

Reservoir Group Limited

Directors' Report and Statutory Consolidated Financial Statements

For the year ended 31 December 2012

Registered Number: SC311980

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**Directors, auditors and registered address
for the year ended 31 December 2012**

Directors

P Bartette
P Cravatte
P J Stuart
R P H Clark

Secretaries

Maclay Murray & Spens LLP
G O Ashton

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
32 Albyn Place
Aberdeen
AB10 1YL
United Kingdom

Registered Address

66 Queens Road
Aberdeen
AB15 4YE
United Kingdom

Corporate Office

1 Albyn Terrace
Aberdeen
AB10 1YP
United Kingdom

Web Address

www.reservoir-group.com

**Directors' report
for the year ended 31 December 2012**

Principal activity

The principal activity of Reservoir Group Limited "the Company" and its subsidiary undertakings, together "the Group", is the provision of down-hole products and services to the oil and gas industry. The Group has operations worldwide, with a substantial proportion of its turnover generated overseas.

Business review

In 2012 the Group consolidated its activities following a highly active period of acquisition-led growth during 2011. The process of consolidation has involved the integration of a number of the businesses acquired in 2011, the establishment and promotion of a new business brand, Wellvention, and actions to improve the Group's positioning as specialists in its chosen markets. Assisting in this was the purchase in May 2012 of the remaining 50% of Quest Coring Inc which was not already owned. This has allowed the coring business to go to market under one brand worldwide, Corpro, as well as enabling the benefits of new technologies to be brought more readily to its worldwide customer base.

During the year, revenues grew 51% from \$83m to \$125m, and net income increased by 24% to \$17m.

The pace of growth led to significant expenditures associated with integration, reorganisation, and systems and controls developments. In addition the Group incurred exceptional costs in establishing its presence in several territories in the Far East, Australia, Middle East, North Africa and South America. This was symptomatic of the Group's particular stage of development and the rapid expansion experienced during 2011. The Group also incurred exceptional costs in relation to due diligence and advisory services to assess future financing options for the business. In all, exceptional items in the year reached \$10.1m (2011 - \$8.2m) and, as well as the areas referred to above, include an impairment of \$5.5m in anticipation of a business disposal of software and data storage business, Interica, completed on 5th February 2013, as the Group seeks to rationalise its positioning in its chosen markets going forward.

As one aspect of the consolidation and integration activities, the Group has been able to improve the procedures it uses to consider the carrying value of consumable assets used at oilwell sites for the provision of certain downhole services. This has enabled it to identify separately those which are more by nature fixed assets, as well as allowing better estimation of the net realisable value of those held as inventory.

Performance review

The Group developed further its capabilities in formation evaluation and its offering of specialised well services during 2012. Its funding arrangements remained consistent with 2011, with all its debt funding being provided by a club of four banks - Royal Bank of Scotland plc, HSBC Bank plc, DNB Nor ASA and Barclays Bank plc. Combined, their lending to the Group amounted to \$80m at the end of 2012, up from \$50m at the start of the year, the increase principally being attributable to the purchase of the balancing 50% of Quest Coring Inc which the Group did not already own. Further details of the Group's debt facilities are provided in note 21.1 on page 43.

Within the Group's formation evaluation activities, the process of integration into Empirica of the legacy surface-logging businesses acquired in 2011 continued successfully. This, together with the acquisition of the 50% of Quest Coring Inc not already owned, will enable the Group to focus on building out the Empirica and Corpro brands globally as leaders in a range of advanced services which support formation evaluation. To complement this, Kirk Petrophysics, the Group's business which provides rock analysis, handling and storage services, has been repositioned in the Group during the year to acknowledge its fit with the formation evaluation offering. In addition, the Group sold its software and data storage business, Interica, to management in February 2013.

The Group's specialist well services division experienced a challenging but successful year as its different businesses were combined under 3 brands – Omega Well Monitoring, Wellvention and Welltools. The drilling tools business, XDT, had a relatively uneventful year but is looking forward to bringing new tools to market during 2013.

The Directors consider the key performance indicators of the Group to be turnover and gross and net margins, all of which are influenced by the level of global oil and gas exploration and development which, in turn, is influenced by oil and gas prices and illustrated by rig count.

The Group is committed to new product development in a number of its businesses, particularly in areas where innovation can bring benefits to customers and translate into increased revenue at higher margins.

The Directors expect the Group to focus on organic growth during 2013 as it continues to develop the businesses it has established.

**Directors' report continued
for the year ended 31 December 2012**

Review of principal risks and uncertainties

The principal risks and uncertainties faced by the Group include geographical, political, fiscal, operational and financial risks. Geographical, political and fiscal risks arise from the Group operating in a significant number of overseas locations; whereas operational and financial risks arise from the nature of the Group's activities and the means by which it is financed.

The Group has an internal risk register which is reviewed annually by senior management to understand the factors that mitigate risks in all of these areas.

Geographical, political and fiscal risks

As an oilfield services group whose services are in demand in all hydrocarbon producing regions of the world, the Group has regard to the countries in which it does business and the customers, agents and other business partners with which it contracts.

- In conducting its business in a foreign country, the Group considers the country in which business is proposed; the customers, agents and/or other prospective business partners who would be involved; and assesses this information against the legal and ethical framework within which it seeks to conduct its business.
- Activity in a large number of different countries requires the Group to consider each of these countries' fiscal regimes. This enables the anticipated effects of direct, indirect and personnel taxes on the overall tax burden borne by the Group to be properly incorporated into contract pricing decisions. However, tax treatment is not always clear in advance and local legislation may change by the time activities are conducted.

Operational risks

The nature of the group's activities gives rise to a variety of operational risks:

- Operational contracting risks arise from the nature of framework agreements with some of the Group's customers. Certain of the Group's revenue streams are contracted under multi-year framework agreements with oil & gas operating companies. The nature of these framework agreements, whereby customers request work at short notice under the agreements, means that the timing and quantum of work over the life of such contracts is difficult to forecast, and the logistics of fulfilling work orders can be challenging.
- Operational planning risks arise from the unpredictable nature of future movements in oil and gas commodity prices. Such movements directly impact the Group's customers' cash flows and thus can influence future demand for the Group's services.
- Health, safety & welfare risks arise from the nature of certain of the services provided by the Group and the sometimes remote or hostile locations in which these need to be undertaken. The welfare of the Group's personnel is paramount and careful research is undertaken before individuals are deployed to any foreign location, including assessing the level of support and protection that customers will provide. The Group has a strong commitment to health, safety and welfare including provision of suitable training to all personnel.
- Acquisition integration risks arise from the Group's growth's strategy involving the undertaking of business purchases. The planning and execution of such purchases involves assessment of a range of factors, including pricing, management strength, legal and regulatory factors, corporate culture, and required post-acquisition actions. The Group's policy is to conduct an appropriate level of due diligence on any business purchase to assist in mitigating the risks that such purchases may bring.

The Group relies heavily upon a small group of experienced senior executives to manage the Company.

Financial risks

The Group's financial risk management objectives and policies have regard to its activities exposing it to a number of financial risks including cash flow risk, credit risk and liquidity risk.

The Group's approach to management compensation does not encourage or reward undue risk-taking.

Cash flow risk

The Group's activities expose it to cash flow risks arising primarily from changes in foreign currency exchange rates and to changes in interest rates.

The exchange rate risks are partly mitigated by the Group's individual businesses commonly having most of their income and costs in one currency – the dominant currency group-wide being the US dollar. In situations where there is a significant local mismatch between currency of income and currency of expenditure, the Group will use foreign exchange forward contracts to hedge that exposure.

In relation to interest rate risks, the Group's interest bearing assets and liabilities are held at variable rates of interest, with interest rate swap instruments used to provide certainty over the majority of the cash outflows on the interest bearing liabilities.

**Directors' report continued
for the year ended 31 December 2012**

Credit risk

The Group's principal financial assets are cash, trade and other debtors. The Group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds is minimised because the counterparties are banks with high credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of customers and also a number of different territories. The Group's customer base includes a range of national, multinational and independent oil & gas companies, as well as international oilfield service companies.

Liquidity risk

In order to ensure that sufficient funds are available for ongoing operations and future development, the Group uses a mixture of long term and short term debt. This debt is advanced under a multi-currency facility agreement which requires the Group to meet certain covenant tests on a quarterly basis, including tests in relation to cash flow generation.

Employees

The group is committed to informing employees on matters affecting their work and the performance and progress of the Group. As key stakeholders in the business, employees are informed regularly through meetings, podcasts and email publications. The group is also committed to offering employment, training and career development to disabled persons with the appropriate skills and qualifications.

Political and charitable donations

It is the Group's policy not to make political donations. The Group makes occasional donations to charity on an ad-hoc basis. Charitable donations made by the Group and its subsidiaries did not exceed \$2,000 in 2012 or 2011 in aggregate.

Directors

The current membership of the board is set out on page 3. The Directors who held office during the year are as follows:

P Bartette
P Cravatte
P J Stuart
R P H Clark

Directors' responsibility statement

The directors are responsible for preparing the statutory group financial statements and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated the basis of preparation and accounting policies applied;
- prepared the statutory group financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Directors' report continued
for the year ended 31 December 2012**

Statement of disclosure of information to auditors.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that they reasonably ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Relevant information is defined as 'information needed by the Company's auditors in connection with preparing their report'.

On behalf of the board



R P H Clark
Director

31 May 2013

**Independent auditors' report
for the year ended 31 December 2012**

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF RESERVOIR GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Reservoir Group Limited for the year ended 31 December 2012 which comprise the Group Consolidated Income Statement, the Group and Parent Company Statement of Financial Position, the Group Statement of Comprehensive Income, the Group Statement of Cash Flow, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report and consolidated financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit and group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Mark Higginson (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Aberdeen

31 May 2013

Reservoir Group Limited
**Consolidated income statement
for the year ended 31 December 2012**

	Notes	<u>2012</u> \$'000	<u>2011</u> \$'000
Revenue	4	124,996	82,910
Cost of sales before exceptional items		(44,766)	(27,511)
Exceptional items	6	-	(5,952)
Cost of sales		(44,766)	(33,463)
Gross profit		80,230	49,447
Administrative Expenses before exceptional items		(61,416)	(34,492)
Exceptional Gain arising from Joint Venture on step-up to subsidiary	13.1.2	11,364	-
Other, Exceptional items	6	(10,100)	(2,288)
Administrative Expenses		(60,152)	(36,780)
Profit from operating activities	5	20,078	12,667
Finance income	7	248	765
Finance expense	7	(3,858)	(2,707)
		(3,610)	(1,942)
Share of Joint Venture Profit before tax until step-up to subsidiary	13.1.1	4,245	5,711
Profit before income tax		20,713	16,436
Income tax expense	9.1	(3,801)	(2,821)
Profit for the financial year	18.1	16,912	13,615
Profit attributable to equity owners of the parent		16,912	13,615

The notes on pages 15 to 51 are an integral part of these consolidated financial statements.

Revenue and profit from operating activities in the current and previous year arose wholly from continuing operations.

Reservoir Group Limited

Consolidated statement of comprehensive income for the year ended 31 December 2012

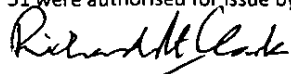
	Notes	2012 \$'000	2011 \$'000
Profit for the year		16,912	13,615
Other comprehensive income			
Exchange differences on retranslation of foreign subsidiaries	18.2	(870)	(19)
Total comprehensive income for the year		16,042	13,596
The notes on pages 15 to 51 are an integral part of these consolidated financial statements			

Reservoir Group Limited

Consolidated statement of financial position at 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	10	42,461	17,359
Intangible assets	11	149,888	98,368
Investment in joint venture	13.1.2	-	9,543
Total non-current assets		192,349	125,270
<i>Current assets</i>			
Inventories	16	14,744	8,906
Trade and other receivables	14	49,855	36,819
Cash and cash equivalents		9,656	7,379
Total current assets		74,255	53,104
Total assets		266,604	178,374
Equity and liabilities			
<i>Equity attributable to owners of the parent</i>			
Share capital	17	70,665	46,419
Other reserves	18.2	(776)	282
Retained earnings	18.1	61,291	45,249
Total equity		131,180	91,950
<i>Non-current liabilities</i>			
Borrowings	21.1	65,354	44,395
Deferred tax liabilities	9.2	6,298	252
Total non-current liabilities		71,652	44,647
<i>Current liabilities</i>			
Trade and other payables	19	44,886	20,345
Borrowings	21.1	15,142	5,168
Accruals and deferred revenue	19	3,744	16,264
Total current liabilities		63,772	41,777
Total liabilities		135,424	86,424
Total equity and liabilities		266,604	178,374

The notes on pages 15 to 51 are an integral part of the consolidated financial statements. The financial statements on pages 9 to 51 were authorised for issue by the board on 31 May 2013 and were signed on its behalf by:



R P H Clark
Director

**Consolidated statement of changes in equity
for the year ended 31 December 2012**

	Notes	Share capital \$'000	Retained earnings \$'000	Other Reserves \$'000	Total Equity \$'000
Balance at 1 January 2011		43,651	31,935	-	75,586
Profit for the year		-	13,615	-	13,615
Gain on foreign exchange translation		-	(301)	282	(19)
Ordinary shares issued in the year		2,768	-	-	2,768
Balance at 1 January 2012		46,419	45,249	282	91,950
Profit for the year	18.1	-	16,912	-	16,912
Loss on foreign exchange translation	18.2	-	(870)	(1,058)	(1,928)
Ordinary shares issued in the year	17.1	24,246	-	-	24,246
Balance at 31 December 2012		70,665	61,291	(776)	131,180

The notes on pages 15 to 51 are an integral part of these financial statements.

**Consolidated statement of cash flows
for the year ended 31 December 2012**

	Notes	2012 \$'000	2011 \$'000
Cash generated from operations	26	22,060	23,451
Tax paid		(4,209)	(321)
Interest Paid	7	(3,858)	(2,707)
Interest Received	7	248	765
Net cash generated from operating activities		14,241	21,188
Cash flows from investing activities			
Acquisition of subsidiary undertaking, net of cash acquired	13.1.2	(21,570)	(39,448)
Deferred consideration paid in respect of prior year acquisitions		(1,000)	-
Payments to acquire property, plant and equipment (PPE)		(19,679)	(5,494)
Receipts from disposal of property, plant and equipment (PPE)	26	-	15
Purchases of intangible assets		(555)	(196)
		(42,804)	(45,123)
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from borrowings	26.1	40,794	20,240
Repayment of borrowings	26.1	(9,659)	(5,741)
Proceeds from issue of ordinary common units (net of expenses) in other group entities		356	2,768
Net cash generated from financing activities		31,491	17,267
Net increase (decrease) in cash and cash equivalents		2,928	(6,688)
Effect of exchange rate changes on cash and cash equivalents		(651)	272
Opening cash and cash equivalents		7,379	13,795
Closing cash and cash equivalents		9,656	7,379

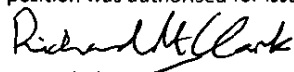
The notes on pages 15 to 51 are an integral part of these financial statements

Reservoir Group Limited

Company statement of financial position at 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	10	406	412
Intangible assets	11	98	33
Investments	12	164,493	115,915
Total non-current assets		164,997	116,360
<i>Current assets</i>			
Trade and other receivables	14	41,899	33,649
Cash and cash equivalents		3,122	3,086
Total current assets		45,021	36,735
Total assets		210,018	153,095
<i>Equity attributable to owners of the parent</i>			
Share Capital	17.1	70,666	46,419
Retained earnings	18.1	21,514	31,718
Total equity		92,180	78,137
<i>Non-current liabilities</i>			
Borrowings	21.1	60,913	40,079
Deferred tax liabilities	9.2	-	19
Total non-current liabilities		60,913	40,098
<i>Current liabilities</i>			
Trade and other payables	19	19,148	18,250
Borrowings	21.1	15,140	5,168
Accruals and deferred income	19	22,637	11,442
Total current liabilities		56,925	34,860
Total liabilities		117,838	74,958
Total equity and liabilities		210,018	153,095

The notes on pages 15 to 51 are an integral part of the consolidated financial statements. The company statement of financial position was authorised for issue by the board on 31 May 2013 and was signed on its behalf by:



R P H Clark
Director
Reservoir Group Limited

Registered Number: SC311980

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

1. General information

Reservoir Group Limited (the Company) is a limited liability company incorporated in Scotland, United Kingdom. The addresses of its registered office and corporate office are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in the Directors' report on page 4.

2. Significant accounting policies

The principal accounting policies are set out below and have been applied consistently for all periods presented in these consolidated financial statements and company balance sheet.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 as applicable to companies reporting under IFRS, and on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

These consolidated financial statements voluntarily include the company statement of financial position for Reservoir Group Limited in addition to the consolidated statement of financial position. The company statement of financial position has been prepared on a non-consolidated basis. The accounting policies that have been applied in preparing the company statement of financial position and its corresponding disclosure notes are consistent with those applied by the group, except as those policies refer to the preparation of consolidated financial statements.

2.2 Changes in accounting policy and disclosures

There are no IFRSs that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the group.

2.3 Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

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

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company. There are no material non-controlling interests in any of the subsidiaries.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except that:

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

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

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year from the date of acquisition.

Where it is probable that deferred consideration is payable on the acquisition of a business based on an earn out arrangement, an estimate of the amount payable is made at the date of acquisition and reviewed regularly thereafter, with any change in the estimated liability being reflected in the income statement. Changes in the estimated liability in respect of acquisitions completed before 31st December 2011 are reflected in goodwill. Where deferred consideration is payable after more than one year the estimated liability is discounted using an appropriate rate of interest.

2.5 Interests in joint ventures

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post acquisition changes in the share of net assets of the joint venture, less any provision for impairment.

The results of joint ventures are included in the consolidated income statement from the effective date of acquisition to the effective date of disposal.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.6 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.7 Revenue recognition

Revenue represents the invoiced value of goods and services net of commission charged, excluding value added tax and sales taxes. The Group has four principal business streams being formation evaluation services; specialized well services; the sale and rental of downhole drilling tools; and the provision of geoscience and data services. Revenue in respect of formation evaluation and specialized well services is recognised as the service is rendered. Revenue in respect of tool rental is recognised over the period which the rental occurs. Revenue in respect of tools and other parts sales is recognised when the items are shipped to the customer. Revenue in respect of geoscience and data services is recognised as the services are rendered.

2.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.8.1 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see 2.18.4 below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.9 Foreign currencies

2.9.1 Functional and Presentation Currency

The individual financial statements of each Group entity are prepared using the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in United States Dollars ('\$'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

2.9.2 Transaction and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.9.3 Group Companies

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.10 Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to contributions.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.11.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.11.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.11.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.12 Tangible Assets

2.12.1 Property, Plant and Equipment

Freehold land is not depreciated.

Plant and equipment and fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation.

Land and buildings	20 years for buildings; land is not depreciated
Leasehold improvements	3 – 8 years
Plant and equipment	3 – 8 years
Fixtures and fittings	3 – 4 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.12.2 Investments

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

2.13 Intangible Assets

2.13.1 Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The following useful lives are used in the calculation of amortisation.

Brand Names	2 - 4 years
Customer relationships	3 – 11 years
Technologies	8 - 10 years

2.13.2 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.14 Impairment of non-current assets (excluding goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its non-current assets (excluding goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. An impairment loss is recognised immediately in profit or loss.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the present value of the expenditures required to settle the obligation using a pre-tax rate that reflects the current assessment of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.17 Financial assets

2.17.1 Classification

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not currently hold any held to maturity or available for sale financial assets.

2.17.2 Recognition and measurement

FVTPL

Financial assets at FVTPL are initially measured at fair value and transaction costs are expensed to the income statement. Gains or losses arising from subsequent changes in the fair value of financial assets at FVTPL are presented in the income statement within "other (losses) / (gains) net" in the period in which they arise. Financial assets held by the Group in this category include derivative financial instruments such as interest swaps.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

2.18 Financial liabilities and equity instruments issued by the Group

2.18.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.18.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.18.3 Financial liabilities

Financial liabilities are classified as either trade and other payables or borrowings or, on the other, 'other financial liabilities'.

2.18.4 Other Financial liabilities measured at amortised cost

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. This category of financial liabilities includes trade and other payables and finance debt.

2.18.5 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

2.19 Derivative financial instruments

The Group enters into interest rate swap arrangements to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in note 21.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives, other than those designated as effective hedges, are classified as held for trading and are included in this category. These liabilities are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

2.20 Exceptional items

Items that are material either because of their size or their nature, are presented within their relevant consolidated income statement category and disclosed separately in the notes to the financial statements. The separate reporting of exceptional items helps in the understanding of the group's underlying performance. Examples within this year include significant deal and advisory fees, reorganisation costs, and impairment of an investment.

2.21 Cash and cash equivalents

Cash and cash equivalents include cash in hand and other short-term bank deposits with maturities of three months or less and bank overdrafts where there is a right of set-off.

2.22 Segmental Reporting

Operating Segments are reported in a manner consistent with the internal reporting provided to the Board. The Board, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the steering committee which makes strategic decisions.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

3. Key sources of estimation uncertainty

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1 Impairment of goodwill

The Group tests annually whether Goodwill has suffered any impairment in accordance with the accounting policy (note 2.14). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and apply a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the end of the reporting period was \$119 million (2011; \$94 million).

3.2 Intangible assets

The evaluation of intangible assets other than goodwill on acquiring a subsidiary or business is subjective, including the period over which any such assets identified will provide benefit to the group and thus the choice of amortisation period. The group uses established methodologies in making these assessments. The carrying amount of intangibles other than goodwill at the end of the reporting period was \$31 million (2011; \$4.5 million).

3.3 Deferred consideration

For those business combinations where consideration includes a deferred element whose payment is subject to future performance conditions such as an earn out, the group makes an estimate of the amount payable at the date of acquisition and reviews this estimate regularly thereafter.

3.4 Income taxes

The group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

3.5 Deferred tax assets

As it is required to do, the group recognises as deferred tax assets the tax recoverable in future periods where there are temporary differences in the treatment of the related items for tax and accounting purposes. Tax laws, rates and regulations may change over time in the jurisdictions concerned in such a way to prevent the deferred tax assets being realised either at the amounts at which they are carried, or at all.

3.6 Valuation of consumable inventory items

The valuation of consumable inventory items held for use at the wellsite or downhole requires significant estimation because of the high number and small per-part value of many of these items; the frequent movement of them between operating locations as well as to/from remote wellsites; and the lack of a comprehensive tracking system allowing ready determination at any one time of how much is held and where. Introduction of such a system is judged by management to be overly burdensome relative to the benefit it could bring. Instead, inventory is counted in full on a regular basis, with the difficulty in estimating its net realisable value being recognised by a write-down against the evaluated cost.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

4. Segment information

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segments and to assess their performance.

The Group's reportable segments are as follows:

- Formation evaluation
- Well services
- Downhole drilling tools
- Geoscience and data services

Information regarding the Group's reportable segments is presented below:

4.1 Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Gross Revenue	Elimination of Interco Revenue	Net Revenue	Profit before tax	Gross Revenue	Elimination of Interco Revenue	Net Revenue	Profit before tax
	2012 \$'000	2012 \$'000	2012 \$'000	2012 \$'000	2011 \$'000	2011 \$'000	2011 \$'000	2011 \$'000
Formation evaluation	83,065	(10,369)	72,696	20,309	60,064	(6,937)	53,127	12,506
Specialist Well services	31,761	-	31,761	6,179	10,753	-	10,753	2,504
Downhole drilling tools	7,212	(594)	6,618	182	7,923	(555)	7,368	830
Geoscience and data services	13,921	-	13,921	3,062	11,662	-	11,662	2,602
	135,959	(10,963)	124,996	29,732	90,402	(7,492)	82,910	18,442
Total for continuing operations			124,996	29,732			82,910	18,442
Cost of sales – non exceptional			(44,766)	-			(27,511)	-
Cost of sales - exceptional			-	-			(5,952)	-
Share of profits of Joint Ventures			4,245	4,245			5,711	5,711
Administrative expenses – non exceptional			(65,675)	(13,264)			(34,492)	(7,368)
Administrative expenses - exceptional			5,523	-			(2,288)	(349)
Net Finance costs			(3,610)	-			(1,942)	-
Profit before Tax (continuing operations)			20,713	20,713			16,436	16,436

Segment profit represents the profit before tax for each segment prior to the allocation of central administration costs, directors salaries and net finance costs

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

4.1 Segment revenues and results (continued)

Revenue reported represents revenue generated from external customers. All inter-company sales have been eliminated on consolidation.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

4.2 Segment assets and liabilities

	2012	2011
	\$'000	\$'000
Assets		
Formation evaluation	138,653	88,975
Specialist Well services	60,794	21,767
Downhole drilling tools	13,833	16,228
Geoscience and data services	15,908	27,428
Other corporate assets	37,416	23,976
Total segment assets	266,604	178,374
Consolidated assets	266,604	178,374
Liabilities		
Formation evaluation	18,361	52,707
Specialist Well services	8,837	12,758
Downhole drilling tools	1,320	3,539
Geoscience and data services	3,597	11,470
Other corporate liabilities	103,309	5,950
Total segment liabilities	135,424	86,424
Consolidated liabilities	135,424	86,424

For the purposes of monitoring segment performance and allocating resources between segments all liabilities are allocated to reportable segments other than 'other financial liabilities', current and deferred tax liabilities, and 'other' liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

4.3 Revenue from major products and services

The following is an analysis of the Group's annual revenue from continuing operations from its major products and services.

	2012 \$'000	2011 \$'000
Formation evaluation - Coring Services and Surface Logging Services	72,696	53,127
Well services - Well intervention and monitoring	31,761	10,753
Downhole drilling tools – sale and rental	6,618	7,368
Geoscience and data services	13,921	11,662
	<u>124,996</u>	<u>82,910</u>

4.4 Revenue and non-current assets by geography

	Revenue from external customers		Non-current assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Europe, Russia & Caspian	26,467	12,847	89,359	90,021
Africa	18,015	7,025	1,786	1,059
Middle East	27,134	34,949	6,404	4,990
Far East and Australasia	16,845	14,112	9,802	11,651
North America and South America	36,535	13,977	84,998	17,549
	<u>124,996</u>	<u>82,910</u>	<u>192,349</u>	<u>125,270</u>

5. Profit from operating activities

Profit from operating activities is stated after charging:

	2012 \$'000	2011 \$'000
Employee benefit expense	32,745	23,567
Depreciation	7,873	3,495
Amortisation	6,910	106
Impairment	5,459	-
Leases expense	862	1,218
Inventory expense	8,356	8,084
Auditors remuneration:		
- Fees payable to company's auditor and its associates for the audit of parent company and consolidated financial statements	95	104
- Fees payable to company's auditor and its associates for other services:		
- The audit of company's subsidiaries	211	273
- Tax compliance service	90	-
- Fees for financial due diligence	-	204

Reservoir Group Limited

Notes to the consolidated financial statements for the year ended 31 December 2012

6. Exceptional items

An analysis of the amount presented as exceptional items in these financial statements is given below.

	2012 \$'000	2011 \$'000
<u>Cost of sales – exceptional</u>		
Exceptional write off of inventory	-	(5,952)
	-	(5,952)
<u>Administrative expenses – other exceptional</u>		
Exceptional impairment to goodwill – software and data storage business	(5,459)	-
Exceptional advisory fees and other deal-related costs	(2,216)	(471)
Exceptional reorganisation costs	(2,425)	(1,817)
	(10,100)	(2,288)
	(10,100)	(8,240)

The exceptional gain of \$11,364,000 arising from the group's Joint Venture stepping up to become a subsidiary is described in note 13.1.2.

7. Finance Income and Expense

	2012 \$'000	2011 \$'000
Finance costs:		
Interest on bank overdrafts and loans	(2,454)	(2,212)
Amortisation of debt arrangement fees	(1,404)	(547)
Other finance costs	-	52
Finance costs	(3,858)	(2,707)
Finance Income:		
Interest on short term bank deposits	248	765
Financial Income	248	765
Net finance costs	(3,610)	(1,942)

8. Employee benefit expense

	2012 \$'000	2011 \$'000
Wages and salaries, including termination benefits	30,042	21,476
Social security costs	2,140	945
Pension costs	563	589
Other post-employment benefits	-	557
	32,745	23,567

Information regarding the compensation of key management personnel is provided at Note 23.

Notes to the consolidated financial statements
for the year ended 31 December 2012

8. Employee benefit expense (continued)

Average monthly number of persons employed	2012	2011
	No.	No.
Operational, distribution and sales	347	288
Administration, IT and finance	133	136
	<u>480</u>	<u>424</u>

Directors' emoluments	2012	2011
	\$'000	\$'000
Short-term benefits	927	1,916
Post retirement benefit	<u>21</u>	<u>22</u>
	<u>948</u>	<u>1,938</u>
Highest paid Director	\$'000	\$'000
Emoluments	<u>515</u>	<u>942</u>

The Group made no contributions to pension schemes on behalf of its highest paid Director.

Notes to the consolidated financial statements
for the year ended 31 December 2012

9. Income taxes

9.1 Income tax recognised in profit or loss

	2012	2011
	\$'000	\$'000
Current tax:		
Current tax on profits for the year	5,005	3,764
Adjustment in respect of prior years	(131)	(207)
Foreign tax relief / other relief	7	-
Total current tax	4,881	3,557
Deferred tax:		
Origination and reversal of timing differences	(1,035)	(696)
Adjustment in respect of prior years	(80)	(230)
Effect of changes in tax rates	45	190
Changes in recoverable amounts of deferred tax assets	(8)	-
Total deferred tax	(1,078)	(736)
Total Income tax expense	3,801	2,821
	\$'000	\$'000
Profit before income tax	20,713	16,436
Income tax expense calculated at 24.50% (26.49%), the average UK tax rate for the year	5,074	4,354
Effect of:		
Expenses not deductible	516	816
Income not taxable	(1,604)	-
Overseas taxes suffered for which no UK relief obtained	837	888
Foreign income not subject to tax	(3,131)	(4,158)
Differing tax rates in territories outside the UK	184	229
Deferred tax asset not recognised in respect of losses	1,401	646
Other temporary differences	735	483
Adjustments in respect of prior years	(211)	(437)
Total Income tax expense	3,801	2,821

Notes to the consolidated financial statements
for the year ended 31 December 2012

9.2 Deferred tax

Deferred tax balances are presented in the statement of financial position as follows:

Group	2012 \$'000	2011 \$'000
Provision at 1 January	252	(74)
Adjustments in respect of prior years	(80)	(230)
Deferred tax credit to income statement for the period	(1,035)	(696)
Deferred tax charge arising from business combinations	7,125	1,062
Effect of changes in tax rates	45	190
Changes in recoverable amounts of deferred tax assets	(9)	-
Provision at 31 December	6,298	252

Deferred tax provision at 31 December comprises:

	2012 \$'000	2011 \$'000
Temporary differences related to fixed assets	(80)	204
Other temporary differences	(221)	(962)
Deferred tax arising from business combinations	6,599	1,010
Total	6,298	252
Recoverable after 12 months	6,298	252

Company	2012 \$'000	2011 \$'000
Provision at 1 January	19	1
Changes in recoverable amounts of deferred tax assets	(19)	18
Provision at 31 December	-	19

Deferred tax provision at 31 December comprises:

	2012 \$'000	2011 \$'000
Other temporary differences	-	19
Total	-	19
Recoverable after 12 months	-	19

Notes to the consolidated financial statements
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9.3 Unrecognised deferred tax assets

Group

	2012	2011
	\$'000	\$'000
Deferred tax assets not recognised at the reporting date:		
Temporary differences	(58)	-
Unused tax losses	(1,415)	-
Total	(1,473)	-

Company

	2012	2011
	\$'000	\$'000
Deferred tax assets not recognised at the reporting date:		
Unused tax losses	(1,398)	-
Total	(1,398)	-

**Notes to the consolidated financial statements
for the year ended 31 December 2012**
10. Property, Plant and Equipment

Group	Land and Buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<i>Cost or valuation</i>					
Balance at 1 January 2011	1,570	581	21,287	2,815	26,253
Additions	-	145	5,166	183	5,494
Disposals	-	-	(109)	-	(109)
Acquisitions through business combinations	-	25	1,443	1,558	3,026
Effect of foreign currency exchange differences	-	(1)	(17)	(2)	(20)
Balance at 1 January 2012	1,570	750	27,770	4,554	34,644
Additions	-	978	17,846	855	19,679
Disposals	-	-	(2,692)	(721)	(3,413)
Acquisitions through business combinations	-	-	13,461	-	13,461
Effect of foreign currency exchange differences	-	7	792	66	865
Balance at 31 December 2012	1,570	1,735	57,177	4,754	65,236
<i>Accumulated depreciation</i>					
Balance at 1 January 2011	46	185	11,882	1,769	13,882
Depreciation expense	27	173	3,077	218	3,495
Eliminated on disposals of assets	-	-	(76)	(18)	(94)
Acquisitions through business combinations	-	-	17	-	17
Effect of foreign currency exchange differences	-	-	(13)	(2)	(15)
Balance at 1 January 2012	73	358	14,887	1,967	17,285
Depreciation expense	26	197	6,971	679	7,873
Eliminated on disposals of assets	-	-	(2,488)	(434)	(2,922)
Effect of foreign currency exchange differences	-	(14)	547	6	539
Balance at 31 December 2012	99	541	19,917	2,218	22,775
<i>Net book value</i>					
At 31 December 2012	1,471	1,194	37,260	2,536	42,461
At 31 December 2011	1,497	392	12,883	2,587	17,359
<i>Company</i>		Leasehold Improvements \$'000	Plant and machinery \$'000	Furniture, fittings etc \$'000	Total \$'000
<i>Cost or valuation</i>					
Balance at 1 January 2011	-	219	67	286	
Additions	45	215	14	274	
Balance at 1 January 2012	45	434	81	560	
Additions	-	122	83	205	
Balance at 31 December 2012	45	556	164	765	
<i>Accumulated depreciation</i>					
Balance at 1 January 2011	-	-	17	17	
Depreciation expense	8	108	15	131	
Balance at 1 January 2012	8	108	32	148	
Depreciation expense	15	169	27	211	
Balance at 31 December 2012	23	277	59	359	
<i>Net book value</i>					
At 31 December 2012	22	279	105	406	
At 31 December 2011	37	326	49	412	

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

11. Intangible assets

Group	Goodwill	Other intangibles	Technology	Customer relationships	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
Balance at 1 January 2011	74,045	288	-	-	74,333
Additions	-	196	-	-	196
Additions from internal developments	-	9	-	-	9
Acquisitions through business combinations	27,222	94	282	3,635	31,233
Effect of foreign currency exchange differences	407	3	-	-	410
Balance at 1 January 2012	101,674	590	282	3,635	106,181
Additions	-	555	-	-	555
Fair value adjustments to 2011 acquisitions	(1,277)	634	72	(4)	(575)
Acquisitions through business combinations	31,656	373	2,832	29,065	63,926
Effect of foreign currency exchange differences	(17)	-	-	-	(17)
Balance at 31 December 2012	132,036	2,152	3,186	32,696	170,070
Accumulated amortisation and impairment					
Balance at 1 January 2011	7,670	7	-	-	7,677
Amortisation expense	-	106	-	-	106
Effect of foreign currency exchange differences	-	30	-	-	30
Balance at 1 January 2012	7,670	143	-	-	7,813
Amortisation expense	-	608	389	5,913	6,910
Impairment	5,459	-	-	-	5,459
Balance at 31 December 2012	13,129	751	389	5,913	20,182
Net book value					
At 31 December 2012	118,907	1,401	2,797	26,783	149,888
At 31 December 2011	94,004	447	282	3,635	98,368

There are no customer relationships which are deemed individually significant to the Group.

<u>Company</u>	Other intangibles	Total
	\$'000	\$'000
Cost		
Balance at 1 January 2012	33	33
Additions	69	69
Balance at 31 December 2012	102	102
Accumulated amortisation and impairment		
Balance at 1 January 2012	-	-
Amortisation expense	4	4
Balance at 31 December 2012	4	4
Net book value		
At 31 December 2012	98	98
At 31 December 2011	33	33

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

11. Intangible assets (continued)

Management reviews the business performance based on operating segments which it identifies as Formation Evaluation, Specialist Well Services, Downhole Drilling Tools, and Geoscience and Data Services. All operating segments operate on a global basis.

The following is a summary of goodwill allocation for each operating segment:-

	Opening	Acquired on Business Combinations	Impairment	Other Adjustments	Closing
	\$'000	\$'000	\$'000	\$'000	\$'000
Formation evaluation	34,430	31,656	-	(17)	66,069
Specialist Well services	40,793	-	-	(1,277)	39,516
Downhole drilling tools	7,185	-	-	-	7,185
Geoscience and data Services	11,596	-	(5,459)	-	6,137
Total	94,004	31,656	(5,459)	(1,294)	118,907

The recoverable amount of all Income Generating Units has been determined by value-in-use calculations. These calculations use pre-tax cashflow projections based on financial budgets approved by management for the forthcoming year. Cash flows beyond this are extrapolated using an estimated growth rate of 5% (2011: 7.5%) for the following four years and a terminal growth rate of 3% (2011: 3%). The discount rate used throughout is 8.97%.

The key assumption used for value-in-use calculations is EBITDA and historic EBITDA margins are applied to future periods for each operating segment.

Management determined budgeted EBITDA margin based on the historic performance of the business whilst considering significant changes to the products offered and markets serviced. The discount rates used are pre-tax.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**
12. Investments
Shares in group undertakings

Company	2012 \$'000	2011 \$'000
Balance at beginning of year	115,915	77,950
Addition	48,578	32,028
Addition of Joint Venture	-	5,937
Balance at end of year	<u>164,493</u>	<u>115,915</u>

Additional investments made during the year represent the acquisition of Corpro Canada Inc.

Details of the Company's principal subsidiaries at 31 December 2012 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held
Corpro Group Limited	Holding company	Scotland	100%
Corpro Systems Limited	Coring services	Scotland	100%
Kirk Petrophysics Limited	Core handling and geoscience services	Scotland	100%
Omega Well Monitoring (Scotland) Limited (formerly known as Omega Data Services Limited)	Well monitoring	Scotland	100%
Extreme Machining Australia Pty Limited	Downhole drilling tools manufacture and supply	Australia	100%
InfoAsset Limited	Data services	England	100%
Interica Limited (formerly known as Enigma Data Solutions Limited)	Data services	England	100%
Omega Well Monitoring (Alberta) Limited (formerly known as CanadaTech Limited)	Well monitoring	Canada	100%
The Tool Company BV	Well intervention services	Holland	100%
Wellvention Limited (formerly known as Well Bore Intervention Limited)	Well intervention services	Scotland	100%
Welltools Limited	Well intervention tool manufacture and supply	Scotland	100%
Corpro Canada Inc (formerly known as Quest Coring Inc)	Coring services	Canada	100%

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

13. Business Combinations

13.1.1 Corpro Canada Inc – Joint Venture

Until 5th May 2012 the Group had a 50 per cent share in the ownership of Corpro Canada Inc (previously named Quest Coring Inc.). During that period the Group received a share of profit before tax of \$4,245,000, and tax payable of \$1,200,000, generating net income of \$3,045,000.

13.1.2 Corpro Canada Inc – Step Acquisition

On 5th May 2012 the Group acquired the 50 per cent of equity it did not already own in Corpro Canada Inc for a total consideration of \$48,466,000 including \$26,071,000 of cash consideration, \$12,800,000 of deferred consideration and \$9,595,000 of equity consideration.

The fair value of the previously held equity interest at that date was \$23,925,000, which reflects a gain from the date this equity interest was initially acquired of \$11,364,000. This gain is included in the Statement of Comprehensive Income within the Profit for the Year line item and is disclosed separately on the face of the Consolidated Income Statement.

The acquisition of the equity in Corpro Canada which the group did not already own was made in order to enable the group's coring business to establish itself under one brand name worldwide, Corpro; to improve its market-leading position globally; and to provide it with full ownership of the new proprietary coring technology and services which Corpro Canada has developed.

In the acquisition, an element of Goodwill has arisen. This has been for several reasons, including cross selling opportunities created by being part of a geographically dispersed Group and the value associated with the technical expertise of the Corpro Canada employees.

In the 7 months to 31 December 2012 the subsidiary generated a loss after tax of \$1,040,824. If the step acquisition had occurred on 1 January 2012, management estimates that the revenue would have been \$27,668,000 and the profit after tax for the period would have been \$4,943,000. In determining these amounts, management has assumed that the fair value adjustments at acquisition would have been the same if the acquisition had occurred on 1 January 2012; and management has made no adjustment for the impact of post-acquisition business integration activities. These activities have had the effect, among other things, that revenue and profits which would have been earned in Corpro Canada on a stand-alone basis have instead benefited other parts of the Corpro business.

Pre-acquisition carrying amounts were determined using applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values. In determining the fair values of intangibles (customer relationships and brand names) acquired, the Group applied the income approach to ascertain the discounted cash flows expected to be delivered from the use of the assets.

Details of the acquisition are as follows :

	Recognised values on acquisition <i>Corpro Canada Inc</i>
	\$000's
Property, plant and equipment	13,461
Intangible assets	32,270
Inventories	-
Trade and other receivables	9,128
Cash and cash equivalents	4,501
Trade and other payables	(11,510)
Deferred tax liability	(7,100)
Net identifiable assets and liabilities	40,750
Total Goodwill	31,641
Goodwill arising on step-up from Joint Venture	24,541
Fair Value of Original 50%	23,925
Total consideration	48,466
Components:	
- Initial cash consideration	26,071
- Less cash acquired	(4,501)
- Net initial cash consideration	21,570
- Deferred consideration	12,800
- Equity consideration	9,595
Consideration net of cash acquired	43,965

**Notes to the consolidated financial statements
for the year ended 31 December 2012**
13.2 Post-acquisition fair value adjustments to previous year business combinations

During 2011, the group acquired 8 subsidiaries. In 2012, the finalisation of completion balance sheets in relation to these acquisitions resulted in adjustments to a number of ascribed fair values included in the 2011 financial statements. The adjustments, which have been incorporated in the 2012 financial statements as reallocations between the goodwill arising and the fair value of the net assets (including intangible assets) acquired, were as follows:

\$000's	<i>The Tool Company BV</i>	<i>Wellbore Intervention Limited</i>	<i>Welltools Limited</i>	<i>Total</i>
Intangible assets	573	(344)	473	702
Goodwill on acquisition	(1,148)	344	(473)	(1,277)
Total	(575)	-	-	(575)

14. Trade and other receivables

<u>Group</u>	<u>2012</u> \$'000	<u>2011</u> \$'000
Trade receivables	32,370	25,196
Other debtors and prepayments	5,690	6,803
Current finance lease receivables	-	4,820
Amounts owed by parent and fellow subsidiary undertakings	11,795	-
	<u>49,855</u>	<u>36,819</u>

As of 31 December 2012 Trade receivables of \$32,370,000 (2011: \$25,196,000) were fully recoverable.

Trade and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. As at 31 December 2012 there were no impaired receivables. Trade receivables are considered aged when they become older than 30 days past due. The aging of those trade receivables past due is as follows:

<u>Ageing of past due but not impaired</u>	<u>2012</u> \$'000	<u>2011</u> \$'000
Up to 3 months	20,982	20,425
Over 3 months	<u>3,771</u>	<u>4,771</u>
Total	<u>24,753</u>	<u>25,196</u>
Average age (days)	93	111

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	<u>2012</u> \$'000	<u>2011</u> \$'000
US Dollar	43,149	28,010
UK Pound	200	3,364
Canadian Dollar	5,832	1,901
Other currencies	<u>674</u>	<u>3,544</u>
Total	<u>49,855</u>	<u>36,819</u>

<u>Company</u>	<u>2012</u> \$'000	<u>2011</u> \$'000
Other debtors and prepayment	10,836	2,797
Amounts owed by parent and fellow subsidiary undertakings	<u>31,063</u>	<u>30,852</u>
	<u>41,899</u>	<u>33,649</u>

Reservoir Group Limited

Notes to the consolidated financial statements for the year ended 31 December 2012

15. Finance lease receivables

	2012 \$'000	2011 \$'000
Current finance lease receivables	-	4,820
	-	4,820

15.1 Leasing arrangements

The Group enters into finance leasing arrangements for certain of its storage facilities.

15.2 Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Not later than one year	-	5,004	-	5,004
Less unearned finance income	-	(184)	-	(184)
Present value of minimum lease payments receivable	-	4,820	-	4,820

The interest rate inherent in the leases was fixed at the contract date for the entire lease term which expired on 31st December 2012. The average effective interest rate contracted was approximately 12% (31 December 2011: 12%) per annum.

Finance lease receivable balances were secured over the equipment leased.

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount of the receivables because the Group has no allowance for doubtful debts. The finance lease receivables in the current and prior periods are neither past due nor impaired.

15.3 Fair value

The fair value of finance lease receivables is estimated to be \$nil (31 December 2011: \$ 4.8m). These receivables are due within one year therefore the fair value is the same as the carrying value.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

16. Inventories

	2012 \$'000	2011 \$'000
At cost	18,908	14,858
Write-down:		
- of Finished goods with cost of \$12,612,000 (2011 – \$10,780,000)	(4,164)	(5,952)
	<u>14,744</u>	<u>8,906</u>
Lower of cost and net realisable value:		
Raw materials (at cost)	4,798	2,816
Work in progress (at cost)	1,498	1,262
Finished goods (at net realisable value)	<u>8,448</u>	<u>4,828</u>
	<u>14,744</u>	<u>8,906</u>

Included in finished goods are consumable inventory items held for use at the wellsite or downhole and which require significant estimation to arrive at their net realisable value. This arises for a number of reasons including: the volume and small per-part value of many such items; and the frequent movement of them between operating locations and remote wellsites. In assessing the level of write-down, management has considered these factors and assessed patterns of consumption. Management considers the write-down to be a reasonable and prudent estimate on the basis of the information available.

17. Share capital

17.1 Allotted, called up and fully paid share capital

<u>Group and Company</u>	\$'000
Balance at 31 December 2011	46,419
Shares issued to parent entity	24,246
	<u>70,665</u>
Balance at 31 December 2012	

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

18. Reserves

	<u>2012</u>	<u>2011</u>
	\$'000	\$'000
Retained earnings	61,291	45,249
Other reserves	<u>(776)</u>	<u>282</u>
	<u>60,515</u>	<u>45,531</u>

18.1 Retained earnings

	<u>2012</u>	<u>2011</u>
<u>Group</u>	\$'000	\$'000
Balance at beginning of year	45,249	31,935
Profit for the year	16,912	13,615
Exchange differences arising on retranslating the profits of foreign subsidiaries	<u>(870)</u>	<u>(301)</u>
Balance at end of year	<u>61,291</u>	<u>45,249</u>

	<u>2012</u>	<u>2011</u>
<u>Company</u>	\$'000	\$'000
Balance at beginning of year	31,718	20,425
(Loss) / Profit for the year	<u>(10,204)</u>	<u>11,293</u>
Balance at end of year	<u>21,514</u>	<u>31,718</u>

18.2 Other reserves

	<u>2012</u>	<u>2011</u>
<u>Group</u>	\$'000	\$'000
Balance at beginning of year	282	-
Exchange differences arising on translating the net assets of foreign subsidiaries	<u>(1,058)</u>	<u>282</u>
Balance at end of year	<u>(776)</u>	<u>282</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

19. Trade and other payables

	<u>2012</u>	<u>2011</u>
	\$'000	\$'000
Trade payables	14,339	8,580
Obligations under finance leases	-	247
Amounts owed to parent and subsidiary undertakings	-	7,412
Tax and social security	449	249
Corporation tax	1,352	845
Overseas tax creditor	1,574	1,435
Derivative financial instruments	377	689
Other creditors	<u>26,795</u>	<u>888</u>
	44,886	20,345
Accruals and deferred income	<u>3,744</u>	<u>16,264</u>
	<u>48,630</u>	<u>36,609</u>

Included within other creditors as at 31 December 2012 is remaining deferred consideration relating to the acquisition of Corpro Canada Inc of \$11,800,000.

Company

	<u>2012</u>	<u>2011</u>
	\$'000	\$'000
Trade payables	683	836
Amounts owed to parent and subsidiary undertakings	18,465	16,670
Tax and social security	93	55
Other Creditors	22,189	-
Derivative financial instruments	<u>355</u>	<u>689</u>
	<u>41,785</u>	<u>18,250</u>

20. Retirement benefit plans

The Group contributes to stakeholder plans for eligible employees. Pension costs charged in the year amounted to \$28k (2011: \$589k). Pension contributions of \$nil(2011: \$nil) were outstanding at 31 December 2012.

Notes to the consolidated financial statements
for the year ended 31 December 2012

21. Financial instruments

21.1 Borrowings

<u>Group</u>	<u>2012</u> \$'000	<u>2011</u> \$'000
Bank loans		
Current	15,142	5,168
Non-current	65,354	44,395
	<u>80,496</u>	<u>49,563</u>
 <u>Company</u>		
Bank loans		
Current	15,140	5,168
Non-current	60,913	40,079
	<u>76,053</u>	<u>45,247</u>

21.2 Summary of borrowing arrangements

Borrowing facilities

	<u>2012</u> \$'000	<u>2011</u> \$'000
The group has the following undrawn committed borrowing facilities available at 31 December		
- gross amount unused	<u>7,750</u>	<u>7,750</u>

Secured bank loan facilities mature at various dates through to 2016 and may be extended by mutual agreement. Average interest rates of 3-3.5% apply to the debt facilities. Further information regarding the Group's capital risk and its non-derivative financial liabilities is given at note 21.8 below.

21.3 Other financial liabilities

	<u>2012</u> \$'000	<u>2011</u> \$'000
<i>Derivatives</i>		
Interest rate swap contracts	<u>377</u>	<u>689</u>
Current	<u>377</u>	<u>689</u>

21.3.1 Credit derivatives over loans and receivables designated as at FVTPL

	<u>2012</u> \$'000	<u>2011</u> \$'000
Opening fair value	689	929
Change in fair value	<u>(312)</u>	<u>(240)</u>
Closing fair value	<u>377</u>	<u>689</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

21.3.2 Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using a rate estimated at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

Outstanding 'receive floating pay fixed' contracts	Average contracted fixed interest rate		Notional principal value		Fair value	
	2012	2011	2012	2011	2012	2011
	%	%	\$'000	\$'000	\$'000	\$'000
Reservoir Group Limited	1.63%	2.50%	39,750	17,000	(377)	(689)
			39,750	17,000	(377)	(689)

During 2012, Reservoir Group Limited entered into new interest rate swap contracts with a principal value of \$22,750,000. The cumulative interest rate swap contracts have a value of \$39,750,000 (2011 \$17,000,000) at 31 December 2012. They secure until the end of 2013 fixed interest payments at an average of 2.43% and 1.63% and floating interest receipts at LIBOR. The nominal value reduces in steps in parallel to repayment of the underlying bank borrowings.

21.4 Financial Risk Management Objectives

The Group's activities give rise to a variety of financial risks: Market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy is to hedge exposures wherever practicable in order to minimize any potential adverse impact on the Group's financial performance.

Risk management is carried out by the Group's Finance personnel. Group finance personnel identify, evaluate and where appropriate, hedge financial risks.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

21.5 Market risk

21.5.1 Foreign Exchange Risk

The Group is exposed to foreign exchange risk arising from various currencies. The Group has a number of subsidiary companies whose revenue and expenses are denominated in currencies other than the US Dollar. Strategies, including the payment of dividends, are used to minimise the amount of net assets exposed to foreign currency revaluation.

The Group carefully monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to minimise any foreign currency exposure.

The Group's main foreign exchange risk relates to movements in the Sterling/US Dollar exchange rate. Movements in the Sterling/US Dollar rate impact the translation of sterling profit earned in the UK and the translation of sterling denominated net assets.

21.5.2 Interest Rate Risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currencies at floating rates of interest and then uses interest rate swaps into fixed rates to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

21.5.3 Price Risk

The group is not exposed to any significant price risk in relation to its financial instruments.

21.6 Credit Risk

The Group's credit risk primarily relates to its trade receivables. Responsibility for managing credit risks lies within each operating business with support being provided by Group and divisional management where appropriate.

A customer evaluation is typically obtained from an appropriate credit rating agency. Where required, appropriate trade finance instruments such as letters of credit will be used to manage credit risk. The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. The Group has a broad customer base and management believes that no credit risk provision is required.

Management review trade receivables across the Group based on receivable days calculations to assess performance. There is significant management focus on receivables that are overdue. Receivable days calculations are not provided on non-trade receivables as management do not believe that this information is a relevant metric.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

21.7 Liquidity Risk

With regard to liquidity, the Group's main priority is to ensure continuity of funding. Based on the current outlook the Group has sufficient funding in place to meet its future obligations.

21.8 Capital Risk

The Group seeks to maintain an optimal capital structure:

	2012	2011
	\$'000	\$'000
Net debt (note 26.1)	70,840	42,184
Total equity	131,180	91,950
Total Capital	202,020	134,134
Gearing ratio	35%	30%

The Group monitors its capital structure on the basis of its gearing ratio, Interest cover and the ratio of net debt to EBITDA.

Gearing is calculated by dividing net debt by shareholders' funds.

Interest cover is calculated by dividing EBITDA by net interest expense. Interest cover for the year to 31 December 2012 was 11 times (2011: 8.4 times).

The ratio of net debt to EBITDA at 31 December 2012 was 1.8 times (2011: 4.9 times).

The maximum amount the Group could be forced to settle under financial guarantee contracts if the fully guaranteed amount is claimed by the counterparty to the guarantee is \$17.1 million (2011: \$4.9 million). Based on the expectations at the end of the reporting period, the Group was aware that a \$12m guarantee of deferred consideration for the acquisition of Corpro Canada Inc would be called and become payable in January 2013. Of the remainder, the Group considers that it is more likely than not that no amounts will be payable under these contracts.

The following table details the Group's expected maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will be payable on those liabilities. The inclusion of information on non-derivative financial liabilities is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Less than 1 year	1-5 years	Total
	\$'000	\$'000	\$'000
31 December 2012			
Borrowings – Capital repayment	15,142	65,354	80,496
Borrowings – Interest	4,320	8,462	12,782
Derivative financial instruments	377	-	377
Trade and other payables	48,630	-	48,630
	68,469	73,816	142,285
31 December 2011			
Borrowings – Capital repayment	5,168	44,395	49,563
Borrowings - Interest	2,368	6,055	8,423
Derivative financial instruments	-	689	689
Trade and other payables	20,345	-	20,345
	27,881	51,139	79,020

The Group has access to financing facilities as described in note 21.2, of which \$7.75 million were unused at the end of the reporting period (2011: \$7.75 million). The Group expects to meet its other obligations, including covenant compliance, from operating cash flows and proceeds of maturing financial assets.

Notes to the consolidated financial statements
for the year ended 31 December 2012

21.9 Fair value of financial instruments

21.9.1 Fair value of financial instruments carried at amortised cost

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	2012		2011	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets				
Loans and receivables:				
- financial lease receivables	-	-	4,820	4,820
- trade and other receivables	49,855	49,855	36,819	36,819
- cash and cash equivalents	9,656	9,656	7,379	7,379
Financial liabilities				
Financial liabilities held at amortised cost:				
- bank loans at fixed interest rate	93,278	93,278	57,986	57,986
- trade and other payables	48,630	48,630	20,345	20,345
- interest rate swaps	377	377	689	689

21.9.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

21.9.3 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 1	Level 2	Level 3	Total
\$'000	\$'000	\$'000	\$'000

Financial liabilities at FVTPL

31 December 2011 - Other derivative financial liabilities	-	689	-	689
31 December 2012 - Other derivative financial liabilities	-	377	-	377

22. Related party transactions

Rent and advisory fees of \$274,633.82 (2011: \$279,316) were charged by LE Simmons & Associates Inc (see Note 29). As at 31 December 2012, a balance of \$73,373.15 (2011: \$nil) was due to LE Simmons & Associates Inc.

23. Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	Year ended 2012 \$'000	Year ended 2011 \$'000
Short-term benefits	927	1,916
Post-retirement benefit	21	22
Social security	49	-
	<u>997</u>	<u>1,938</u>

The remuneration of directors and key executives is determined by the board having regard to the performance of individuals and market trends.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

24. Operating lease arrangements

24.1 The Group as lessee

24.1.1 Leasing arrangements

The group leases various plant and machinery under cancellable operating lease agreements. The group is required to give between one to six months notice for the termination of these agreements.

24.1.2 Non-cancellable operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>2012</u>	<u>2011</u>
	\$'000	\$'000
Not later than 1 year	690	1,360
Later than 1 year and not later than 5 years	1,505	2,662
Later than 5 years	<u>669</u>	<u>183</u>
	<u>2,864</u>	<u>4,205</u>

25. Commitments for expenditure

There were no capital commitments at the end of the financial year.

**Notes to the consolidated financial statements
for the year ended 31 December 2012**
26. Cash generated from operations

	Note	2012 \$'000	2011 \$'000
Profit before income tax		20,713	16,436
Adjustments for:			
- Depreciation	10	7,873	3,495
- Amortisation	11	6,910	106
- Goodwill impairment charge	11	5,459	-
- Loss on disposal of property, plant and equipment		-	-
- Finance costs – net	7	3,610	1,942
- Share of profit or loss from joint ventures	13	(4,245)	(5,711)
- Foreign exchange losses/(gains) on operating activities		1,490	(1,937)
Gain arising from Joint Venture on step-up to subsidiary	13.1.2	(11,364)	-
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)			
- Inventories		(5,838)	4,879
- Trade and other receivables		10,387	(11,947)
- Trade and other payables		(12,935)	16,188
Cash generated from operations		22,060	23,451

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

Group	2012 \$'000	2011 \$'000
Net book amount	-	15
Cash generated from operations	-	15

26.1 Analysis of net debt

	1 Jan 2012 \$'000	Cash flow \$'000	Exchange movements \$'000	31 December 2012 \$'000
Cash and cash equivalents	7,379	3,281	(1,004)	9,656
Short term borrowings	(5,168)	(10,042)	68	(15,142)
Long term borrowings	(44,395)	(21,093)	134	(65,354)
Total	(42,184)	(27,854)	(802)	(70,840)

**Notes to the consolidated financial statements
for the year ended 31 December 2012**

27. Approval of financial statements

The financial statements were approved by the Board and authorised for issue on 31 May 2013.

28. Ultimate Controlling Party

Reservoir Group LLC is an entity which is incorporated in Delaware in the United States of America and is the ultimate holding company for the activities of Reservoir Group Limited, Reservoir Group Inc and their subsidiary undertakings. The majority of the equity of Reservoir Group LLC is owned by SCF-VI LP, a Delaware limited partnership, which in turn is controlled (except in limited and specified circumstances) by its general partner, LE Simmons & Associates Inc, a Delaware corporation.

29. Events after the balance sheet date

On 5th February 2013, Reservoir Group Limited, disposed of 100% of the share capital of Interica Limited (formerly known as Enigma Data Solutions Limited) in a management buy-out. The total consideration for the disposal was \$4.2m, comprising cash of \$1.6m and deferred loan notes of \$2.6m.