and are shown excluding social security contributions.

The President of PA Resources AB receives a fixed remuneration plus the benefit of a company car excluding fuel. During 2011, salary and other benefits were paid out in an amount of SEK 3,403 thousand and SEK 173 thousand respectively. The President is entitled to a share price-related variable remuneration of a maximum of one year's salary after a qualifying period of threee years (see also Note 7 *Employees, salaries and other remuneration*). The President is also entitled to an annual performance-based variable remuneration based on meeting individually set targets of a maximum of three months' salary. During the financial year 2011, no share price-related variable remuneration was paid out while performance-based variable remuneration in an amount of SEK 560 thousand was paid out. Pension costs amounted to SEK 428 thousand during 2011.

The period of notice applicable to the President is twelve months on the part of the company and six months on the part of the employee. There are no agreements on severance pay or other compensation for the Presidents or the Board members within the Parent Company or Group. For the President there is a severance pay agreement providing for a maximum of six months' salary in the event of a change in the majority ownership of the Group. There are no agreements on other forms of bonuses or comparable remuneration for the President or the Board members. The preceding President and CEO of the Group and Parent Company received total remuneration of SEK 498 thousand (3,899) during the financial year, which is not included in the above table.

The Group has no commitments in respect of loans, pledged assets or other guarantees for the benefit of the Presidents or Board members of the Parent Company or Group.

At the Annual General Meeting on 17 May 2011 it was decided that a maximum amount of SEK 1,650 thousand (unchanged compared to prior year) shall be paid out as directors' fees and distributed to members of the Board who are not employed by and do not hold any other position in the Parent Company or any Group company. The table above shows the remuneration and other benefits expensed during the year to the Chairman of the Board and to each Board member. From and including the 2011 Annual General Meeting, payment is made quarterly in conjunction with publication of the financial reports. Other remuneration paid in 2011 was entirely attributable to travel allowances paid in conjunction with the performance of Board work.

See page 35 for further information regarding guidelines for remuneration.

NOTE 9 Share-based incentive schemes

The option scheme adopted by the Annual General Meeting 2007 expired in 2010. The programme comprised warrants that could be exercised to acquire shares in the company. At the end of 2011, no share-based incentive schemes had been decided.

NOTE 10 Remunerations to auditors

	Group		Parent company	
SEK 000s	Jan.–Dec. 2011	Jan.–Dec. 2010	Jan.–Dec. 2011	Jan.–Dec. 2010
Ernst & Young, audit referred to audit engagement	2,676	2,359	1,983	1,915
Ernst & Young, tax consultancy	409	994	—	—
Ernst & Young, other services	194	332	194	296
PwC, audit referred to audit engagement	—	36	—	—
PwC, tax consultancy	—	346	—	—
PwC, other services	455	—	—	—
Chantrey Vellacott, audit referred to audit engagement	156	111	—	—
Chantrey Vellacott, other services	10	11	—	—
Total	**3,900**	**4,189**	**2,177**	**2,211**

NOTE 11 Leasing

The Group's lease agreements where all risks and benefits associated with the ownership do not accrue to the Group are classified as operating leases. All the Group's leased assets during the year are classified as operating leases. The Group utilises premises, garages, company cars, computers and machinery through operating lease agreements. Leasing costs amounted to SEK 42.2 million (53.6) for the 2011 financial year. Future payment commitments for lease agreements within the Group are stated in the table below:

Operational leasing (SEK 000s)	2011 Premises	2011 Production related	2011 Other	2011 Total
Maturity year 2012	5,772	37,505	503	43,780
Maturity year 2013 - 2016	3,620	35,898	395	39,913
Maturity year 2017 and after	—	—	—	0

Operational leasing (SEK 000s)	2010 Premises	2010 Production related	2010 Other	2010 Total
Maturity year 2011	1,409	36,121	574	38,104
Maturity year 2012 - 2015	10,693	71,392	787	82,872
Maturity year 2016 and after	9,301	—	—	9,301

NOTE 12 Financial income and expenses

Exchange gains and losses are reported net in the income statement for the Group and Parent Company.

	Group		Parent company	
SEK 000s	Jan.–Dec. 2011	Jan.–Dec. 2010	Jan.–Dec. 2011	Jan.–Dec. 2010
Interest income	19,043	46,067	278,387	324,226
Exchange gains	16,688	33,437	173,054	—
Other financial items	27,964	103,386	28,075	103,386
Total financial income	**63,695**	**182,890**	**479,516**	**427,612**
Interest expense	–291,077	–299,797	–408,653	–380,274
Exchange losses	—	—	—	–174,537
Other financial items	–122,965	**–194,236**	–60,458	**–152,281**
Total financial expenses	**–414,042**	**–494,033**	**–469,111**	**–707,092**
Exchange gains/losses are broken down as follows;				
Exchange gains arising from bank equivalents (gross)	24,595	49,560	20,677	24,800
Exchange gains arising from borrowings (gross)	95,634	262,816	1,976,718	1,231,943
Exchange losses arising from bank equivalents (gross)	–24,226	–67,968	–18,360	–40,637
Exchange losses arising from borrowings (gross)	–79,315	–210,971	–1,805,981	–1,390,643
Total exchange gains (+) / losses (–) (net)	**16,688**	**33,437**	**173,054**	**–174,537**

Of the year's total financial income in the Parent Company, SEK 2,156,710 thousand (1,312,426) refers to income from Group companies.
Of the year's total financial expenses in the Parent Company, SEK 1,800,310 thousand (1,343,607) refers to expenses from Group companies.

NOTE 13 Income tax

Tax expenses for the years 2011 and 2010 relate to the components reported in the tables below. The tables also state deferred tax receivables and liabilities as at 31 December 2011 and 2010.

The Group operates in a number of countries and tax systems that have different corporation tax rates to those in Sweden. The corporation tax rates within the Group vary between 26 percent and 75 percent.

	Group		Parent company	
Current income tax (SEK 000s)	Jan.–Dec. 2011	Jan.–Dec. 2010	Jan.–Dec. 2011	Jan.–Dec. 2010
Current income tax relating to:				
Current income tax				
Current income tax for the year	–397,663	–494,748	—	—
Adjustment of income tax prior year	66,918	–75,704	—	—
	–330,745	**–570,452**	—	—
Deferred income tax				
Origin and reversal of temporary differences	166,816	74,784	12,116	**10,082**
Adjustment of deferred income tax prior year	–43,011	—	—	—
Total income tax reported in the income statement	**–206,940**	**–495,668**	**12,116**	**10,082**

CONT. NOTE 13

The income tax charge/revenue for the years 2011 and 2010 can be reconciled against profit/loss before tax multiplied by current income tax rate as follows:

	Group				Parent company			
	Jan.–Dec. 2011		Jan.–Dec. 2010		Jan.–Dec. 2011		Jan.–Dec. 2010	
Reconciliation of effective income tax (SEK 000s)	%		%		%		%	
Profit before tax		–1,876,956		179,281		–1,464,072		–300,811
Adjustment for income taxed on basis other		–138,471		–261,027		—		—
Profit before tax where taxation is based on net profit		**–2,015,427**		**–81,746**		**–1,464,072**		**–300,811**
Income tax expense according to applicable tax rate 26,3 percent (26,3 percent) in Sweden	26.3	530,057	26.3	21,499	26.3	385,051	26.3	79,113
Adjustment for tax conditions and tax rates in other countries	–5.9	–119,405	6.2	5,028	—	—	—	—
Non-deductible income statement items tax effect	–22.1	–448,139	–240.5	–196,483	–26.3	–384,459	–10.1	–30,513
Non-taxable income statement items	1.7	35,208	234.1	191,357	0.0	1	8.8	26,420
Tax effect on impairment losses	13.8	276,589	—	—	–	–	—	—
Temporary differences and deficiencies for which deferred income tax has not been accounted for	–0.3	–5,397	–28.6	–23,257	1.9	27,920	–21.6	–64,938
Tax effect of non-booked revenue	–7.3	–147,199	—	—	–1.1	–16,397	—	—
Adjustment of income tax prior year	–2.3	–43,011	–92.3	–75,704	—	—	—	—
Other	—	—	7.3	6,005	—	—	—	—
Reported tax based on the results where taxation is based on net profit	3.9	**78,703**	**–87.5**	**–71,555**	**0.8**	**12,116**	**3.4**	**10,082**
Income tax paid on a basis other then the reported result		–285,643		–424,113		—		—
Total income tax		**–206,940**		**–495,668**		**12,116**		**10,082**

Deferred tax liabilities (net) (SEK 000s)	Group balance sheet		Group income statement		Parent company balance sheet		Parent company income statement	
	31 Dec. 2011	31 Dec. 2010	**Jan.–Dec. 2011**	Jan.–Dec. 2010	**31 Dec. 2011**	31 Dec. 2010	**Jan.–Dec. 2011**	Jan.–Dec. 2010
Deferred tax referred to participating interests in oil fields	230,561	330,693	–181,487	71,654	—	—	—	—
Deferred tax referred to oil sales	25,582	33,339	16,587	–6,952	—	—	—	—
Deferred tax referred to impairment losses	—	—	276,589	—	—	—	—	—
Deferred tax referred to convertible bond	32,881	44,996	12,116	10,082	32,881	44,996	12,116	10,082
Deferred tax on other temporary differences	—	3	—	—	—	3	—	—
Total deferred tax liabilities (net)	**289,024**	**409,031**			**32,881**	**44,999**		
Deferred income tax			**123,805**	**74,784**			**12,116**	**10,082**

Tax items recorded directly in equity (SEK 000s)	Group		Parent company	
	31 Dec. 2011	31 Dec. 2010	**31 Dec. 2011**	31 Dec. 2010
Deferred tax on other temporary differences	2	284	2	284
Total	**2**	**284**	**2**	**284**

Accumulated losses carried forward in the Group and the Parent Company amounted to SEK 476,690,248 (582,850,286). The accumulated losses carried forward in the Parent Company can be offset against future taxable earnings and results in deferred tax recoverable of SEK 125,369,535 (153,289,625). The accumulated losses carried forward in the Parent Company are effective indefinitely and cannot be lost. No deferred tax receivable is recorded in the balance sheet in view of the historical earnings trend of the Parent Company and the related uncertainty concerning future results.

NOTE 14 Earnings per share

	2011	2010
Earnings per share before dilution	–3.27	–0.61
Profit for the year	–2,083,896	–316,387
Profit for the year attributable to ordinary equity holders of the parent company	**–2,083,896**	**–316,387**
Weighted average number of ordinary shares during the year	637,476,105	521,614,740
Earnings per share before dilution	**–3.27**	**–0.61**

Earnings per share before dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the Parent Company by weighted average number of ordinary shares outstanding during the year.

No dilution effects existed during the current and preceding financial year thus explaining why the earnings per share after dilution corresponded to earnings per share before dilution.

The share prices used for calculating earnings per share are from the NASDAQ OMX Nordic Exchange in Stockholm (segment Mid Cap). No transactions have been made between the balance sheet date of 31 December 2011 and the date of adoption of the financial statements in this Annual Report affecting the weighted average number of outstanding shares and the weighted average number of potential shares which give rise to dilution.

Instruments that could have a potential dilutive effect and changes after the balance sheet date

The number of shares outstanding includes only shares that give rise to a dilutive effect. In calculating the potential dilutive effect for convertibles, this would have resulted in a positive effect on earnings per share. The applicable accounting policies (IAS 33) do not allow inclusion of a positive effect. The earnings per share are thus reported after dilution excluding the dilutive effect of outstanding convertibles.

NOTE 15 Intangible fixed assets

SEK 000s	Group	Parent company
At 1 January 2010	1,837,348	—
Investments	273,189	—
Disposal	–71,966	—
Reclassification	–141,149	—
Exchange rate differences	–126,412	—
At 31 December 2010	**1,771,010**	**—**
Investments	558,675	4,777
Disposal	–12,225	—
Intra-group re-structure	—	83,305
Reclassification	–312	—
Exchange rate differences	45,907	—
At 31 December 2011	**2,363,055**	**88,082**
Depreciation, amortisation and write-downs		
At 1 January 2010	–81,254	—
Write-downs for the year	–12,733	—
Depreciation charge for the year	–12,933	—
Disposal	75,910	—
Reclassification	779	—
Exchange rate differences	–12,008	—
At 31 December 2010	**–42,239**	**—**
Write-downs for the year	–541	—
Depreciation charge for the year	–37,149	—
Disposal	12,483	—
Exchange rate differences	876	—
At 31 December 2011	**–66,570**	**—**
Net book value:		
At 31 December 2011	**2,296,485**	**88,082**
At 31 December 2010	1,728,771	—
At 1 January 2010	1,756,094	—

The year's write-down of SEK 541 thousand and the preceding year's write-down of SEK 12,733 thousand relate entirely to the subsidiary PA Resources UK Ltd., for the North Sea segment, refer to Note 17 *Impairment testing of intangible assets and oil and gas assets.* All intangible assets have a fixed useful life.

In the preceding financial year borrowing costs amounted to SEK 0 thousand (0) were capitalized.

NOTE 16 Tangible fixed assets

SEK 000s	Group			Parent company
	Oil and gas assets	Machinery and Equipment	Construction in progress	Machinery and Equipment
At 1 January 2010	9,132,364	41,956	571	982
Investments	1,216,598	3,422	—	54
Capitalized borrowing costs	92,129	—	—	—
Reclassification	245,958	6,237	–177	—
Revaluation asset retirement obligations	34,074	—	—	—
Exchange rate differences	–1,459,691	–6,895	–67	—
At 31 December 2010	**9,261,432**	**44,720**	**327**	**1,036**
Investments	960,275	6,911	—	—
Capitalized borrowing costs	86,753	—	—	—
Revaluation asset retirement obligations	101,774	—	—	—
Disposal	–243,745	–111	—	—
Reclassification	—	–4,604	—	—
Exchange rate differences	173,202	1,201	5	—
At 31 December 2011	**10,339,691**	**48,117**	**332**	**1,036**
Depreciation, amortisation and write-downs				
At 1 January 2010	–1,792,152	–20,015	—	–597
Disposals	–1,106	483	—	—
Reclassification	–191,796	–6,371	—	—
Depreciation charge for the year	–754,590	–4,996	—	–193
Exchange rate differences	680,872	4,576	—	—
At 31 December 2010	**–2,058,772**	**–26,323**	**—**	**–790**
Disposals	45,751	104	—	—
Write-downs for the year	–2,034,556	—	–110	—
Depreciation charge for the year	–743,732	–5,771	—	–144
Reclassification	—	45	—	—
Exchange rate differences	48,093	–673	110	—
At 31 December 2011	**–4,743,216**	**–32,618**	**—**	**–934**
Net book value:				
At 31 December 2011	5,596,475	15,499	332	102
At 31 December 2010	7,202,660	18,397	327	246
At 1 January 2010	7,340,212	21,941	571	385

Exchange rate effects on the Group's oil and gas assets amounted to SEK 221,295 thousand (–778,819). This amount is primarily attributable to exchange rate changes in USD (refer to Note 2 *Accounting principles,* etc.).

Of the above oil and gas assets, an amount of SEK 1,347,210 thousand (2,123,060) have been pledged as collateral for external financing (refer to Note 27 *Pledged assets and contingent liabilities*).

During the financial year, borrowing costs amounting to SEK 86,753 thousand (92,129) were capitalized. The average interest rate used was 7 percent (7).

The Parent Company has no oil and gas assets or fixed assets under construction.

NOTE 17 Impairment testing of intangible fixed assets and oil and gas assets

The intangible fixed assets and oil and gas assets have been allocated on cash generating units and tested for impairment. The cash generating units have been divided into two groups, with one group containing assets in production and the other assets in which oil and gas discoveries have been identified and where test drilling for oil and gas reserves is planned in the near future. A period of use from 2012 through 2041 has been utilised for assessment of the value in use per cash generating unit.

The method of testing for impairment of assets in production is to calculate the present value of future estimated cash flows which are put in relation to the carrying amounts. The main variables used are as follows:

- Discount rate, interval of 9.0%–11.0%
- Tax rate: 40%–75%
- Royalty rate: 2%–16%
- Oil price as expressed in the forward price curve for oil with an opening price of USD 107.0 USD per barrel of oil, which thereafter declined and which from 2014 onwards amounts to a constant USD 97.0 per barrel of oil
- Forecast period: Estimated cash flows based on management expectations for the period 2012–2041.

The Expected Monetary Value Method is utilised for testing for impairment of assets in which oil and gas discoveries have been identified and test drilling for oil and gas reserves is planned by calculating the expected monetary values and putting these in relation to carrying amounts. Expected monetary values were calculated by multiplying the price per barrel of oil equivalents by the percentage estimate of finding oil equivalents and the expected volume of oil equivalents and reducing the value by the total drilling costs.

The assumptions used for both methods have been based partly on historical experience of previous years' impairment testing processes and partly on external sources in the form of technical data, industry information, third party valuations, etc. When performing impairment testing the management has assessed that the same risk exists for each of the cash generating unit. The carrying amounts for each operating segment for which impairment testing was performed are shown below.

Non-current assets per segment for write-down assessment

	31 December 2011				
(SEK 000s)	North Africa	West Africa	North Sea	Other	Total
Non-current assets for write-down assessment	4,447,035	4,739,822	758,521	102	9,945,480
Write-downs for the year	–598,962	–1,435,704	–541	—	–2,035,207
Reversal of write-downs	—	—	—	—	0
Total (net)	**3,848,073**	**3,304,118**	**757,980**	**102**	**7,910,273**
	31 December 2010				
Non-current assets for write-down assessment	4,356,346	4,192,799	414,891	1,037	8,965,073
Write-downs for the year	—	—	–12,733	—	–12,733
Reversal of write-downs	—	—	—	—	0
Total (net)	**4,356,346**	**4,192,799**	**402,158**	**1,037**	**8,952,340**

Impairment for the year was attributable to write-downs of working interests in the Azurite field in the West Africa region of SEK 1,435.7 million (0), total write-downs in the North Africa region of SEK 599.0 million (0) attributable to the production well at Didon North as well as write-downs to remaining book value of the two divested fields at Ezzaouia and El Bibane. In addition, write-downs amounting to SEK 0.5 million (12.7) were made for the North Sea region. The write-downs are attributable to licences that were relinquished to government authorities in 2010. Moreover, impairment testing showed that the calculated value in use per cash generating unit was higher than the carrying amount for intangible assets and oil and gas assets.

NOTE 18 Inventories

	Group	
Other materials and supplies (SEK 000s)	31 Dec. 2011	31 Dec. 2010
At 1 of January	12,170	13,643
Reclassifications	7,036	—
Purchase	50,851	—
Used in production	–2,548	—
Exchange differences	209	–1,473
At 31 December before adjustment for obsolescence	**67,718**	**12,170**
Provisions for obsolescence	–8,405	–7,136
At 31 December	**59,313**	**5,034**

The Parent Company has no inventory.

NOTE 19 Accounts receivable and other receivables

	Group		Parent company	
SEK 000s	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Accounts receivable non-interest bearing	205,862	22,484	—	—
Receivables from other related parties	—	128,050	—	—
Other current receivables	364,716	329,371	1,552	2,044
Prepaid insurance premium	2,427	2,438	52	44
Prepaid leasing fees	168	291	168	291
Prepaid rent	1,585	1,483	346	357
Accrued interests	84	949	84	949
Prepaid license costs	235	244	235	169
Other prepaid expenses	184,829	16,906	7,189	7,594
Accrued income crude oil inventory	80,816	174,901	—	—
Total accounts receivable and other receivables	**840,722**	**677,117**	**9,626**	**11,448**

Accounts receivable are not interest-bearing and are generally due for payment within 30–60 days. Other receivables and accrued income are generally due in 15–90 days.

NOTE 20 Cash and cash equivalents

	Group		Parent company	
SEK 000s	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Cash at banks and on hand	44,465	1,260,393	21,286	1,081,247
Total cash and cash equivalents	**44,465**	**1,260,393**	**21,286**	**1,081,247**

Cash equivalents refer only to cash at banks. The Group receives interest on available cash in banks according to variable interest rates based on the daily bank balances in each country.

NOTE 21 Equity

Share capital	Number of shares	Number of votes	Share capital value, SEK
1 January 2010	167,753,982	167,753,982	83,876,991
New share issue	469,711,149	469,711,149	234,855,575
Redemption convertible shares registered	10,712	10,712	5,356
31 December 2010	**637,475,843**	**637,475,843**	**318,737,922**
Redemption convertible shares registered	1,050	1,050	525
31 December 2011	**637,476,893**	**637,476,893**	**318,738,447**

In September 2011, convertible bonds in PA Resources were exercised and converted into shares which raised SEK 7 thousand (75) in equity of which SEK 0 thousand (5) was added to share capital and SEK 7 thousand (70) to other capital contributions.

The Parent Company holds no treasury shares as at 31 December 2011. The Parent Company's shares refer to only one class of shares, with the same rights for all shareholders. The quotient value per share is SEK 0.50 (0.50) as at 31 December 2011 and all shares are fully paid up.

PA Resources' managed assets comprise equity. The purpose of the company is to generate profit for its shareholders. No other external capital requirements apply than those stipulated in the Swedish Companies Act.

NOTE 22 Interest-bearing loans and borrowings

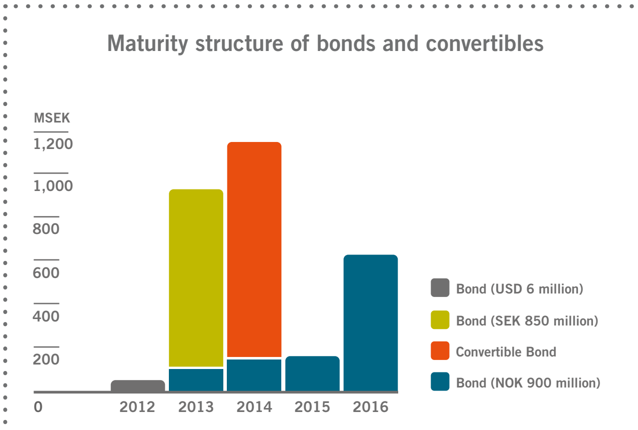
Bond loans

At year-end, the Group has three bond loans outstanding. These are classified both as long-term and current interest-bearing loans and borrowings as follows:

1. USD 6.2 million (70.0 + 10.0) nominal, with an effective coupon rate of 3-month LIBOR plus a margin of 3.5 percentage points. The bond loan was initially issued for USD 100 million with amortisation of USD 10 million annually in the years 2009-2011 and the final USD 70.0 million maturing on 13 March 2012. The bond loan was issued by subsidiaries within the Group, is secured against shares in oilfields in Tunisia and contains a redemption clause that means that the borrower can on certain occasions demand early redemption at a value in excess of the nominal value. In 2011, USD 63.8 million of the bond loan outstanding was redeemed in conjunction with the issuance of a new bond loan of NOK 900.0 million. At year-end, the remaining USD 6.2 million was classified under current interest-bearing loans and borrowings.
2. SEK 850.0 million (850.0) nominal, with an annual effective coupon rate of 10.5 percent. The final maturity date is 15 October 2013 and the bond was issued by the Parent Company. The bond is unsecured and is classified entirely under non-current interest-bearing loans and borrowings.
3. NOK 900.0 million (0) MNOK nominal, with an annual effective coupon rate of 12.25%. The bond loan has a redemption schedule with amortisation of NOK 90.0 million in 2013, NOK 135.0 million in 2014, NOK 135.0 million in 2015 and final redemption of NOK 540.0 million on 5 April 2016. The bond loan was issued by the Parent Company, is unsecured and is classified entirely under long-term interest-bearing loans and borrowings.

During the period, a bond loan of USD 100.0 million was redeemed as was the amount outstanding of a bond loan with an original nominal value of NOK 500.0 million.

CONT. NOTE 22



Financial covenants

All the bond loans have financial covenants, as follows:

- The company undertakes for a calendar year not to distribute a dividend, buy back the company's shares or effect other transfers of value to its shareholders of a total value exceeding fifty percent of the Group's profit after tax;
- The company must ensure that at any given time the Group has equity amounting to at least SEK 2,000 million on a consolidated basis;
- The company must ensure that at any given time the Group maintains a ratio between equity (defined as book equity) and capital employed (defined as book equity plus interest-bearing loans) of at least 0.4;

No covenants have been broken during the financial year.

Convertible bond

PA Resources has 61,510,759 outstanding convertibles (61,511,319) corresponding to a nominal amount of SEK 984.2 million (984.2), which were issued at the beginning of 2009. The annual nominal interest rate on the convertibles is 11 percent from and including 15 January 2009. Interest is paid on 15 January each year. The convertibles mature for redemption at their nominal value on 15 January 2014 unless repayment or conversion to shares has been completed prior to this. Conversion may be performed each year in the period 1–30 September at the recalculated conversion rate of SEK 8.52 per share. The convertible promissory note is defined as a compound financial instrument, which means its classification is split between long-term interest-bearing loans and borrowings and equity. At the end of the period, the recorded liability in the balance sheet amounted to SEK 859.1 million (813.1).

Since issuance 2009 convertibles amounting to SEK 179.9 million (179.9) have been converted to shares, in 2011, a total of 559 (5,705) convertibles were converted. The number of additional shares that can arise from conversion of the remaining convertibles is 115,513,162 (115,514,214.).

Credit facilities and Other current interest-bearing loans and borrowings

At 31 December 2011, Credit facilities and Other current interest-bearing loans and borrowings were SEK 1,299 million (1,052), of which SEK 814 million (409) was classified as current interest-bearing loans and borrowings. At year-end, PA Resources had available credit facilities of SEK 1,730 million, that include pre-financing facilities connected to the sale of oil and a reserve-based credit facility secured through collateral in region West Africa. The average nominal rate of interest for the credit facilities was approximately 6.5% and the inherent maturity profile of the credit facilites is by its nature continuous with the opportunity to avail of a revolving credit facility since the underlying agrement is long-term.

Overdraft facilities

The Group's overdraft facilities amounts to SEK 13.8 million (1.3). Utilised overdraft facilities as at 31 December 2011 amounted to SEK 9.2 million (0), of which SEK 0 (0) was attributable to the Parent Company.

	Group		Parent company	
Non-current Interest-bearing loans and borrowings (SEK 000s)	**31 Dec. 2011**	31 Dec. 2010	**31 Dec. 2011**	31 Dec. 2010
Bond 0 (70,0) MUSD nominal	—	474,073	—	—
Bond 850,0 (850,0) MSEK nominal	809,419	837,357	809,419	837,357
Bond 900,0 (0) MNOK nominal	1,016,980	—	1,016,980	—
Convertible Bond	859,149	813,091	859,149	813,091
Credit Facilities and Other non-current interest-bearing loans and borrowings	484,638	642,789	103,851	—
Total	**3,170,186**	**2,767,310**	**2,789,399**	**1,650,448**
Current Interest-bearing loans and borrowings (SEK 000s)				
Bond 100,0 (0) MUSD nominal	—	678,894	—	678,894
Bond 6,2 (10,0) MUSD nominal	42,468	67,726	—	—
Bond 410,5 (0) MNOK nominal	—	471,708	—	471,708
Credit Facilities and Other current interest-bearing loans and borrowings	813,901	409,367	173,085	—
Total	**856,369**	**1,627,695**	**173,085**	**1,150,602**
Total Interest-bearing loans and borrowings	**4,026,555**	**4,395,005**	**2,962,484**	**2,801,050**

NOTE 23 Provisions

Provisions as per 31 December 2011 (SEK 000s)	1 Jan 2011	Disposals	Allocated	Utilized	Expired	Exchange difference	Revaluated	Group as per 31 Dec 2011	Whereof short-term	Whereof referred to Parent company
Stock option plan								0		
Asset retirement obligation costs	391,001	–8,031	101,774			6,949	36,729	528,422		
Tax related provisions	38,883					691	3,462	43,036		
Other provisions			8,447					8,447	8,447	
Total	**429,884**	**–8,031**	**110,221**	**—**	**—**	**7,640**	**40,191**	**579,905**	**8,447**	**—**

Provisions as per 31 December 2010 (SEK 000s)	1 jan 2010	Disposals	Allocated	Utilized	Expired	Exchange difference	Revaluated	Group as per 31 Dec 2010	Whereof short-term	Whereof referred to Parent company
Stock option plan	56						–56	0		
Asset retirement obligation costs	367,900		34,074			–25,401	14,428	391,001		
Tax related provisions	2,897		81,773			–2,897	–42,890	38,883		
Other provisions								0		
Total	**370,853**	**—**	**115,847**	**—**	**—**	**–28,298**	**–28,518**	**429,884**	**—**	**—**

Asset retirement obligations
Asset retirement obligations are reported as provisions based on the present value of the costs which are expected to be required to fulfil the obligation, using the estimated cash flows. The discount rate used takes into account the time value of money and the risk specifically relating to the liability, as assessed by the market. Reported asset retirement obligations relate to the Group's oil and gas assets in region North and West Africa and the expected date of the outflow of asset retirement obligations is from 2014 to 2016. During the year, new provisions totalled SEK 101.8 million (34.1) and as at 31 December 2011 the Group's calculated provisions for asset retirement obligations amounted to SEK 528.4 million (391.0). PA Resources applies the Full Cost Method, which means that the counterpart to the reported provision is capitalised as an asset and amortised. Future changes in provisions based on the time value of money are recognised as a financial expense. Assumptions are reviewed annually and changes in provisions are capitalised or reversed against the corresponding asset. For further information refer to Note 2.4 *Critical accounting principles, estimates and assumptions.*

Tax-related provisions
As at 31 December 2011, tax-related provisions amounted to SEK 43.0 million (38.9) and relate to estimated income tax costs and tax surcharges attributable to subsidiaries in Tunisia. The sum reserved was reported as an income tax expense in the income statement and as a provision in the balance sheet.

NOTE 24 Accounts payable and other liabilities

	Group		Parent company	
SEK 000s	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Accounts payable non-interest bearing	256,134	97,908	3,221	1,046
Liabilities against other related parties	21,836	—	—	—
Other current liabilities	26,341	15,574	391	506
Accrued vacations pay	1,659	1,536	1,659	1,536
Accrued interests	139,350	113,498	139,350	111,607
Accrued operating and drilling costs	119,360	44,781	—	—
Other accrued expenses and prepaid income	69,675	60,576	8,258	11,921
Total accounts payable and other liabilities	**634,355**	**333,873**	**152,879**	**126,616**

Accounts payable and other short-term liabilities are not interest-bearing, have a short expected term and are recognised at the nominal amount with no discounting. Accounts payable usually fall due within 30 days and other short-term liabilities within a year. The Parent Company's liabilities to Group companies are classified as long-term, see Note 25 *Financial instruments.*

NOTE 25 Financial instruments

Financial assets and liabilities by valuation category – Group

2011 (SEK 000s)	Loans and receivables	Available-for-sale financial assets	Derivatives*	Other liabilities	Total carrying amount	Fair value
Financial assets						
Non-current assets						
Other financial assets	1,482				1,482	1,482
Total	**1,482**				**1,482**	**1,482**
Current assets						
Accounts receivable and other receivables	286,762				286,762	205,946
Cash and cash equivalents	44,465				44,465	44,465
Total	**331,227**				**331,227**	**250,411**
Financial liabilities						
Non-current liabilities						
Interest bearings loans and borrowings				3,170,186	3,170,186	2,778,681
Total				**3,170,186**	**3,170,186**	**2,778,681**
Current liablities						
Current interest bearings loans and liabilities				856,369	856,369	888,653
Accounts payable and other liabilities				536,680	536,680	536,680
Total				**1,393,049**	**1,393,049**	**1,425,333**

2010 (SEK 000s)	Loans and receivables	Available-for-sale financial assets	Derivatives*	Other liabilities	Total carrying amount	Fair value
Financial assets						
Non-current assets						
Other financial assets	1,394	791			2,185	2,185
Total	**1,394**	**791**			**2,185**	**2,185**
Current assets						
Accounts receivable and other receivables	151,483				151,483	151,483
Cash and cash equivalents	1,260,393				1,260,393	1,260,393
Total	**1,411,876**				**1,411,876**	**1,411,876**
Financial liabilities						
Non-current liabilities						
Interest bearings loans and borrowings				2,767,310	2,767,310	3,058,943
Total				**2,767,310**	**2,767,310**	**3,058,943**
Current liablities						
Current interest bearings loans and liabilities				1,627,695	1,627,695	1,649,671
Derivative financial instruments			9,523		9,523	9,523
Accounts payable and other liabilities				256,187	256,187	256,187
Total			**9,523**	**1,883,882**	**1,893,405**	**1,915,381**

* Financial liabilities measured at fair value through profit and loss

Financial non-current assets and current assets comprise other financial assets in the form of deposits for leased drilling equipment and other shares and participations. Accounts receivable and receivables from partners are not discounted due to their short term. Accrued interest income and accrued oil income are also included. Cash and cash equivalents comprise liquid funds.

Non-current liabilities and current liabilities comprise long- and short-term interest-bearing loans and borrowings. Accounts payable and payables to partners are not interest-bearing and are not discounted due to their short term. Accrued interest expense and accrued exploitation and drilling expenses are also included. At the end of the preceding year, derivatives in the form of currency/interest swaps with a negative fair value were included.

CONT. NOTE 25

Financial assets and liabilities by valuation category – Parent company

2011 (SEK 000s)	Loans and receivables	Available-for-sale financial assets	Derivatives*	Other liabilities	Total carrying amount	Fair value
Financial assets						
Non-current assets						
Receivables Group companies	5,874,008				5,874,008	5,874,008
Total	**5,874,008**				**5,874,008**	**5,874,008**
Current assets						
Prepaid expenses and accrued income	84				84	84
Cash and cash equivalents	21,286				21,286	21,286
Total	**21,370**				**21,370**	**21,370**
Financial liabilities						
Non-current liabilities						
Liabilities Group companies				2,637,681	2,637,681	2,637,681
Non-Current interest bearings loans and liabilities				2,789,399	2,789,399	2,397,894
Total				**5,427,080**	**5,427,080**	**5,035,575**
Current liablities						
Account payables				3,221	3,221	3,221
Current interest bearings loans and liabilities				173,085	173,085	173,085
Accrued expenses and prepaid oncome				139,350	139,350	139,350
Total				**315,656**	**315,656**	**315,656**
2010 (SEK 000s)						
Financial assets						
Non-current assets						
Receivables Group companies	6,131,277				6,131,277	6,131,277
Other non-current receivables		791			791	791
Total	**6,131,277**	**791**			**6,132,068**	**6,132,068**
Current assets						
Prepaid expenses and accrued income	949				949	949
Cash and cash equivalents	1,081,247				1,081,247	1,081,247
Total	**1,082,196**				**1,082,196**	**1,082,196**
Financial liabilities						
Non-current liabilities						
Liabilities Group companies				2,610,248	2,610,248	2,610,248
Non-Current interest bearings loans and liabilities				1,650,448	1,650,448	1,927,007
Total				**4,260,696**	**4,260,696**	**4,537,255**
Current liablities						
Account payable				1,046	1,046	1,046
Derivative financial instruments			9,523		9,523	9,523
Current interest bearings loans and liabilities				1,150,602	1,150,602	1,163,350
Accrued expenses and prepaid oncome				111,607	111,607	111,607
Total			**9,523**	**1,263,255**	**1,272,778**	**1,285,526**

* Financial liabilities measured at fair value through profit and loss.

Financial non-current assets and current assets comprise interest-bearing receivables from Group companies and other shares and participations. Receivables from partners are not discounted due to their short term. Accrued interest income is also included. Cash and cash equivalents comprise liquid funds.

Non-current liabilities and current liabilities comprise bond loans and the short-term portion of interest-bearing loans and borrowings. Accounts payable and payables to partners are not interest-bearing and are not discounted due to their short term. Interest-bearing liabilities to Group companies and accrued interest expenses are also included. At the end of the preceding year, derivatives in the form of currency/interest swaps with a negative fair value were included.

CONT. NOTE 25

Financial instruments valued at fair value – Group and Parent company

2010 (SEK 000s)	Quoted prices in active markets (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Financial assets			
Financial assets valued at fair value through profit and loss			
Derivative financial instruments			
Available for sale financial assets			
Other financial assets	791		
Total	**791**	—	—
Financial liabilities			
Financial liabilities valued at fair value through profit and loss			
Derivative financial instruments		9,523	
Total	—	**9,523**	—

As at 31 December 2011, no financial instruments valued at fair value existed in PA Resources' balance sheet. As per 2010, there were only financial instruments valued within Level 1 and Level 2. The table illustrates the underlying quality used to calculate the fair value of the Group's and the Parent Company's financial instruments.

Result from financial assets and liabilities by valuation category – Group

2011 (SEK 000s)	Derivatives*	Loans and receivables	Available-for-sale financial assets	Derivatives*	Other liabilities	Total result from financial assets and liabilities	Result from non-financial assets and liabilities	Total result
Net financial items								
Interest (income/expenses)		10,887		895	–283,816	–272,034		–272,034
Changes in value (net gains/losses)				27,700	–81,538	–53,838	–41,163	–95,001
Exchange rate changes (net gains/losses)		369			16,319	16,688		16,688
Total	—	**11,256**	—	**28,595**	**–349,035**	**–309,184**	**–41,163**	**–350,347**
2010 (SEK 000s)								
Net financial items								
Interest (income/expenses)	1,760	–23,099		3,637	–236,028	–253,730		–253,730
Changes in value (net gains/losses)	–6,598			1,296	–66,422	–71,724	–19,126	–90,850
Exchange rate changes (net gains/losses)		–18,408			51,845	33,437		33,437
Total	**–4,838**	**–41,507**	—	**4,933**	**–250,605**	**–292,017**	**–19,126**	**–311,143**

* Financial liabilities valued at fair value through profit and loss.
Financial assets and liabilities had no impact on the Group's operating profit as set out in the statement above

CONT. NOTE 25

Result from financial assets and liabilities by valuation category – Parent company

2011 (SEK 000s)	Deriva-tives*	Loans and receivables	Available-for-sale financial assets	Deriva-tives*	Other liabilities	Total result from financial assets and liabilities	Result from non-financial assets and liabilities	Total result
Net financial items								
Interest (income/expenses)		271,550		895	–402,711	–130,266		–130,266
Changes in value (net gains/losses)				27,700	–58,071	–30,371	–2,012	–32,383
Exchange rate changes (net gains/losses)		223,155			–50,101	173,054		173,054
Total	**—**	**494,705**	**—**	**28,595**	**–510,883**	**12,417**	**–2,012**	**10,405**
2010 (SEK 000s)								
Net financial items								
Interest (income/expenses)	1,711	304,207		3,637	–365,603	–56,048		–56,048
Changes in value (net gains/losses)	–6,598			1,296	–61,673	–66,975	18,080	–48,895
Exchange rate changes (net gains/losses)		–399,813			225,276	–174,537		–174,537
Total	**–4,887**	**–95,606**	**—**	**4,933**	**–202,000**	**–297,560**	**18,080**	**–279,480**

* Financial liabilities valued at fair value through profit and loss.
Financial assets and liabilities had no impact on the Parent Company's operating profit as set out in the statement above.

NOTE 26 Shares in subsidiaries

The Parent Company's shares in the respective segments/region are categorised above. The region Other includes the parent Company in the presentation of the Group's income statement and balance sheet, see Note 6 *Segment information.*

Subsidiary	Corporate identity number	Domicile	Legal entity	Currency	Share of equity	Book value (SEK 000s) in Parent company
Segment Other						
Microdrill AB	556205-9179	Stockholm	Limited company	SEK	100	150
Segment North Africa						
Hydrocarbures Tunisie El Bibane Ltd	615304F	Jersey	Limited company	GBP	100	29,154
Hydrocarbures Tunisie Corp	704535R	Bahamas	Limited company	USD	100	11,748
PA Resources Overseas Ltd	3313969	Great Britain	Limited company	GBP	100	1,918,358
Segment West Africa						
PA Energy Congo Ltd	1015422	Br.Virgin Islands	Limited company	USD	100	86,845
Osborne Resources Ltd	85416	Bahamas	Limited company	USD	100	18,088
Segment North Sea						
PA Resources Denmark ApS	31080037	Denmark	Limited company	DKK	100	174
PA Resources UK Ltd	5152884	Great Britain	Limited company	GBP	100	126,295
Total						**2,190,812**

Parent company acquisitions in shares in subsidiaries

(SEK 000s)	
At 1 January 2011 acquisition cost	2,217,387
Acquisitions	—
Capital contribution	—
Adjustment acquisition value	—
Voluntary liquidation	–526
Impairment loss	–26,049
Disposals	—
At 31 December 2011 acquisition cost	**2,190,812**

NOTE 27 Pledged assets and contingent liabilities

SEK 000s	Group 31 Dec. 2011	Group 31 Dec. 2010	Parent company 31 Dec. 2011	Parent company 31 Dec. 2010
The pledged assets can be broken down as follows:				
Security in the form of assets in Region West Africa	1,304,285	898,610	—	—
Guarantee commitment for Group loan obligations	—	—	1,304,285	898,610
Security in the form of assets in Region North Africa	42,925	1,224,450	—	—
Security in the form of pledged shares	—	—	42,925	1,224,450
Oil inventory attributable to payment of royalty in kind	526	17,115	—	—
Cash deposit currency exchange	—	39,455	—	—
Total pledged assets	**1,347,736**	**2,179,630**	**1,347,210**	**2,123,060**
Contingent liabilities (SEK 000s)				
Contingent liabilities are broken down as follows:				
Contingent liabilities attributable to the acquisition of PA Energy Congo Ltd	14,000	14,000	14,000	14,000
Total contingent liabilities	**14,000**	**14,000**	**14,000**	**14,000**

Contingent liabilities

In connection with the acquisition of the subsidiary PA Energy Congo Ltd (formerly Adeco Congo BVI Ltd) there is a possible future liability to the sellers to pay a maximum amount of USD 2 million depending on future oil production achieved. Liabilities with pledged collateral see Note 22, Interest-bearing loans and borrowings.

NOTE 28 Related party disclosure

Transactions entered into between the Group, independently of one another, and related parties “at arm’s length” are described below:

Related party transactions between the Parent Company PA Resources AB and its subsidiaries and between the subsidiaries themselves relate both to third party costs which are invoiced on in full without any surcharge and to general costs and payroll costs in the home country which are invoiced on the basis of established Transfer Pricing Agreements within the Group. Investments in subsidiaries are primarily financed via external borrowing by the Parent Company. Outstanding loans between the Parent Company and subsidiaries are regulated on the basis of established Transfer Pricing Agreements and loan agreements within the Group. For information on the Group companies and the Parent Company’s shareholding in subsidiaries refer to Note 26 *Shares in subsidiaries.*

During the financial year the usual directors’ fees as resolved by the Annual General Meeting were paid to the Board. Remuneration in an amount of SEK 0 thousand (207) was paid in addition to these fees for any specific work. In addition, Board members were reimbursed for expenses. For further information on salaries, directors’ fees, pension expenses, share-based remuneration and other benefits to related parties refer to Note 8 *Remuneration and other benefits: Board of Directors and senior executives of the Parent Company.*

No guarantees have been issued for any outstanding loans, receivables or liabilities in respect of related parties. Neither have any guarantees been given nor assets pledged to or received by any related party. Outstanding loans and receivables in respect of related parties are deemed secure as at the balance sheet date.

NOTE 29 Assets held for sale

PA Resources signed an agreement, effective 1 January 2012, on the divestment of its ownership interests in two producing oilfields, Ezzaouia and El Bibane, for USD 4.0 million. The transaction is contingent on approval of partners and the Tunisian government. These interests along with associated adjustments are reported on the balance sheet as assets (and related liabilities) held for sale. The respective balance sheet items are specified below. An impairment loss was recognised for the assets in a total amount of SEK 176.1 million prior to their reclassification.

(SEK 000s)	31 Dec. 2011	31 Dec. 2010
ASSETS		
Tangible non-current assets	27,694	0
Accounts receivable and other receivables	2,229	0
Total Assets available-for-sale	**29,923**	**0**
LIABILITIES		
Accounts payable and other liabilities	2,735	0
Total Liabilities referred to assets available-for-sale	**2,735**	**0**

NOTE 30 Parent company's result from interests in Group companies

In connection with the divestment of the El Bibane producing oilfield, the parent company has written down the value of the shares in the subsidiary Hydrocarbures Tunisie El Bibane Ltd. In addition, the parent company has written down an intra-Group receivable in connection with the Group's impairment of its working interest in the West Africa region. The amounts concerned are specified below.

(SEK 000s)	Jan–Dec 2011	Jan–Dec 2010
Impaiment losses Intercompany receivables	–1,435,704	0
Impaiment losses participations in Group companies	–26,049	0
Total financial expenses (net)	**–1,461,753**	**0**

NOTE 31 Significant events after the closing date

Effective 1 Janaury 2012, PA Resources signed an agreement on the divestment of the two producing oilfields in Tunisia, El Bibane and Ezzaouia. The transaction is subject to approval by partners and the Tunisian Government. See Note 29, *Assets held for sale* for more information.

NOTE 32 Financial risk

In its operations, PA Resources is exposed to various types of financial risk. Financial risk arises when refinancing and credit risks as well as changes in interest rates and exchange rates affect the Group's operating profit, cash flow and value. Financial risk is managed and controlled in accordance with the strategy adopted by the company's Board of Directors. This also constitutes the single most important financial control instrument for the Group's financial activities.

In line with the overall targets, PA Resources manages the financial risks to which the Group is exposed. The Board reviews and approves strategies for managing each of these risks, which are summarised below.

Financing and refinancing risk

PA Resources' business is capital-intensive. Should cash flow from operations become insufficient, the Group may require additional capital in order to acquire assets or for investments in existing licences. Refinancing risk is defined as the risk that financing or refinancing is troublesome or costly to secure. To date, PA Resources has had access to a wide range of financing at competitive rates via the money market and the equity market. Relations with banks in respect of loan requirements, foreign currency requirements and cash management are coordinated centrally by the Group's Treasury function.

The Group's total outstanding interest-bearing loans and borrowings, largely in the form of bond loans, amounted on 31 December 2011 to SEK 4,027 million (4,395), maturing at various times between 2012 and 2016. In 2011, PA Resources redeemed the remaining amount, NOK 410 million, of a bond with an original nominal amount of NOK 500 million, effected full redemption of a bond loan with a nominal value of USD 100 million and amortised USD 10 million according to plan as well as an additional USD 64 million of the remaining USD 80 million attributable to an existing bond loan with an original nominal value of USD 100 million. In addition, the Group has issued a bond loan of NOK 900 million. For more information, see Note 22, *Interest-bearing loans and borrowings*.

Liquidity risk

Liquidity risk is defined as the risk that PA Resources is unable to meet its obligations to repay its liabilities on time or at a reasonable cost. The Group's management of its capital structure aims to create a balance between equity and loan financing, to ensure financing of the business at a reasonable cost of capital. As far as possible the Group endeavours to finance growth and ongoing investments from the cash flow it has generated itself. Since operations are capital-intensive, however, this is supplemented with money market financing using bonds and bank loans as well as equity market financing through the issue of new shares and convertibles. In view of the financing risk and PA Resources' capital-intensive business, the Group aims always to have sufficient funds in cash and loan facilities to meet the needs that are expected to arise in the coming twelve months, and liquidity is monitored continually in order to meet forthcoming payment requirements. Liquidity risk is balanced by planning the maturity structure of the Group's outstanding financial liabilities. Ultimately, the Board monitors the Group's capital structure and financial management, approves certain matters relating to acquisitions, investments and borrowing, and monitors ongoing exposure to financial risk.

Oil price risk

The price of oil and gas is set in the world market and to a significant extent is dependent on various factors that the Group is unable to affect. Oil and gas prices have fluctuated substantially over the last few years and many indicators point to continuing volatility in the future. A significant decline in the price of oil and gas could negatively affect the Group's operations, profits and financial position. PA Resources operates a policy of not hedging the oil price of future sales, but this is reviewed on an ongoing basis by the management. In 2011, the Group hedged parts of its production through the purchase of put options, which provide a right, but, not, an obligation to sell a volume of oil at a predetermined price during a predetermined period. The put options were never utilised since the oil proce remained high during the year. At year-end, PA Resources held no put options.

Under the assumption of constant 2011 production, 3,145.6 Tbbl (3,918.0), and that the average exchange rate for the year between the USD/SEK (6.50) remains the same, a movement in the oil price of USD 10 per barrel has a positive/negative effect on the Group's revenues of SEK 204.4 million (282.2).

Interest rate risk

Interest rate risk is the risk of market interest rates moving in such a manner that PA Resources' net interest expense is negatively affected. The effect of a change in interest rates on the Group's operating profit depends on the loans'

Maturity profile on PA Resources Group financial liabilities

	31 December 2011				31 December 2010			
	< 1 year	**1–2 years**	**2–5 years**	**> 5**	< 1 year	1–2 years	2–5 years	> 5
Interest-bearing loans and borrowings	1,279,946	1,506,371	2,532,206	—	1,643,552	476,175	2,518,513	—
Derivative financial instruments	—	—	—	—	15,270	—	—	—
Accounts payable and other liabilities	256,134	—	—	—	97,908	—	—	—
Total	**1,536,080**	**1,506,371**	**2,532,206**	**—**	**1,756,730**	**476,175**	**2,518,513**	**—**

The table shows future undiscounted cash flows, at year-end rates, related to financial interest-bearing liabilities and the net of derivatives related to these liabilities. The variable interest rate on liabilities and derivatives as per 31 December 2011 is assumed until maturity.

CONT. NOTE 32

and the investments' fixed term and on the proportions of variable and fixed interest rates. Normally, the interest rates of interest-bearing liabilities vary from fixed interest to 3-month interest rates and PA Resources utilises interest swap agreements for which the interest rate can change from fixed to variable and vice versa to manage interest rate exposure. At the end of the year, the average interest rate fixing period was 2.0 (1.3) years. Utilising interest rate exposure at 31 December 2011 as a basis, a change in the market rate of interest of one percentage point would have a positive/negative effect on the Group's net financing of SEK 2.5 million (11.9). The simulation assumes a parallel shift in all interest rate curves and does not take into consideration any currency or maturity differences. As no interest-bearing instruments are recorded as available-for-sale, the impact is the same on total other comprehensive income.

Foreign currency risk

PA Resources is exposed to fluctuations in the foreign exchange markets as fluctuations in exchange rates can negatively affect the operating profit, cash flow and equity. The major proportion of PA Resources' assets relate to international oil and gas discoveries valued in USD and which generate revenues in USD. The Group ensures a natural hedge of these assets through borrowing in USD and when loans are in local currencies utilising currency swap contracts to hedge these borrowings. The market value of all outstanding contracts at 31 December 2012 was SEK 0.0 million (-9.5) and the value of all outstanding contracts has resulted in an unrealised effect on the profit at 31 December 2011 of SEK 9.5 million (-8.6).

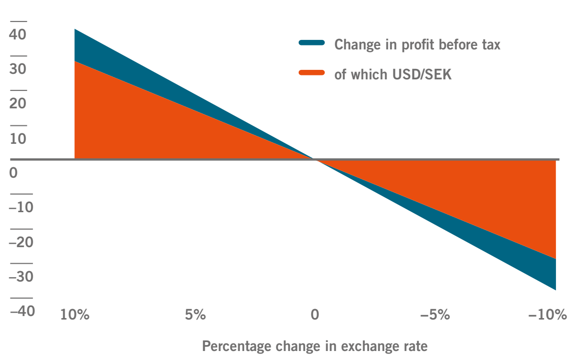
Transaction risk

Transaction exposure arises in the cash flow when invoicing or the costs of invoiced goods and services are not in the local currency. The majority of PA Resources' revenues come from the sale of oil and gas in the international market, and costs, through operation costs, operating rental costs, etcetera in USD. Discrepancies, primarily costs in local currencies in the Group's subsidiaries, affect the Group's operating profit. Expected or budgeted flows are not hedged at present.

Translation risk

Exchange rate changes affect PA Resources in conjunction with the translation of the income statements of overseas subsidiaries to SEK as the Group's operating profit is affected and when net assets in overseas subsidiaries are translated into SEK which can negatively affect the Group's equity. PA Resources does not hedge its translation exposure and fluctuating currency rates might negatively affect the operating profit and financial position of the Group.

Exchange effects on profit before tax 2011 (SEK million)



Currency sensitivity in transaction and translation exposure

International oil operations are primarily in USD, both as regards revenue and expenses, however PA Resources does have minor exposures in TND, GBP, EUR, NOK and DKK. The Group's transaction exposure is to a major degree secured naturally through financial exposure, primarily through borrowing in USD or through currency swaps to USD to achieve the same effect. A concurrent ten percent change in each currency against the SEK would have a positive/negative effect on the Group's operating profit of SEK 37.9 million (34.8), of which the exposure in USD/SEK accounts for positive/negative SEK 28.5 million (32.1) of the total. The sensitivity analysis builds on revenue and expenses as well as balance sheet items in the 2011 full-year report and does not take into consideration any market changes that could occur with volatile currencies.

Credit risk

Credit risks in financial operations

Credit risk exposure arises from the investment of cash and cash equivalents and from counterparty risk attributable to trading in derivatives. Both investment of cash and cash equivalents and trading in derivatives is primarily performed by the Group's treasury function and are normally limited to banks with a strong credit rating included in PA Resources' medium- to long-term financing. PA Resources strives to establish ISDA agreements with its counterparties in transactions with derivatives, which means that if a counterparty enters into liquidation, liabilities are offset against assets. At the balance sheet date, 31 December 2011, cash and cash equivalents and financial investments amounted to SEK 44.5 million (1,260.4).

Credit risks in operations

PA Resources is also exposed to the risk of not receiving payment from customers for deliveries of oil and gas. The Group normally delivers oil in large quantities in liftings, whereby a tanker load, depending on oilfield, corresponding to between 200,000 and 950,000 barrels is delivered against payment within 15–45 days. These deliveries are made only to a small number of recognised creditworthy parties, primarily major international oil and gas companies. The Group's deliveries are governed by annual contracts and Group policy is to check the creditworthiness of all customers who wish to do business on credit. In addition, receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is minor. In past years the Group has had only very few minor bad debt losses, and had none whatsoever this past year. Given its customer structure and past experience, the Group has assessed that credit insurance need not be taken out.

Below is an analysis of the Group's total outstanding accounts receivable and other receivables over time as per balance sheet date, along with provisions for bad debts. As at 31 December 2011, total provisions for bad debts amounted to SEK 845 thousand (830) and have changed as follows:

CONT. NOTE 32

Timing analysis accounts receivable and other current receivables (SEK 000s)

	Group 2011		Group 2010	
Receivables past due but not recognised as impairment losses:	**Total exposure**	**Fair value**	Total exposure	Fair value
Not overdue	834,869	834,869	674,388	674,388
past due < 30 days	2,007	2,007	27	27
past due 30–60 days	69	69	340	340
past due 60–90 days	270	270	0	0
past due 90–120 days	0	0	41	41
past due > 120 days	3,503	2,661	2,320	2,320
Total	**840,722**	**839,877**	**677,116**	**677,116**

	Group	
Provisions for bad debts (SEK 000s)	**2011**	2010
Ingoing balance amount as per 1 January	–830	–960
Provision charge for the year	—	—
Reversed provisions	—	—
Actual credit losses (write-downs)	—	—
Currency rate effect	–15	130
Total provisions as per 31 December	**–845**	–830

5 YEAR SUMMARY

		31 Dec. 2011***	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Revenue	SEK 000s	2,153,808	2,226,732	2,112,841	2,419,863	2,793,831
EBITDA	SEK 000s	1,295,250	1,275,676	1,325,877	1,771,823	2,073,729
Operating result	SEK 000s	–1,526,609	490,424	429,601	1,395,749	1,833,485
Operating profit excluding one-off costs	SEK 000s	508,057	490,424	429,601	1,395,749	1,833,485
Operating profit per share after dilution**	SEK	–2.39	0.94	1.35	4.64	6.08
Operating margin excluding one-off costs		24%	22%	20%	58%	66%
Income after financial items per share after dilution**	SEK	–2.94	0.34	1.00	2.74	5.96
Earnings per share after dilution**	SEK	–3.27	–0.61	0.04	3.08	3.14
Return on equity		neg	neg	0.3%	23.9%	33.6%
Return on assets		neg	5.1%	5.0%	16.3%	32.3%
Return on capital employed		neg	5.9%	6.3%	19.5%	41.3%
Equity per share before dilution**	SEK	5.13	8.24	13.41	15.86	11.12
Equity per share after dilution**	SEK	5.13	8.24	13.41	15.80	10.79
Profit margin		–87.1%	8.1%	15.0%	34.0%	64.3%
Equity/assets ratio		36.8%	48.2%	44.6%	45.5%	49.5%
Debt/equity ratio		121.8%	59.7%	80.4%	74.8%	64.6%
Debt/equity ratio, full conversion		75.6%	38.3%	54.6%	n/a	n/a
Share price at end of period*	SEK	2.12	7.50	11.93	5.58	24.74
Share price/equity per share before dilution*	Times	0.41	0.91	0.89	0.35	2.23
P/E multiple per share*	Times	–0.65	–12.36	295.22	1.81	7.81
Number of shares outstanding before dilution**	Number	637,476,893	637,475,843	345,814,769	299,968,388	298,937,668
Number of shares outstanding after dilution**	Number	637,476,893	637,475,843	345,814,769	300,999,108	308,059,540
Average number of shares outstanding before dilution**	Number	637,476,105	521,614,740	318,998,246	299,427,260	298,937,668
Average number of shares outstanding after dilution**	Number	637,476,105	521,614,740	318,998,246	300,921,829	301,700,581

* In connection with the rights issue conducted in 2010, the share price at the end of the period was adjusted retroactively, which affected share price/equity per share before dilution and P/E multiple per share.

** The number of shares outstanding after dilution includes only shares that give rise to a dilutive effect. The rights issue carried out in 2010 gave rise to retroactive adjustments.

*** Figures for the full year of 2011 include one-off costs of SEK 2,034,666 thousand (0) before tax and SEK 1,758,077 thousand (0) after tax.

Key ratio definitions

EBITDA is defined as operating profit excluding total depreciation, amortisation and impairment.

Operating profit is defined as operating revenue less operating expenses (including depreciation, amortisation and impairment).

Operating margin is defined as operating profit after depreciation and amortisation as a percentage of total revenue.

Earnings per share before/after dilution is defined as profit for the period in relation to the average number of shares outstanding before/after dilution.

Return on equity is defined as the moving 12-month profit after tax as a percentage of average adjusted equity.

Return on total capital is defined as the moving 12-month operating profit plus adjusted financial items as a percentage of average total assets.

Return on capital employed is defined as the 12-month moving operating profit plus adjusted financial items as a percentage of average capital employed (total assets less noninterest-bearing liabilities including deferred tax liabilities).

Shareholders' equity per share before/after dilution is defined as the Group's reported equity in relation to the number of shares outstanding before/after dilution.

Profit margin is defined as profit after net financial items as a percentage of total revenue.

Equity/assets ratio is defined as the Group's reported equity as a percentage of total assets.

Debt/equity ratio is defined as the Group's interest-bearing liabilities less cash and cash equivalents in relation to adjusted equity.

P/E multiple per share is defined as the share price at the end of the period in relation to profit after tax, divided by the average number of shares outstanding before dilution.

PROPOSED DISTRIBUTION OF EARNINGS

The following amounts are at the disposal of the Annual General Meeting (SEK)	
Retained earnings	–201,585,653
Share premium reserve	2,748,716,405
Net result for the year	–1,451,956,336
Total	**1,095,174,416**

The Board of Directors proposes the accumulated profit of SEK 1,095,174,416 be carried forward. The Board of Directors and President declare that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations. The Annual Report has been prepared in accordance with generally accepted accounting principles and gives a true and fair view of the Parent Company's financial position and results of operations.

The statutory Administration Report of the Group and the Parent Company provides a fair review of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 28 March 2012

Hans Kristian Rød
Chairman of the Board

Lars Olof Nilsson
Board Member

Paul Waern
Board Member

Catharina Nystedt-Ringborg
Board Member

Per Jacobsson
Board Member

Bo Askvik
President & CEO

Our audit report was presented on 28 March 2012

Ernst & Young AB

Jaan Kubja
Authorised Public Accountant

AUDITOR'S REPORT*

To the annual meeting of the shareholders of PA Resources AB, corporate identity number 556688-2180

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of PA Resources AB for the year 2011, except for the corporate governance statement on pages 32–38. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 25–76.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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 company'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 and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 32–38. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statements and the balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of PA Resources AB for the year 2011. We have also conducted a statutory examination of the corporate governance statement.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the Group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Stockholm, March 28, 2012
Ernst & Young AB

Jaan Kubja
Authorized Public Accountant

ERNST & YOUNG

* Translation from the Swedish original

GLOSSARY

Anomaly: An abrupt increase in seismic amplitude that can indicate the presence of hydrocarbons.

Appraisal well: A well drilled to determine the extent and scope of a petroleum find.

Barrel: Oil production is often given in numbers of barrels per day. One barrel = 159 litres, 0.159 cubic metres. In English the abbreviations bbl (barrel) or stb (stock tank barrel) are often used.

Barrels of oil equivalents: Unit of volume used for petroleum products. An indication used when oil, gas and NGL are to be summarised. Abbreviated boe. (see oil equivalents)

Block: A country's exploration and production area is divided into different blocks that indicate the geographical layout.

Blowout: A blowout is the uncontrolled discharge of oil, gas or water from an oil well

BOE: Barrels of oil equivalents

Boepd: Barrels of oil equivalents per day

Bopd: Barrels of oil per day

Brent oil: A reference oil for the various types of oil in the North Sea. West Texas Intermediate (WTI) and Dubai are other reference oils. Oil is priced in relation to these reference oils.

Condensate: A mixture of the heavier elements of natural gas, i.e. pentane, hexane, heptane etc. The gas is a liquid at atmospheric pressure.

Continental shelf: A gradual, rapidly deepening seabed on a continental plate. The ocean area between Norway, Denmark and the UK is for example a continental shelf. The continental shelf is generally situated at a depth of 0-500 metres and is concluded in a continental slope.

Contingent resources: Estimated recoverable volumes from known accumulations that have been confirmed through drilling but which do not yet fulfil the requirements for reserves.

Crude oil: The oil produced from a reservoir, after associated gas is removed in separation. A fossil fuel formed by plant and animal matter several million years ago.

Cubic foot/meters: Unit of volume for gas, most often given in billions of cubic feet/meters.

Discovery: One or several gathered occurrences of oil or gas in a well, where tests, samples or logs have confirmed hydrocarbons to be present. The definition includes both commercial and technical discoveries. The discovery will receive the status of a field when a plan for development and operation has been approved by the authorities.

Exploration well: A common term for wildcat and wells drilled when exploring for oil and gas, to gather facts about the petroleum's quality, the bedrock's make-up, the reservoir's extent and location etc.

Farm in/farm out: The holder of interest in an oil licence may transfer (farm out) shares to another company in exchange for this company taking over some of the work commitments in the licence, such as paying for a drilling or a seismic investigation within a certain period. In return, the company brought in receives interest in any future revenues. If the conditions are met the company may retain the interest if not the interest is taken back by the original holder.

Fault: A fracture within rock structures where relative motion has occurred across the fracture surface.

Flaring: Controlled burning of gas that must be released for safety reasons at an oil production facility. Used when impossible to utilize the gas.

FPSO-vessel: Floating, Production, Storage and Offloading vessel used in an oil field.

FDPSO-vessel: Floating, Drilling, Production, Storage and Offloading vessel used in an oil field.

Gas field: A field containing natural gas. The gas can contain larger or smaller amounts of condensate which is separated as a liquid when the gas is produced (the pressure and temperature drop).

Hydrocarbons: The compounds comprised of the basic elements hydrogen (H) and carbon (C). If an occurrence primarily contains light hydrocarbons, they are most often in gas form in the reservoir, and are called a gas field. If it is primarily heavy hydrocarbons, they are in liquid form in the reservoir, and called an oil field. Under certain conditions both can exist in the reservoir where a gas cap lies above the oil. Oil always contains a certain element of light hydrocarbons that are freed in production, also known as associated gas.

Injection well: A well where gas or water is injected to give pressure support in a reservoir. By injecting gas, water or both into a reservoir, one can increase the degree of recovery by maintaining the pressure and thereby forcing the hydrocarbons into the production well.

Jack-up rig: A type of drilling rig used when drilling oil wells at sea. Is anchored to the seabed.

License: A licence is a permit granted to an oil company from the government of a country to look for and produce oil and gas. Oil and natural gas assets are usually owned by the country in which the oil or natural gas is discovered. The oil companies obtain permission from the respective country's government to explore for and extract oil and natural gas. These permits can be called concessions, permits, production sharing contracts or licences depending on the country in question. A licence usually consists of two parts: an exploration permit and a production licence.

LNG (Liquefied natural gas): Liquid dry gas, primarily methane that has transformed to liquid form upon cooling to minus 163 °C at atmospheric pressure. One ton of LNG corresponds to approximately 1,400 cubic meters of gas. LNG is transported by special vessels.

Natural gas: A mixture of hydrocarbons in gas form found in the bedrock, usually 60–95 percent methane.

Net Entitlement share: The proportion of revenue, production or reserves and resources that accrue to the oil company after deductions for royalties and taxes.

NGL (Natural gas liquids): Liquid gas that consists of three different gases: ethane, propane and butane, as well as small amounts of heavy hydrocarbons. The gas is partially liquid at atmospheric pressure. The gas is transported by special vessels.

Offshore: Designation for operations at sea.

Onshore: Designation for operations on land.

Oil equivalents: Abbreviated o.e. An indication used when oil, gas and NGL are to be summarised. The concept is tied to the amount of energy released upon combustion of different types of petroleum. Because oil equivalents depend on the amount of energy, it is not constant and different conversion factors are used. In "Oil Field Units", 5,800 cubic feet of gas = 1 barrel of oil equivalents. According to the Norwegian Petroleum Directorate, 1,000 standard cubic metres of gas = 1 standard cubic meter of oil equivalents.

Operator: A company, which on behalf of one or more companies in a partnership and with approval of the country's authority, leads the work on an oil and gas licence or a field.

OSS-vessel: Oil Storage Service vessel.

Petroleum: Collective term for hydrocarbons, whether they occur in solid, liquid or gas state(s).

Platform: An installation used during the production of oil or gas. Oil operations at sea are conducted from both floating platforms and platforms fixed to the seabed.

Play: A conceptual model used for analyzing a geographically and stratigraphic delimited area, where a specific set of geological factors must be present for producible volumes to be proven. Such geological factors are a reservoir rock, trap, mature source rock, migration routes, and that the trap was formed before the migration of hydrocarbons ceased.

Produced water: Is the water produced from an oil well together with oil, gas or other hydrocarbons. The water is separated from the hydrocarbons and purified before it is pumped back down into the reservoir or are taken care of in other ways.

Production well: A well used to extract petroleum from a reservoir.

Proven and Probable reserves 2P: Proven and Probable reserves with a probability in excess of 50% of extraction in the current economic climate.

Proven reserves 1P: Extraction assessed as having a probability in excess of 90% in the current economic climate.

Reservoir: The sedimentary rock in which hydrocarbons are accumulated as a result of good porosity (lots of cavities in the stone) and from which hydrocarbons can be produced as a result of high permeability (presence of flow channels that can transport the oil).

Risked prospective resources: Prospective accumulations of hydrocarbons which have yet to be proven through drilling. Includes resources classified under Leads. Consideration is taken in respect of the likelihood of making discoveries.

Seismic: Seismic surveys are made to be able to describe geological structures in the bedrock. At sea, sound signals are transmitted from the ocean surface, and the echoes are captured. Such surveys can among other things be used to locate occurrences of hydrocarbons.

Sidetrack: Drilling from an existing well path towards a new well target.

Source rock: The geological formation in which oil and gas were created and originate.

Sweet crude oil: Crude oil containing low levels of sulfur compounds, especially hydrogen sulfide [H_2S] and carbon dioxide. The facilities and equipment to handle sweet crude are significantly simpler than those required for other potentially corrosive types of crude oil.

Terminal: A land facility that receives and stores crude oil and products from oil production at sea. The oil is transported to the terminal by tanker or through pipelines.

Trap: A trap is a geologic structure or a stratigraphic feature capable of retaining hydrocarbons in a reservoir. It might be a change in rock type with zero permeability, unconformities, folds, faults etc in the bedrock that prevent the hydrocarbons to migrate from the reservoir.

Well: A hole drilled down to a reservoir to look for or extract oil or gas.

Wildcat well: The first well drilled when exploring for oil and gas on a new, defined geological structure (a prospect).

Working Interest (WI): The proportion of revenue, production or reserves that accrue to the oil company before taxes, royalties and other curtailment.

GUIDE TO PA RESOURCES' ACCOUNTING

This is a brief explanation of some of the key items in PA Resources' financial statements and accounting. The full accounting principles are detailed under Note 2 on pages 48–52.

SIGNIFICANT REVENUE AND EXPENSES

Revenue

Oil production

PA Resources' recognised revenue is principally based on the volume of oil produced and which is vested in the Group.

The Group receives a share of each respective field's total production that corresponds to the Group's working interest in the field. This means that revenue corresponds to production prior to deductions for royalties and tax oil (more information about this is available on the right).

When the oil is produced it is initially stored until the customer collects the oil via liftings. Oil that is not sold remains in own inventory. The outstanding own inventory of oil is stated at fair value at the end of the period and recognised as revenue. This means that oil that is vested in PA Resources is recognised as revenue irrespective of whether it was sold in the period or not.

Expenses

Cost of sales – Production costs

One of the largest cost items for the Group is production costs which are included under the item Cost of sales. This includes costs for such as day-to-day operation, leasing of equipment and vessels as well as maintenance and repair of the Group's production facilities.

Cost of sales – Royalty expenses

Oil that has been produced and which has or will be paid to the state in the form of royalties, either by barrel of oil or through a cash payment, are recognised gross in the income statement. Produced royalty oil is included under total revenue. The corresponding royalty expense is recognised in the income statement item Cost of sales.

Depreciation/amortisation

Expenditures attributable to exploration and development of oil fields are seen as investments. Depreciation starts in conjunction with the start of production and is depreciated in line with the production in relation to the estimated total proven and probable reserves of oil and gas. Technical installations and equipment are subject to linear depreciation over the assets' expected useful life.

Impairment losses

PA Resources examines the value of its assets on an ongoing basis to determine whether any need for impairment exists. This is performed when events or circumstances indicate that the present value of an asset is lower than the carrying value and thus that the carrying value is no longer motivated. Such indications include changes in business activities, the sale of an asset, relinquishment of a licence to the state, a decline in the assessed volume of oil and gas reserves and significant changes in the oil prices.

Worth knowing about taxes

Reported tax

Tax rates and tax laws not only vary between the countries in which PA Resources operates, they also vary between different oil and gas licences in the same country. In certain countries and licences, no corporation tax is recognised. However, all forms of corporation tax are calculated on taxable profit for each individual oil field at the applicable tax rates. Reported tax may also include deferred tax, which means that the tax is allocated over a period and paid later or not at all.

In certain countries and licences, tax oil is recognised that applies to oil produced which, in addition to any royalty, is to be delivered to the state. Tax oil is included in total revenue and the corresponding tax oil expense is recognised within the framework of reported tax. At present, the only licence agreements held by PA Resources where tax oil is delivered to the state are in the West Africa region.

Tax paid

The tax reported in the cash flow statement is the tax paid in the form of corporation tax by the Group. At present, PA Resources only pays corporation tax in Tunisia.

Significant balance sheet items

Non-current assets

PA Resources' non-current assets comprise intangible assets and property, plant and equipment respectively:

- *Intangible assets* exist for oil and gas licences where exploration in the form of seismic surveys, exploration wells and appraisal activities are ongoing.
- *Property, plant and equipment* exist for oil and gas licences where production or development of an oil field for production is ongoing.

The book value recognised in the balance sheet corresponds to the cost of acquiring the licence and increases in line with investment outlays in the licence. The book value decreases in line with amortisation and depreciation which is performed on an ongoing basis during production on the licence.

The book value does not corresponds to the market value of an asset. The market value of an asset is defined as the value that might be obtained in a sale and is determined not by the book value but to a great extent by future expectations.

Interest-bearing loans and borrowings

The Group's interest-bearing loans and borrowings, long and short-term, comprise bond loans, convertible bonds and various types of credit facilities. The convertible bond is defined as a compound financial instrument, which means its classification is split between interest-bearing liabilities and equity, where about 87 percent is classified as interest-bearing liabilities.

PA Resources' total liabilities, both long and short-term, include the Group's interest-bearing loans and liabilities as well as tax liabilities, provisions and accounts payable and other liabilities. Only interest-bearing liabilities are included in the calculation of the debt/equity ratio. For more information see Note 22.

Provisions for asset retirement costs

After their operations have ceased, oil companies are obliged to restore the oil field's area. Therefore, those expenses the Group is expected to incur for each licence pertaining to restoration is measured repeatedly and provision is made for these future costs. For more information see Notes 2.4 and 23.

Worth knowing about exchange rate effects

The Group is impacted by changes in exchange rate effects that affect the income statement and the balance sheet. The Group's reporting currency is Swedish kronor, but the Group also conducts business in several countries with other currencies. The assets in oil and gas licences are valued by the market in USD and generate revenue in USD, while costs are incurred primarily in USD but also in local currencies. Borrowing takes place in USD and in local currencies.

Therefore, changes in exchange rates impact the Group in connection with cross-border transactions, and in part on the balance sheet date for financial reports when the assets and liabilities are translated from the local currency or USD to SEK at the interest rates applicable at the date of translation. Read more in Note 32, Financial risks.

INFORMATION FOR SHAREHOLDERS

Annual General Meeting 2012

The Annual General Meeting (AGM) for PA Resources will be held at 4:00 p.m. Tuesday, 22 May 2012 at Citykonferensen, Celsiussalen, Malmskillnadsgatan 46 in Stockholm. Registration for the AGM will commence at 3:15 p.m.

Attendance

Shareholders who wish to attend the AGM must:

- be listed in the register of shareholders maintained by Euroclear Sweden AB on Tuesday, 15 May 2012,
- notify the Company of their intention to attend the AGM not later than 4:00 p.m. on Tuesday, 15 May 2012.

Notification

Notice of attendance of the AGM should be submitted in one of the following ways:

- By e-mail: bolagsstamma@paresources.se
- By telephone: +46 8 545 211 50
- In writing: PA Resources AB, Kungsgatan 44, 3 tr., SE-111 35 Stockholm, Sweden

On notification, shareholders must provide their name, personal ID/corporate registration number, address, telephone number and registered shareholding and, where applicable, the names of any assistants and proxies.

In respect of representation by proxy, the power of attorney must be in writing. It must be dated and signed. An original power of attorney must be submitted to PA Resources in good time prior to the AGM. Proxy forms are available from the company and from the company's website www.paresources.se. Representatives of legal entities must produce a certified copy of the certificate of incorporation or equivalent authorisation documents.

An admission card will be sent at least four days prior to the AGM to those shareholders that have notified their attendance of the AGM. Shareholders must bring this admission card to the AGM. The admission card should be presented at the entrance to the hall used for the AGM. If a shareholder has no admission card a new admission card can be issued on presentation of identification.

Notice of the AGM and other information is available on www.paresources.se at least four weeks prior to the AGM.

Nomination Committee

The Nomination Committee's tasks include preparing proposals for election of Board members and comprises the following members:

- Jesper Bonnivier, Länsförsäkringar Fondförvaltning AB, Chairman of the Nomination Committee
- Bengt Stillström, AB Traction
- Carina Lundberg Markow, Folksam
- Hans Kristian Rød, Chairman of the Board

Suggestions or viewpoints can be submitted by e-mail to valberedningen@paresources.se.

Financial information 2012–2013	
Interim report Quarter 1 (January – March)	25 April 2012
Annual General meeting 2012	22 May 2012
Interim report Quarter 2 (January – June)	15 August 2012
Interim report Quarter 3 (January – September)	24 October 2012
Year-end report (Quarter 4)	6 February 2013

Distribution policy

A printed copy of the Annual Report is sent on request and can be ordered by sending an e-mail to ir@paresources.se. All of PA Resources' Annual Reports from the year 2000 onwards are available on our website under Investors/Financial Reports.

Give us your feedback

Can we improve the Annual Report or our Interim Reports? We welcome your suggestions and viewpoints by e-mail to ir@paresources.se.

Investor Relations contact

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Production: By PA Resources in collaboration with Solberg. **Operational photos:** Images Frikha, PA Resources, Noble Energy. **Photo cover (in the middle):** Keith Wood
Photo Statement of the Ceo: Cicci Jonson. **Photos Board of Directors and Management:** Alexander Ruas. **Printing:** Billes Tryckeri. **Translation:** The Bugli Company AB.

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