



Financial Statements 2008

Content:

Director's report 2008

**Consolidated Income Statement and
Balance Sheet**

**Consolidated Statement of Changes in
Equity**

Consolidated Cash Flow Statement

**Notes to the Consolidated Financial
Statements 2008**

**Income Statement and Balance Sheet
Parent Company**

Cash Flow Statement Parent Company

**Notes to the financial statement of the
parent company**

Auditors report

Responsibility Statement

Principles for Corporate Governance

DIRECTOR'S REPORT 2008 – PETROLIA DRILLING ASA

INTRODUCTION

Petrolia Drilling ASA is registered with business address in Oslo, Norway. The company is listed on Oslo Stock Exchange.

Petrolia Drilling ASA owns Petrolia Services (100%), an International Oilfield Service Company with presence in Norway, The Netherlands, Romania, Australia, New Zealand and Singapore. Petrolia Services main business activity is hiring out drilling equipment and test strings, including accessories, to oil companies, oil service companies and drilling contractors. Petrolia Services main product categories include tubing, drill pipe, casing and handling equipment as well as oilfield services.

Petrolia Drilling ASA also holds significant shareholdings in PetroMENA ASA (51.5%), Venture Drilling (50%), Petrojack ASA (39.95%) and Larsen Rig Ltd (30%).

STRATEGY

Petrolia Drilling ASA is directing its activities towards the offshore oil and gas market, drilling for oil and gas in shallow and deep waters, and providing equipment and services to clients. The object of the company is acquisition and operation of drilling vessels and everything that is connected herewith, including partnership in other companies.

The purpose of the company is to secure the shareholders competitive long-term return on the invested capital. In accordance with this purpose the board and the management shall actively develop and control the company and its possessions in order for the values to be made visible in the best way possible.

HIGHLIGHTS 2008

- Petrolia Drilling strengthened its exposure in the drilling market through participation in a private placement in PetroMENA ASA during the first half of 2008.
 - SS Petrolia (owned by the subsidiary PetroMENA ASA) started operations under the 913 days contract with Pemex in the Gulf of Mexico in February 2008. Gross contract value of the Pemex contract is mUSD 269.
 - PetroMENA ASA has three modern, semi submersible drilling rigs, (PetroRig I, II and III) under construction at the Jurong Shipyard in Singapore. The rigs are sixth generation units constructed for drilling in unsheltered areas in ultra-deep waters as
-

Brazil, the Mexican Gulf and West-Africa. Scheduled delivery of the rigs is April 2009, October 2009 and January 2010 respectively. PetroRig I and II have entered into five-year contracts with Petroleo Brasileiro S.A. at gross value of respectively mUSD 700 and mUSD 645. PetroRig III has entered into a five-year contract with Pemex at a gross value of mUSD 942. In order to take delivery of the rigs under construction, PetroMENA has to secure additional external financing. Petrolia Drilling is aware of the challenges regarding the remaining funding, and at present a sale of PetroRig I and PetroRig II seems the most likely alternative to secure shareholder values.

- Petrojack ASA has ordered two jack-up rigs at the Jurong Shipyard in Singapore. Petrojack II was delivered in March 2008 and accepted for operation by Saipem in April 2008. Petrojack II was sold to Saipem in January 2009 in order to finance the delivery of Petrojack IV. Petrojack IV was delivered from Jurong Shipyard in January 2009 and mobilised to Thailand to commence on a 5 years drilling contract with PTT Exploration and Production Public Company Limited. Total value of the contract is mUSD 275. Petrojack also owns 24.99% of Petrolia Drilling ASA and 42.2% of PetroProd Ltd. PetroProd is working on the engineering and construction of a CJ70 jack-up rig at Jurong Shipyard. In April 2009 the loan trustee, Norsk Tillitsmann, declared the bond loan in default and the Grand Court of the Cayman Islands ordered a provisional liquidator. PetroProd Ltd has on 21st of April 2009, received a notice of delisting from Oslo Stock Exchange.
 - DS Deep Venture (50% controlled through Venture Drilling AS) commenced on an 18 month contract with ExxonMobil ultimo June 2007. The gross value of the contract is in the mUSD 200-220 range. The contract was recently extended, and DS Deep Venture will be engaged for Maersk Oil Angola until 25 July 2009, at a day rate of USD 425,000, after withholding tax. Venture Drilling AS has agreed to a further 18 months contract with Maersk Oil Angola starting from the 25th of July 2009 at a dayrate of USD 495,000 after withholding tax. DS Deep Venture is performing well under the contract. Going forward Petrolia Drilling expect significant revenues to accrue to Petrolia Drilling from its holding in Venture Drilling AS.
 - During 2008 Petrolia Services has increased its activities through significant investments in various drilling equipment for the oil and gas industry. The current activity in the oil service market provides a steady cash flow for the company, and Petrolia Services is expected to generate attractive return on its investment in the longer term.
 - In 2008 Petrolia Drilling invested in Larsen Rig Ltd (30% owned). Larsen Rig Ltd is building a new deepwater semisubmersible drilling rig at Jurong Shipyard in Singapore, identical to the PetroMENA rigs. The rig is planned to be delivered in the second quarter 2011.
-

MARKET

The market for deepwater semi submersible drilling rigs is firm. The demand for deepwater rigs is expected to remain strong as oil companies have a significant back-log of drilling projects (both exploration and development projects) due to falling replacement ratios and decline in oil production. However, the current credit crunch will make it difficult to secure funding of newbuilding programs, which again will effect the market.

The average age of the global jack-up fleet is close to 23 years. There are currently approximately 60 jack-up rigs under construction, including options, corresponding to 15 % of the global jack-up fleet. The jack-up market has softened recently.

The market for hiring out drilling equipment has been satisfactory in 2008.

ANALYSIS OF THE FINANCIAL STATEMENTS

Petrolia Drilling has with effect from 1 January 2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes.

Financial information

Total revenues were mUSD 155.5 for the fiscal year 2008, whereof mUSD 73.7 came from SS Petrolia and mUSD 81.6 came from Petrolia Services. Total revenues for the fiscal year 2007 equalled mUSD 131.9.

Operating profit before depreciation and impairment for the group for the full year 2008 was mUSD 32.0. The expenses mainly relate to OPEX in connection with SS Petrolia, mobilisation of SS PetroRig I and the operations of the hiring out business.

Operating profit for the group amounts to mUSD -502.0 for 2008, after deduction of depreciation of mUSD 32.0 and impairment of construction contracts semi rigs of mUSD 502.1. Operating profit for the group for 2007 was mUSD 39.1 after deduction of mUSD 26.6 in depreciation.

Result after tax for the group amounts to mUSD -506.4, including negative result from investment in associates of mUSD 25.3 and impairment of investment in associates of mUSD 88.3. Share of result from Venture Drilling AS contributes positively with mUSD 28.5. Net financial items of mUSD 81.5 include unrealised currency gain on the group's bond loans nominated in NOK with mUSD 170.9. The USD has appreciated against NOK in 2008.

Per 31 December 2008 total assets of the group amounted to mUSD 1,027.1. SS Petrolia has a carrying value of mUSD 28.3 reflecting historical cost, including upgrades, adjusted for depreciation. The value of the rig in today's market is higher.

Total assets also include three rigs under construction, PetroRig I, II and III. The rigs have suffered impairment in 2008. PetroRig I and II are valued at selling price less costs to sell and PetroRig III is valued at selling price according to received MoU. Book value of drilling equipment in Petrolia Services as of 31 December 2008 is mUSD 119.5.

The 39.95% ownership in Petrojack ASA is carried at a value of NOK 2.93/USD 0.42 per share, equivalent to the stock market price per 31.12.2008. Impairment of the Petrojack shares amounts to mUSD 59.3. Third parties valuations indicate a value of the Petrojack shares far above market value.

The 30% ownership in Larsen Rig Ltd is booked at mUSD 21.

Carried equity of the group amounts to mUSD 58.7 per 31.12.2008, including a minority interest of mUSD 43.1. Carried equity 31.12.2007 was mUSD 554.2 including a minority interest of mUSD 202.1.

Per 31 December 2008, the total number of shares outstanding in Petrolia Drilling ASA was 1,012,596,745, each with par value NOK 0.50.

The group has achieved positive cash flow from the operations of the year of mUSD 31.6 compared to mUSD 112.3 in 2007. Cash flow from investments in 2008 was mUSD -405.3 mainly related to instalments paid to Jurong and investment in Petroresources Ltd and Larsen Rig Ltd. Cash flow from investments in 2007 amounted to mUSD 224.9. Cash flow from financing activities in 2008 was mUSD -104.6 mainly related to shares issued in PetroMENA and repayment and interest on bond loans. Cash flow from financing activities in the same period in 2007 was mUSD 256.6. Total cash position year end 2008 was mUSD 127.8 compared to mUSD 612.3 year end 2007.

The revenue of the parent company for the same period amounts to mUSD 0.0 compared to mUSD 6.1 in 2007. Total operating expenses for 2008 amounts to mUSD 5.3, no depreciations. In 2007 total operating expenses were mUSD 4.3, depreciations made mUSD 1.3. Net finance in 2008 is negative by mUSD 188.5 mainly due to impairment of shares. The PetroMENA shares were impaired to stock market price 31.12.2008 of NOK 1.42/USD 0.20 due to the current financial situation in the company. The Petrojack shares have also been impaired to stock market price per 31.12.2008 of NOK 2.93/USD 0.42 per share. Net finance in 2007 was mUSD -29.6.

Result after tax for the parent company is mUSD -205.0 compared to mUSD 0.3 in 2007. Carried equity has been reduced to mUSD 216.2 per 31.12.08 compared to mUSD 421.9 in 2007. Cash flow from operations in 2008 was mUSD -7.5 compared to mUSD -14.3 in 2007. Cash flow from investments was mUSD -63.6 in 2008 mainly related to investments in PetroMENA ASA and Petrolia Invest AS. Cash flow from investments in 2007 amounted to mUSD 8.4. Cash flow from financing activities in 2008 was mUSD 93.5 mainly due to refinancing of bond loan of mNOK 500 and funding from the subsidiary Petrolia Rigs. Cash flow from financing activities in the same period in 2007

was mUSD 1.7. Total cash position year end 2008 was 15.2 compared to mUSD 1.1 year end 2007.

FINANCIAL AND LIQUIDITY RISK

In December 2007 PetroMENA established a mUSD 200 bank financing facility for each of the rigs with Lloyds TSB Bank ("Lloyds"), equalling the maximum amount of First Priority Debt allowed under the Bond Loan Agreements.

However, the undrawn mUSD 200 credit facilities for each of the new buildings will not be sufficient to fully fund each rig; consequently there is a funding gap to bring the units into operation.

PetroMENA has discussed with Lloyds and another bank to jointly provide the requested amount needed to take delivery of PetroRig I and get the rig into operation. The banks provided the Company with an indicative term sheet for a new mUSD 300 credit facility related to PetroRig I, but would not finalize the loan facility, unless consent from Bondholders regarding certain issues was given. Such consent was not given by the Bondholders, in stead PetroMENA has received default notices from Norsk Tillitsmann, the loan trustee for all bond loans in the PetroMENA group. PetroMENA reject that any default exist, and hence no change has been made in classification of bond loans in relation to the above. Due to the default notice from Norsk Tillitsmann Lloyds has withdrawn the loan commitment of mUSD 600.

PetroMENA has received memorandum of understanding (MOUs) related to sale of all rigs under construction. Any such sale is subject to Bondholder approval. The Company is of the opinion that, due to the default notices from Norsk Tillitsmann, the preferred alternative for both creditors and current shareholders is sale of PetroRig I and PetroRig II.

A Memorandum of Understanding ("MOU") has been signed for PetroRig I at mUSD 450 and PetroRig II at mUSD 425. A potential sale of PetroRig I and PetroRig II requires early redemption of the 9.75% bond loan and partial redemption of the 10.85 % bond loan. Larsen Oil & Gas is entitled to a sales commission equal to 4 % of total consideration in the event of sale of PetroRig I or PetroRig II.

Based on the assumption that the MOU for rig I and II leads to a sale of these rigs, and that bondholders approves such a sale and accept full redemption of the 9.75 % bond loan and acceptance of partial redemption of the 10.85 % bond loan, PetroMENA will not require external financing before delivery of PetroRig III in January 2010.

The Board is aware of the challenges and uncertainties regarding the remaining funding, and irrespective of a sale of PetroRig I and II is completed, PetroMENA will have a significant unfunded construction program related to PetroRig III. Such new funding is subject to acceptance from the bondholders in the loan related to PetroRig III. PetroMENA will work actively towards selling PetroRig III if not able to secure

additional financing in order to take delivery of PetroRig III and bring the unit into operation. The Company will seek to establish financing for the remaining instalments related to construction of PetroRig III from Lloyds and/or other banks in order to take delivery of PetroRig III and recover shareholder values through future cash flow from the five year drilling contract entered into with Pemex, representing a total value of mUSD 942. Possible funding alternatives are to secure similar bank debt structures as the new PetroRig I facility or to sell the rig. Alternatively, the Company could issue new equity at term acceptable to current shareholders if the market allows for that going forward.

At present the alternative described above seems the most realistic avenue to secure future operations of PetroMENA ASA.

GOING CONCERN ASSUMPTION

The Board of Directors and the Managing Director are of the opinion that the financial statements should be based on the going concern assumption.

Please be advised that PetroMENA has not secured complete financing for the construction program with Jurong and whether such financing is obtained or not is highly uncertain. The group has received MOU regarding sale of PetroRig I and PetroRig II, and subject to bondholder approval of certain changes in redemption profile of bonds, PetroMENA will be able to sell PetroRig I and PetroRig II with net positive proceeds. Following a potential sale of PetroRig I and PetroRig II, PetroMENA will be able to continue its efforts to secure financing for PetroRig III in order to take delivery and bring the unit into operations. Please be aware that the outcome of the group's efforts to conclude a sale of PetroRig I and PetroRig II is highly uncertain.

The group has made impairments of its rigs under construction in connection with submission of the annual accounts. The impairments were based on the MOU's received regarding sale of the rigs under construction, which reflects what the group could obtain, at the balance sheet date from disposal of the Rigs. If bondholders will not accept sale of PetroRig I and PetroRig II, and early redemption at terms described herein, the potential loss for PetroMENA may exceed the impairments recognized as of 31 December 2008.

For the avoidance of any doubt, please be aware that the groups liabilities, including bonds and commitments with regards to the construction contracts entered into with Jurong mainly lies in the subsidiary PetroMENA ASA, in which the Petrolia Drilling ASA holds 51.5% of outstanding shares. Petrolia Drilling ASA has no obligation to increase its investments in PetroMENA through participation in future possible share issues or through issuance of new bonds or through loans to secure that PetroMENA can take delivery of the rigs under construction. Petrolia Drilling ASA's assets, including Petrolia Services, Venture Drilling and Petrojack ASA among other will not be affected by a potential default on the bondloan agreements in PetroMENA ASA.

If PetroMENA is not able to secure financing for the rigs under construction or complete the contemplated sale of PetroRig I and PetroRig II, the group will not be able to take delivery of PetroRig I and PetroRig II. In such an event Jurong may sell the rigs under construction at the risk of PetroMENA ASA and its bondholders. In the event that PetroMENA is not able to take delivery of the rigs under construction PetroMENA will be exposed to a potential loss equal to the total instalments paid to Jurong.

Petrolia Drilling ASA's (and the group's liabilities excluding liabilities in PetroMENA) long term liabilities mainly consist of the mNOK 500 bond and leasing liability of mUSD 30.4. Petrolia Drilling expects significant revenues from both Petrolia Services and Venture Drilling going forward and is of the opinion that the Company will be able to service its liabilities through operational cashflow from its assets and businesses.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia Drilling ASA has no employees of its own.

Management of the Company is attended to through a management agreement with Larsen Oil & Gas AS and Larsen Oil & Gas Ltd. Larsen Oil & Gas AS is to carry out administration, accounting and budgeting.

LOG Ltd shall be acting as manager on project management and operation until otherwise arranged.

In total the group has 218 employees through the IOT group in respectively Norway, Holland, Romania, Australia and New Zealand, including 41 women. Total number of man-labour years was 217.5. As far as The Board of Directors are aware, there have not been any serious damages or accidents in 2008.

Total absence due to sickness has been 2.2% during the accounting year.

Petrolia Drilling's Board of Directors consists of 3 men and 2 women.

ENVIRONMENT REPORTING

The company has as objective that all activities that are performed are to be carried out without damage on people or surroundings. The company's activities this year have not caused pollution of the environment in defiance of demands made by the prevailing authorities.

EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date Petrojack has taken delivery of the Petrojack IV, which commenced a drilling contract with PTT Exploration & Production Public Company Limited shortly after delivery. In order to secure financing for the last instalment regarding the construction of Petrojack IV, Petrojack II was sold to Saipem (Portugal) Comercio Maritimo S.U. LDA. Following the sale of the Petrojack II, the Company redeemed bonds in accordance with the amended loan agreements in the Bond Loans, approved on the bondholders meetings on 19 November 2008. The net proceeds after redemption of bonds were used to pay the final yard instalment for Petrojack IV.

After the balance sheet date, PetroMENA (subsidiary of Petrolia Drilling) has actively been working to secure additional financing and/or solutions for the rigs under construction.

In connection with financing of PetroRig I, PetroMENA has held various bondholder meetings to reach acceptance to increase the carve-out for First Priority Debt related to PetroRig I from mUSD 200 to mUSD 300 in order to secure financing for the remaining instalments and mobilisation of PetroRig I. The bondholders' meetings regarding the 9.75% and the 10.85% bond loans approved the proposal, however with certain conditions.

Further PetroMENA has in a bondholders meeting proposed to defer the required equity increase of mUSD 50 in the rig owning entity PetroRig III according to the bond loan agreement due to the fact that the yard has accepted postponement of the mUSD 105 instalment until delivery in January 2010. Such approval has not been given.

As the bondholders and PetroMENA have not reached a final agreement regarding the conditions for the First Priority Debt, the company has not been able to secure complete financing for PetroRig I, and has received notice of default for bond loans from Norsk Tillitsmann, the loan trustee for bond loans in PetroMENA group. The company reject that any default exist. Due to the default notice from Norsk Tillitsmann, Lloyds has withdrawn the loan commitment of mUSD 600.

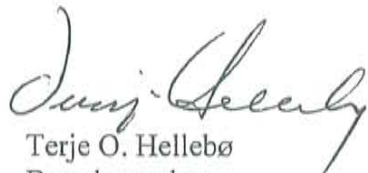
PetroMENA has received a MOU for sale of all the rigs under construction. Due to the financial situation in the group, sale of PetroRig I and PetroRig II seems the most likely alternative.

The company has recently filed preliminary injunctions both in Singapore and Norway against enforcement actions initiated by Norsk Tillitsmann on behalf of the bondholders. Singapore court has decided that the case shall be fully argued after 20 May 2009. Pending further hearing SS PetroRig I is not to be taken out of Singapore without prior notice to the court. Oslo court (Oslo Byfogdembete) has dismissed PetroMENA's filing for preliminary injunction. Based on the court decisions the company will continue its efforts to secure the companies values for the creditors and its shareholders, hereunder its claim for damages against the bondholders.

Oslo/Bergen, 28 April 2009



Klaus P. Tøllersen
Chairman of the Board



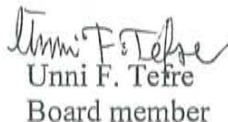
Terje O. Hellebø
Board member



Gun Marit Stenersen
Board member



Leif Holst
Board member



Unni F. Tefre
Board member



Lars Moldestad
Managing Director

Petrolia Drilling ASA

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)

		Group	
	Note	2008	2007
Revenue	1	155 484	131 927
Wage cost	2	11 376	7 586
Depreciation	7	31 961	26 604
Impairment of construction contract semi rigs	7	502 059	0
Other operating expenses	3	<u>112 097</u>	<u>58 614</u>
Operating result		-502 009	39 123
Result from investment in joint venture	9	28 451	12 760
Result from associated companies	10	-113 669	-12 476
Interest income	23	6 185	4 243
Financial income	23	143 066	54
Interest expenses	23	43 348	22 005
Financial expenses	23	<u>24 405</u>	<u>11 882</u>
Result before taxes		-505 729	9 817
Tax on result	5	<u>-641</u>	<u>-2 524</u>
Result of the year		<u>-506 370</u>	<u>7 292</u>
Attributable to:			
Shareholders		-327 044	7 610
Minority interests		<u>-179 326</u>	<u>-318</u>
		<u>-506 370</u>	<u>7 292</u>

Earnings per share for the result attributable to the shareholders of the company during the year (USD per share)

Earnings per share	4	-0,50	0,01
Earnings per share fully diluted	4	-0,50	0,01

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA
CONSOLIDATED BALANCE SHEET

(Amounts in USD 1 000)

		As at 31 December	
		Group	
ASSETS	Note	2008	2007
Non-current assets			
Intangible assets	6	17 344	23 090
Deferred income tax assets	5	3 694	11 223
Drilling units	7	28 262	28 615
Construction contracts Semi-Rigs	7	541 118	733 933
Drilling equipment and other equipment	7	119 509	105 071
Land and buildings	7	2 705	3 116
Investments in joint venture	9	76 827	62 431
Investment in associated companies	10	34 756	100 425
Total non-current assets		824 213	1 067 904
Current assets			
Inventory		327	0
Trade- and other current receivables	12	73 795	53 968
Financial assets at fair value through profit and loss	11	871	3 483
Investment in money market fund	13	83	101
Bank deposits	14	127 812	612 275
Total current assets		202 888	669 827
TOTAL ASSETS		1 027 102	1 737 731

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA

CONSOLIDATED BALANCE SHEET PER. 31.12.

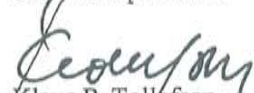
(Amounts in USD 1 000)


As at 31 December

		Group	
	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
Share capital	15	93 568	93 568
Own shares		-2 153	-1 464
Share premium fund		123 119	283 552
Other equity not recognised through profit and loss	24	-16 253	-7 524
Uncovered loss		<u>-182 695</u>	<u>-16 084</u>
		15 587	352 049
Minority interests			
		43 067	202 146
Total equity			
		<u>58 654</u>	<u>554 194</u>
Liabilities			
<i>Non-current liabilities</i>			
Bond loans	16	418 400	908 027
Pension liability	21	433	485
Other non-current liabilities	17	<u>27 282</u>	<u>10 084</u>
		446 115	918 595
<i>Current liabilities</i>			
Short term portion of non-current liabilities	18	438 261	163 969
Trade payables	20	22 964	15 405
Payable tax		173	76
Other current liabilities	20	<u>60 936</u>	<u>85 490</u>
		522 334	264 941
Total liabilities			
		<u>968 448</u>	<u>1 183 536</u>
TOTAL EQUITY AND LIABILITIES			
		<u>1 027 102</u>	<u>1 737 731</u>

The accompanying notes are an integrated part of the financial statements.

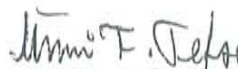
Oslo 28 April 2009


Klaus P. Tollefsen
Chairman of the Board


Leif Holst
Board member


Terje Hellebø
Board member


Gunn Marit Stenersen
Board member


Unni F. Tefre
Board member


Lars Moldestad
Managing director

Petrolia Drilling ASA Group

Consolidated statement of changes in equity

(Amounts in USD 1 000)

Equity attributable to the company's shareholders

	Share Capital	Own shares	Share premium fund	Other equity not recognised through profit and loss	Uncovere d loss	Minority interests	Total equity
Equity 1 January 2007	78 488		197 494	303	-17 682		258 603
Capital increase through contribution in kind	15 081		86 564				101 645
Issue expenses covered by share premium fund			-506				-506
Remeasurment of shares in associated company				-3 989			-3 989
Addition minority share through acquisition						202 490	202 490
Purchase/sale of own shares		-1 464			-6 643		-8 107
Currency translation differences				-3 652	632	-26	-3 652
Available-for-sale financial assets				-187			-187
Result of the year to equity					7 610	-318	7 292
Equity 31 December 2007	93 568	-1 464	283 552	-7 524	-16 084	202 146	554 195
Equity 1 January 2008	93 568	-1 464	283 552	-7 524	-16 084	202 146	554 195
Capital increase in subsidiary						23 049	23 049
Issue expenses in subsidiary				-688		-648	-1 336
Remeasurment of shares in subsidiary				4 053		-2 132	1 921
Purchase/sale of own shares		-690					-690
Result of the year to equity			-160 434		-166 610	-179 326	-506 370
Currency translation differences				-12 093		-22	-12 115
Equity 31 December 2008	93 568	-2 153	123 119	-16 253	-182 695	43 067	58 654

Per 31 December 2007 the company owns 3 450 024 own shares. The shares have been purchased at an average purchase cost of NOK 2.29 per share.

Per 31 December 2008 the company owns 5 250 024 own shares. The shares have been purchased at an average purchase cost of NOK 2.21 per share.

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA

Consolidated cash flow statement

(Amounts in USD 1 000)	Note	Year ended 31 December	
		Group	
		2008	2007
<i>Cash flows from operating activities</i>			
Result before taxes		-505 729	9 817
Prepaid taxes in the period		842	70
Gain from sale of equipment		-2 934	-156
Loss/gain from sale of current assets		-70	0
Depreciation	7	31 961	26 604
Impairment of rigs	1,7	502 059	0
Change in net pension liability		58	448
Change in trade receivables		-10 990	-11 994
Change in trade payables		7 558	8 108
Accruals and items classified as financing/investment		41 554	31 617
Result from investment in joint venture	9	-28 451	-12 760
Result from investment in associated companies	10	113 669	12 476
Dividend from joint venture	9	12 424	0
Unrealised foreign currency loss/gain		-130 310	48 051
Net cash generated from operating activities		31 641	112 280
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment	7	4 610	1 193
Purchase of operating equipment	7	-357 214	-157 245
Cash flow from acquisition		4 239	378 976
Proceeds from sale of shares and investments in other companies		-283	1 151
Investment in shares in associated companies	10	-47 999	
Investment in shares in other companies		-8 702	-55 982
Proceeds from sales of liquid reserves		18	0
Purchase of liquid reserves		0	56 808
Net cash used in investing activities		-405 331	224 901
<i>Cash flows from financing activities</i>			
Proceeds from bond loan		94 609	328 344
Proceeds from short-term loan		6 070	-7 656
Repayment of long-term loans		-139 898	-4 091
Interest paid on bond loans		-48 731	-42 449
Purchase of own shares/issue costs		-690	-1 819
Payment of debt financing costs	6	-5 238	-10 218
Increased capital through subsidiaries (minority)		23 049	0
Repayment of long term/short term borrowings		-33 754	-5 540
Net cash used in financing activities		-104 582	256 570
Net cash flow of the period		-478 273	593 751
Cash and cash equivalents at the beginning of the period	14	612 275	18 524
Exchange gains (loss) on cash and cash equivalents		-6 190	0
Cash balance at December 31	14	127 812	612 275
Specification of cash and cash equivalents at period end			
Bank deposits	14	127 812	612 275
Whereof restricted bank accounts is	14	97 769	384 910

The accompanying notes are an integrated part of the financial statements.

Accounting policies and general information

General Information

Petrolia Drilling ASA was established 13 March, 1997. The consolidated financial statements for the accounting year 2008 comprise the company and its subsidiaries (together referred to as "the group") and the group's share of a joint venture and associated companies.

Through the shareholding of 51.5% in PetroMENA ASA the group owns the semi submersible drilling rig SS "Petrolia" and has another three semi submersible drilling rigs under construction. Through its shareholding of 39.95% in the associate Petrojack, the group has exposure to the jack-up segment. Also the group owns a 50% share of the joint venture Venture Drilling AS.

The group's activities are directed towards investments in and charter of drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Further on, the company is hiring out drilling equipment and test strings, including accessories, to oil companies, oil service companies and drilling contractors.

Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The annual financial statements were adopted by the Board of Directors on 28 April 2009.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Petrolia Drilling ASA have been prepared in compliance with International Financial Reporting Standard (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention with the following modification: Financial assets recognised at fair value through profit or loss.

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 discussed below.

The accounting year follows the calendar year. The income statement is by nature.

Interpretations effective in 2008

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the group's operations:

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'

Interpretations effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are considered not relevant to the group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them and they are not expected to have any material impact on the group's financial statements.

- IFRS 8 'Operating segments'
- IAS 23 (Amendment), 'Borrowing costs'
- IAS 1 (Revised), 'Presentation of financial statements'
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'
- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IFRS 3 (Revised), 'Business combinations'
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures')
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7)
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 38 (Amendment), 'Intangible assets'
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IAS 16 (Amendment), 'Property, plant and equipment'.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations:

- IFRS 2 (Amendment), 'Share-based payment'
- IAS 19 (Amendment), 'Employee benefits'
- IAS 20 'Accounting for government grants and disclosure of government assistance'

- IAS 29, 'Financial reporting in hyperinflationary economies'
- IAS 40, 'Investment property'
- IAS 41, 'Agriculture'
- IFRIC 15, 'Agreements for construction of real estates'

Consolidation principles

(i) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement at the time of acquisition.

Summary of the companies of the group: Per 31.12.2008 the consolidated companies are presented in the balance sheet as follows:

Owner	Share-holding	Objective, activity, business office
<i>Shares owned directly by the parent company</i>		
Petrolia Drilling II AS	100%	Holding company for Petrolia Rigs AS and Petrolia Services AS. The company is registered and domiciled in Norway.
Petrolia Drilling Ltd.	---	A company registered on Virgin Island. The shares are controlled by a trust in Jersey. Petrolia Drilling ASA is "beneficial owner" of the trust.
Petrolia Invest AS	100%	Owner of shares in the associate Larsen Rig Ltd. The company is registered and domiciled in Norway.
PetroMENA ASA - group	51.5%	Owner of the rig SS "Petrolia" and has three semi submersible rigs under construction at the Jurong shipyard in Singapore. The company is registered and domiciled in Norway.
<i>Shares owned by PetroMENA ASA: PetroRig I Pte Ltd</i>	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
<i>PetroRig II Pte Ltd</i>	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
<i>PetroRig III Pte Ltd</i>	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
<i>Petromena Ltd</i>	100%	Owner of the second generation drilling unit SS "Petrolia".
<i>Shares owned by PDR II AS: Petrolia Rigs AS</i>	100%	Sold the drilling rig SS Petrolia to PetroMENA in 2007. The company is registered and domiciled in Norway.
Petrolia Services AS	100%	Owner of drilling equipment. The company is registered and domiciled in Norway.
<i>Shares owned by Petrolia Services AS: Independent Oil Tools AS</i>	100%	Hiring out- and service of drilling equipment. The company is registered and domiciled in Norway.
<i>Shares owned by Independent Oil Tools AS Independent Tool Pool AS</i>	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway.
Premium Casing Services Pty Ltd	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Australia.
SM Industriservice AS, merged with IOT AS in 2008	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway.
Independent Oil Tools BV	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
<i>Shares owned by IOT BV Independent Oil Tools Dosco BV</i>	51%	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
Independent Oil Tools Dosco Srl	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Romania.
Caspian Oilfield Services	51%	Hiring out- and service of drilling equipment The company is registered and domiciled in Azerbaijan.
<i>Shares owned by Premium Casing Services Premium Casing Services Pty Ltd</i>	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in New Zealand.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(ii) Joint venture and associates

By joint venture is meant financial activity controlled through agreement between two or more parties who jointly control the activity. Joint venture implies that no party alone has controlling influence. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint venture and associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investments in joint venture and associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its joint venture's/ associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in a joint venture or an associate equals or exceeds its interest in the joint venture/associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture/associate.

Unrealised gains on transactions between the group and its joint venture/associates are eliminated to the extent of the group's interest in the joint venture/associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture/associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in joint venture/associates are recognised in the income statement.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical market (segment) is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The group operates within two business segments, hiring out of drilling vessels (Drilling) and hiring out of drilling equipment (Oilfield services). The drilling units are offered for contract spread on several geographical markets. Oilfield services is hiring out drilling equipment and manpower from offices in Australia, New Zealand, Netherlands, Romania, Dubai and Singapore among others.

Foreign currency translation*Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Petrolia Drilling ASA has with effect from 01.01.2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within 'financial income/financial expense'.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

Rigs and drilling equipment

Rigs and drilling equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Periodical maintenance is recognised in the balance sheet as part of the drilling unit and depreciated straight-line over the period till next maintenance, normally after 60 months. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on rigs and drilling equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on sales and disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'revenue' in the income statement.

Construction contracts

Construction contracts are recognised net in the balance sheet, i.e. paid yard instalments are recognised in the balance sheet as payments are made. Settled instalments are classified as non-current asset in the balance sheet.

Construction expenses are carried and classified as non-current assets. Construction expenses include contractual expenses and expenses involved in supervision in the construction period. Contract expenses include expenses that can be related to the project for the period from entering into the contract till final completion of the ordered work. Net interest for construction debt financing in the contract period is also included.

The construction and financing contracts are subject to the contracts and delivery of rigs taking place to company domiciled in Singapore.

Intangible assets*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Borrowing costs

Success fee related to the establishment of loan commitments is recognised as an asset for the period from the loan commitment is granted and till the loan is drawn. When the loan is drawn, the success fees are reflected as an acquisition cost and net against the carrying amount of the loan. Subsequently, this amount is recognized as interest expense using the effective interest rate over the term of the loan.

Carrying amount is subject to annual impairment test and recognised at acquisition cost.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non

financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The group does not make use of hedging accounting according to IAS 39, therefore all financial derivatives are recognised at fair value when changes in value are recognised in the income statement.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other current receivables, investment in money market fund and bank deposits in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within “financial income/financial expenses”, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of financial income when the group’s right to receive payments is established.

Other change in recognised value of monetary securities and value changes of equity instruments classified as available for sale are recognised directly against equity. When securities classified as

available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity through profit or loss are included in the income statement as 'financial income/financial expenses'.

Fair value of quoted investments is based on current bid price.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For shares classified as available-for-sale, a significant or prolonged decline in the fair value below purchase cost is considered as an indicator that the share is impaired. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on shares and corresponding instruments are not reversed through the income statement.

Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other operating expenses'. When a trade or other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital and premium

Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Accrued interest expenses are classified as current portion of non-current liabilities.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Leases*Finance leases*

The group is reporting finance leases as assets and liabilities in the financial statements, equivalent to the cost price of the asset or, if the lower, the present value of the cash flow of the lease. By calculation of present value of the lease the implicit interest expense in the lease is applied, when determinable. If not determinable the company's marginal market borrowing rate is used. Direct expenses connected to the leases are included in the cost price of the asset. Monthly lease amounts are split in an interest element and a repayment element. The interest expense is allocated to various periods so that the interest rate is the same for all periods.

The asset that is included in a finance lease is depreciated. Depreciation period is consistent for corresponding assets owned by the group. If there is uncertainty whether the company will take over the asset at expiration of the lease contract the asset is depreciated over the shorter of the term of the lease contract and depreciation period for corresponding assets owned by the group.

If a "sale and back-lease" transaction results in a finance lease, a possible profit will be deferred and recognised over the period of the lease.

Operational leases

Leases where the main risk is on the hand of the contracting party, are classified as operational leases. Lease payments are classified as operational expense and recognised in the income statement over the contract period.

In case that a "sale and back-lease" transaction should result in an operational lease and it is evident that the transaction has been carried out at fair value, a possible profit or loss will be recognised in the income statement as the transaction is accomplished. Should the selling price be below fair value a possible profit or loss will be recognised directly, except for the situation that this involves future lease payments below market price. In that case the profit/loss is amortised over the period of the lease. If the selling price is above fair value, the excess price will be amortised over estimated period of use for the asset.

Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pension obligations

The pension schemes of the group are funded through payments to insurance companies, determined by periodic actuarial calculations. The group has both defined contribution plans and defined benefit plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets adjusted for not recognised actuarial gains and losses and not recognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognised income and expense in the period in which they arise.

Changes in the pension benefits are recognised immediately as expense or income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further

payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Contingencies and allocations

Contingencies and allocations are recognised when there is a valid claim (legal or expected) as a consequence of previous events and it can be made probable (more than 50%) that a settlement will take place owing to the debt and the debt may be measured reliably. Contingencies and allocations are estimated at each balance sheet date and the recognized amount reflects best estimate of the liability.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for rental of drilling units and drilling equipment. The revenue is recognised on the basis of day rates and actually accrued time. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Mobilization expenses

Mobilisation income and expense are distributed over the mobilisation period. If the expenses exceed the income in the mobilisation period, expenses corresponding to the income in the mobilisation period are recognised in the income statement. Excess expenses are recognised in the balance sheet and distributed over the duration of the contract.

Related-party transactions

Information as to which persons and companies that are considered as related parties has been stated in note to the consolidated financial statements. Agreements, transactions and outstanding accounts with related parties are described in the same note.

Cash flow statement

The cash flow statement has been prepared according to the indirect method. The indirect method involves reporting gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash and cash equivalents comprise bank deposits and other current, liquid investments which immediately and at insignificant exchange rate risk can be converted into known cash amounts and with due dates of less than three months from purchase date.

Earnings per share

Earnings per share are calculated by dividing the result of the group on a time weighed average number of ordinary shares for the period.

Events after the balance sheet date

New information about the position of the group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 25.

Financial risk management**Financial risk factors**

The group uses financial instruments as bond loans, forward contracts, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the group's activity. Further on the group has financial instruments like trade receivables, prepayments and trade payables which are directly connected to the current operations of the group. The group does not use derivative financial instruments to hedge certain risk exposures. In periods the group invests liquid assets in available-for sale financial assets and financial assets at fair value through profit and loss.

The group's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The group is subject to a balances exposure through income and expenses in USD and NOK and financing in USD and NOK. In addition the group is subject to a balanced exposure through fixed and floating rate of interest from its financing which limits the liquidity risk. The credit risk which the company is exposed to is acceptable.

Credit risk

The group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments to yard for construction of rigs. The maximum risk exposure is represented by the carrying value of rigs under construction referred to in note 7 and carrying value of trade receivables and other receivables referred to in note 12.

The group has few customers as the rigs are on hire on long term contracts with fixed day-rates. SS Petrolia entered into a 913 days contract with Pemex Producción y Exploración, the Mexican state owned petroleum company. Pemex is the one of the world's largest producers of crude oil. The equipment in the oilfield services segment is mainly on rental through Certified Oilfield Rentals throughout the world. In 2009 Petrorig I will start a 5 year contract with Petrobras, the largest listed company in South America. The group's revenues are limited to a number of transactions and customers and therefore credit risk is transparent.

The group has credit risk related to its customers including outstanding receivables to arise from the contract and committed transactions. Management does not expect any losses from non-performance by its debtors.

Interest rate risk

The group is exposed to interest rate risk through its financing activities (cf. note 16 and 17). Part of the interest-bearing liabilities is based on floating rates which implies that the group is exposed to changes in the interest rate level.

The group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. Per 31.12.2008 approximately 70% of the group's borrowings were based on fixed rate of interest.

The table below illustrates the group's volatility related to potential changes in the interest rate level. The calculation includes all interest-bearing instruments and elucidates the volatility in result and equity to changes in interest rate level assuming the same capital structure throughout the year as capital structure at the end of the accounting year.

Sensitivity for changes in interest rate level			
<i>(amounts in USD 1000)</i>	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2008	50	-763	-549
2007	50	1 251	901

Further information regarding the interest rate conditions of the group's financing is given in note 16.

Liquidity risk

Liquidity risk is the risk that the group is not able to meet its financial liabilities as they fall due. The group's strategy of handling credit risk is to have sufficient liquidities at all times to pay any liability on maturity, in both normal and extraordinary circumstances.

Unused part of bond loan issued in connection with the construction of PetroRig III is deposited on suspense account for the financing of instalments on the construction contract. The group has placed the capital from issuance of bonds in NOK and USD while the settlements for the rigs are nominated in USD and SGD.

In December 2007 the Group established a mUSD 200 bank financing facility for each of the rigs with Lloyds TSB Bank ("Lloyds"), equalling the maximum amount of First Priority Debt allowed under the Bond Loan Agreements.

However, the undrawn mUSD 200 credit facilities for each of the new buildings will not be sufficient to fully fund each rig; consequently there is a funding gap to bring the units into operation. PetroMENA has at length explored various alternatives to meet this funding requirement. The bank financing market has been extremely challenging for months, as banks are generally unable or unwilling to assume new commitments.

PetroMENA has discussed with Lloyds and another bank to jointly provide the requested amount needed to take delivery of Petrorig I and get the rig into operation. The banks provided the Company with an indicative term sheet for a mUSD 300 credit facilities related to Petrorig I, but would not finalize the loan facility, unless consent from both Bondholders was given. Such consent was not given by the Bondholders, instead PetroMENA has received default notices from Norsk Tillitsmann, the loan trustee for all bond loans in PetroMENA group. PetroMENA rejects that any default exists, and hence no change has been made in classification of bond loans in relation to the above. Due to the default notice from Norsk Tillitsmann, Lloyds has withdrawn the loan commitment of mUSD 600.

PetroMENA has received memorandums of understanding (MOU's) related to sale of all rigs under construction. The Company is of the opinion that the preferred alternative for both creditors and current shareholders is sale of SS PetroRig I and SS PetroRig II.

Meanwhile, a Memorandum of Understanding ("MOU") has been signed for SS PetroRig I for mUSD 450 and SS PetroRig II for mUSD 425 respectively. A potential sale of SS PetroRig I and SS PetroRig II requires early redemption of the 9.75 % bond loan and partial redemption of the 10.85 % bond loan. In the event of sale of SS PetroRig I and SS PetroRig II PetroMENA shall redeem the 9.75 % bond loan at a price equal to 107 % of par value. In the event of sale of SS PetroRig I or SS PetroRig II, PetroMENA shall redeem mUSD 60 for each rig sold, in total mUSD 126 at a price equal to 105 % of par value.

The last payment to Jurong regarding SS PetroRig I equals mUSD 233 and regarding SS PetroRig II equals mUSD 243. In addition PetroMENA will incur various expenses in connection with a potential sale of SS PetroRig I and SS PetroRig II. Larsen Oil & Gas is entitled to a sales commission equal to 4 % of total consideration in the event of sale of SS PetroRig I or SS PetroRig II.

Total net proceeds from a possible sale of PetroRig I and PetroRig II following redemption according to bond loan agreements is set forth below:

(amounts in MUSD 1 000)

	PetroRig I	PetroRig II	Total
Offer price	450	425	875
Last payment to Jurong	-233	-243	-476
Sales commission	-18	-17	-35
Early redemption 9.75 % bond	-153	-153	-306
Early redemption 10.85 % bond	-63	-63	-126
Net proceeds	-17	-51	-68

The gross proceeds from a possible sale of SS PetroRig I and SS PetroRig II at mUSD 450 and mUSD 425 respectively will not cover payments to Jurong, early redemption according to bond loan agreements, other expenses and sales fee to Larsen Oil & Gas. In order to reach an acceptable solution for shareholders and bondholders, the Board and the Managing Director will ask for approval by bondholders to accept full redemption of the 9.75 % bond at a price equal to 100% of par value, and redemption of in total mUSD 40 of the 10.85 % bond at a price equal to 100 % of par value. If bondholders accept the solution described above, PetroMENA will receive estimated net proceeds of mUSD 38 excluding various expenses from the sale of PetroRig I and II. For the avoidance of doubt, please be aware that the solution described above is subject to approval by bondholders and whether such approval is given or not is uncertain.

Total expected net proceeds based on redemption as described in the section above is set fourth below:

(amounts in MUSD 1 000)

	PetroRig I	PetroRig II	Total
Offer price	450	425	875
Last payment to Jurong	-233	-243	-476
Sales commission	-18	-17	-35
Early redemption 9.75 % bond	-143	-143	-286
Early redemption 10.85 % bond	-20	-20	-40
Net proceeds	36	2	38

Based on the assumption that the MOU for rig I and II leads to a sale of these rigs, and that bondholders approves such a sale and accept full redemption of the 9.75 % bond loan and partial redemption of the 10.85 % bond loan, PetroMENA will not require external financing before delivery of PetroRig III in January 2010.

The Board is aware of the challenges and uncertainties regarding the remaining funding, and irrespective of whether a sale of PetroRig I and II is completed, PetroMENA will have a significant unfunded construction program related to PetroRig III. PetroMENA will work actively towards selling PetroRig III if not able to secure additional financing in order to take delivery of PetroRig III and bring the unit into operation. The Company will seek to establish financing for the remaining instalments related to construction of PetroRig III from Lloyds and/or other banks in order to take deliver of PetroRig III and recover shareholder values through future cash flow from the five year drilling contract entered into with Pemex, representing a total value of MUSD 942. Possible funding alternatives are to secure similar bank debt structures as the new PetroRig I facility or to sell the rig. Alternatively, the Company could issue new equity at terms acceptable to current shareholders if the market allows for that going forward.

Assuming a sale of SS PetroRig I and SS PetroRig II, the Company estimates that the next capital requirement will be in connection with the delivery of SS PetroRig III in January 2010. The Company will work actively towards selling SS PetroRig III if required to avoid significant dilution of shareholders value.

Please be advised that PetroMENA has not secured complete financing for the construction program with Jurong. If PetroMENA is not able to secure required funding from banks or from other sources of external financing, PetroMENA will not be able to service its liabilities as described in the Director's Report.

The table below states maturity profile of financial liabilities recognised per 31.12.2008:

Amounts in USD 1000

Per 31 December 2008	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	22 964				22 964
Interest	14 533				14 533
Bond loans	420 159	129 600	112 875	187 172	849 806
Other long-term debt	7 940	13 811	13 471		35 222
Other current liabilities	61 109				61 109

Retirement benefit obligations have been exempted in the above profile.

In addition there are payments to the yard of the last instalments of the construction program, cf. note 7.

Per 31 December 2007	< 1 year	1-2 years	2-5 years	>5 years	Total
Trade payables	15 405				15 405
Bonds	133 025	26 400	309 193	572 434	1 041 052
Interest	28 091				28 091
Other long term liabilities	2 854		10 084		12 938
Other current liabilities	85 566				85 566

Retirement benefit obligations have been exempted in the above profile.

Further information regarding non-current loan and liabilities in connection with financial lease contracts is stated in note 16 and 17.

Foreign exchange risk

The foreign exchange risk exposure mainly relates to the program of new constructions of the group. The new construction program has been contracted in USD and parts of the financing are nominated in NOK. The group has reduced the foreign exchange risk by the capital collected through issuance of bond loan nominated in NOK for the financing of the new construction program, partly being invested in USD. As of 31 December 2008 and 2007, the group had mNOK 4,100 in bond loans nominated in NOK.

The group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the group has mainly income and operating expenses in USD while parts of the financing is nominated in NOK. Future revenues and expenses connected to the rigs will be nominated in USD and net cash flow in NOK will depend on future exchange rate of USD.

Rigs under construction are also exposed to exchange rate changes as the secondary market trading of rigs normally is executed in USD. Changes in foreign exchange rates will have an impact on the company's liquid reserves after redemption of bond loans connected to possible sale of rigs.

As of 31 December 2008, the group had mUSD 544.8 net debt nominated in NOK, while the corresponding figure for 2007 was mUSD 470.4. Consequently the NOK exchange rate exposure has been increased during the year as illustrated in the table below.

The table below states impact of fluctuations in the exchange rate of NOK on financial instruments in NOK at the end of the accounting year.

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2008	5 %	27 239	19 612
	-5 %	-27 239	-19 612
2007	5 %	23 522	16 936
	-5 %	-23 522	-16 936

Capital structure and equity

The main objectives of the group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satisfactory debt ratio the group is supporting the current operations and maximizing the value of the group's shares accordingly.

The group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present short- and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital or issuing new shares.

(amounts in USD 1 000)	2008	2007
Total liabilities	968 448	1 183 536
Equity of majority	15 587	352 049
Debt ratio	62.13	3.36

Fair value estimation

The following of the group's assets have been assessed at fair value: "Financial assets at fair value through profit and loss".

Fair value of financial assets classified as "at fair value through profit and loss" has been assessed with reference to the quoted price at the balance sheet date.

Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as established at normal terms.

Fair value of non-current liabilities is assessed by means of quoted market prices, last available selling price or the use of interest terms for liabilities with similar repayment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer Association assessment of value for tax purpose yearend 2008, available on the website <http://www.nfmf.no/>.

Below is a comparison of book values and fair values of the financial instruments of the group:

	2008		2007	
(amounts in USD 1000)	Book value	Fair value / quoted price	Book value	Fair value / quoted price
<i>Financial assets</i>				
Cash and cash equivalents	127 895	127 895	612 376	612 376
Trade receivables	35 084	35 084	24 094	24 094
Investments of fair value through profit and loss	871	871	3 483	3 483
Investment in associates- quoted shares 1)	10 866	10 866	100 425	85 381
Investment in associates non-quoted shares 2)	23 890	23 890	0	0
<i>Financial liabilities</i>				
Trade payables	22 964	22 964	15 405	15 405
<i>Interest bearing liabilities</i>				
Bonds	834 188	246 453	1 039 463	1 072 316
Liabilities from financial leasing contracts	30 392	30 392	12 160	12 160
Borrowing element in forward contract	0	0	20 260	20 260

1) Fair value is based on quoted price per 31.12.08, cf. note 10.

2) The investments in non quoted shares have been impaired in 2008 to estimated fair value based on uncertainties with regards to the current situation in the financial markets, cf. note 10.

Financial instruments by category

	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
31.12.2008				
Assets as per balance sheet				-
Trade and other receivables excluding prepayments 1)	53 095			53 095
Financial asset at fair value through profit or loss		871		871
Money market fund	83			83
Bank deposits	127 812			127 812
Total	180 990	871	-	181 861

1) Prepayments of 20 700 are excluded from the trade and other receivables balance as this analysis is required only for financial instruments.

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		834 189	834 189
Finance lease liabilities 2)		30 392	30 392
Other non-current liabilities		4 830	4 830
Trade and other payables excluding statutory liabilities 3)		83 569	83 569
Total	-	952 980	952 980

2) the categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.

3) Public duties are excluded from the trade payables balance, as this is required only for financial instruments.

	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
31.12.2007				
Assets as per balance sheet				-
Trade and other receivables excluding prepayments 1)	37 264			37 264
Financial asset at fair value through profit or loss		3 483		3 483
Money market fund	101			101
Bank deposits	612 275			612 275
Total	649 640	3 483	-	653 123

1) Prepayments of 16 704 are excluded from the trade and other receivables balance as this analysis is required only for financial instruments.

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		1 039 523	1 039 523
Finance lease liabilities 2)		12 160	12 160
Other non-current liabilities		1 183	1 183
Trade and other payables excluding statutory liabilities 3)		100 567	100 567
Total	-	1 153 433	1 153 433

2) the categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.

3) Public duties are excluded from the trade payables balance, as this is required only for financial instruments.

Critical accounting estimates and judgements

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

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cashgenerating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

ii) Income taxes

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

iii) Impairment of rigs, construction contracts and intangible assets

The group tests annually whether the rigs, drilling equipment, construction contracts and intangible assets have suffered any impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

iv) Impairment of investments in joint venture and associates

The group tests annually whether its investments in joint venture and associates have suffered any impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTE 1 SEGMENT INFORMATION

Per 31 December 2008 the group is operating within two main segments:

Drilling

The drilling rig "SS Petrolia" has been operating in the Gulf of Mexico where she started her 913 days contract with Pemex Exploración Y Producción February 3rd 2008. In addition PetroMena ASA has three semi submersible rigs under construction at the Jurong Shipyard in Singapore. Petrojack ASA has had one jackup on time charter hire with Saipem and one jackup rig under construction at the Jurong Shipyard, which was delivered in January 2009.

Share of DS "Deep Venture"

The group owns a 50 % share of DS "Deep Venture" through Venture Drilling AS. On behalf of Venture Drilling AS Larsen Oil & Gas Ltd has entered into a contract with ExxonMobil for an 18 month assignment for the drilling vessel in West Africa. Deep Venture started on this contract 30 June 2007. The contract was recently extended, and DS Deep Venture will be engaged for Maersk Oil Angola until July 25 2009, at a day rate of USD 425,000 after withholding tax. Venture Drilling has agreed to a further 18 months contract with Maersk Oil Angola at a day rate of USD 495,000 after withholding tax. These day rates are base rates, i.e minimum rates depending on where the drillship will operate under the contract.

Contracts made for the rigs under construction in PetroMena ASA

Larsen Oil & Gas Ltd in Aberdeen has signed two drilling contracts on behalf of PetroRig I Pte Ltd and PetroRig II Pte Ltd with Petrobras America Inc. and Petroleo Brasileiro S.A. (Petrobras). The drilling contracts, which are for five years, was entered into in August 2006 and January 2007 and the value of the contracts amounts to approximately mUSD 700 and mUSD 645 exclusive of options. The rigs shall operate in Brazilian and US-Gulf waters. Start-up of the contracts is scheduled from delivery of the rigs in 2009. In the event of possible sale of PetroRig I and PetroRig II, the contracts will follow the rigs. Together with the manager Larsen Oil & Gas AS a 5 year drilling contract for PetroRig III Pte Ltd was signed with Pemex in 2007 at a value of approximately MUSD 942. The rig shall operate in the Mexican Gulf. Start-up of the contract will take place after delivery of the rig in 2010.

Oilfield Services

Oilfield services is hiring out drilling equipment and manpower from offices in Norway, Netherlands, Romania, Australia, New Zealand, Singapore and Dubai, among others.

Unallocated

During 2008, the group has been engaged in oil and minerals exploration through its share in the associate Petroresources.

The group's primary reporting format is business segments.

The segment results for 2008 are as follows:

(amounts in USD 1 000)	Drilling		Oilfield services		Unallocated		Total	
	YTD 08	YTD 07	YTD 08	YTD 07	YTD 08	YTD 07	YTD 08	YTD 07
Operating revenue	73 684	84 535	81 554	47 392	246	0	155 484	131 927
EBITDA	3 084	41 023	34 007	24 703	-5 080	0	32 011	65 727
EBIT	-501 740	35 015	4 811	4 108	-5 080	0	-502 009	39 123
EBITDA %	4 %	49 %	42 %	52 %	-2065 %	0 %	21 %	50 %
EBIT %	-681 %	41 %	6 %	9 %	-2065 %	0 %	-323 %	30 %
Net finance expenses							81 498	-29 590
Share of result from joint venture	28 451	12 760					28 451	12 760
Share of result from associates	-110 559	-12 476			-3 110	0	-113 669	-12 476
Result before taxes							-505 729	9 817
Tax charge							-641	-2 524
Result of the year							-506 370	7 292

Other items included in the segment results cf. note 7, are:

(amounts in USD 1 000)	01.01 - 31.12.2008				01.01-31.12.2007			
	Drilling	Oilfield services	Unallocated	Group	Drilling	Oilfield services	Unallocated	Group
Depreciation	2 765	29 195	0	31 960	6 009	20 595	0	26 604
Impairment of construction contracts	-502 059	0	0	-502 059	0	0	0	0

Segment assets consist primarily of property, plant and equipment, intangible assets, trade receivables, other receivables and cash and cash equivalents.

Capital expenditure comprises additions to property, plant and equipment (note 7) and intangible assets (note 6), including additions resulting from acquisitions.

Segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended:

(amounts in USD 1 000)	01.01 - 31.12.2008				01.01-31.12.2007			
	Drilling	Oilfield services	Unallocated	Group	Drilling	Oilfield services	Unallocated	Group
Assets	786 168	188 291	52 643	1 027 102	1 559 896	177 835	0	1 737 731
Liabilities	817 680	68 735	82 033	968 448	1 118 445	65 092	0	1 183 536
Capital expenditure (note 7)	311 823	70 685		382 508	757 708	139 842	0	897 550

Following the sale of SS Petrolia in 2007, some of the companies within the group are no longer reporting as drilling companies. For 2008 they are presented as unallocated due to the fact that they are holding companies.

The group's two business segments operate in the following main geographical areas:

Revenue	2008	2007
(amounts in USD 1 000)		
Norway	11 361	8 745
Europe outside Norway	20 966	91 687
Asia and Australia	47 286	31 458
Gulf of Mexico	73 580	37
Other countries	2 291	0
Total	155 484	131 927

Assets	2008	2007
(amounts in USD 1 000)		
Norway	3 371	82 703
Europe outside Norway	57 020	9 987
Asia and Australia *)	597 904	749 381
Gulf of Mexico (SS Petrolia)	28 422	28 664
Other countries	4 877	0
Total	691 594	870 735

*) Whereof rigs under construction amount to TUSD 541 118

NOTE 2 WAGES AND REMUNERATIONS ETC.

Wage costs	2008	2007
(amounts in USD 1 000)		
Wages	9 279	6 757
Payroll tax	863	626
Pension costs	625	178
Other contributions	609	25
Total	11 376	7 586

Average number of man-labour years of the group has been 218 in 2008. The group has employees through the subsidiary Independent Oil Tools AS (group) and in PetroMENA Ltd. There are no employees in the remaining companies of the group. No loan or guarantees have been granted to the Board of Directors, employees or other related parties. The Managing Director of Petrolia Drilling ASA is employed in Larsen Oil & Gas AS. For the fiscal year 2007 the Annual General Meeting granted the Managing Director a bonus amounting to TUSD 385.

Board of Directors' fee

The following fee has been paid to the members of the board.	2008	2007
(amounts in USD 1000)		
Klaus P. Tollefsen - Chairman of the board	192	51
Terje Hellebø - Board member	192	38
Leif Holst - Board member	192	38
Unni Tefre - Board member, 6 months	34	0
Gun Marit Stenersen - Board member, 6 months	34	0
Berge Gerdt Larsen	0	38
Total	645	166

Directors' fees for 2007 have been paid in 2008 in accordance with ordinary resolution.

The group has a business management agreement with Larsen Oil & Gas AS. For the fiscal year 2007 the Annual General Meeting has granted the Manager a bonus of TUSD 385.

Auditors fee

Recognised fee for auditors of the group and other auditors:	2008	2007
(amounts in USD 1 000)		
Audit	510	202
Certification services	7	14
Tax assistance by auditors of the group 1)	131	238
Other services by auditors of the group 2)	86	260
Total auditor's fee	734	713

1) Including TUSD 179 regarding tax assistance related to prospectus and two information memorandums in 2007

2) Including TUSD 137 regarding other services related to prospectus and two information memorandums in 2007

NOTE 3 SPECIFICATION OF OTHER OPERATING EXPENSES

Other operating expenses comprise the following main items:	2008	2007
(amounts in USD 1 000)		
Operating expenses SS "Petrolia"	24 473	23 861
Mobilisation expenses SS Petrolia	7 883	6 087
Mobilisation expenses for rigs under construction	16 450	0
Insurance	4 228	3 904
Fees to external advisors, lawyers, auditors	5 416	3 763
Management services	13 997	5 524
Cost of goods sold	31 483	12 168
Other operating expenses	8 166	3 308
Total operating expenses	112 097	58 615

NOTE 4 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earnings per share)

	2008	2007
Average no. of shares	1 012 595 745	998 735 016
No. of shares at period end	1 012 595 745	1 012 595 745
Fully diluted no. of shares	1 012 595 745	1 012 595 745
Earnings per share	-0,50	0,01
Earnings per share fully diluted	-0,50	0,01

NOTE 5 TAXES

	2008	2007
Basis for tax charges, change in deferred tax and tax payable		
(amounts in USD 1 000)		
Result before tax charges	-505 729	9 817
Tax calculated at domestic tax rates applicable to profits in respective countries (28% for parent company)	173	2 749
Non-taxable impairment	104 258	
Tax on non deductible differences	-10 753	201
Change deferred tax asset, included in not recognised in the balance sheet	-93 037	-426
Tax charge	641	2 524

There is no time limit for the use of carry-forward loss. Not recognised deductible expenses are issue expenses.

	2008	2007
Calculation of deferred tax asset		
(amounts in USD 1 000)		
Non-current assets	-4 455	-6 922
Current assets	-411	-13 294
Non-current liabilities	9 616	1 588
Pension	47	159
Profit and loss account	66 316	104 264
Net temporary differences	71 113	85 795
Carry forward loss	-257 201	-125 878
Basis for deferred tax asset	-186 088	-40 083
Deferred tax asset at nominal tax rates	52 105	11 223
Including not recognised in the balance sheet	-48 411	0
Deferred tax asset in the balance sheet	3 694	11 223

For the parent company the tax obligation is nominated and calculated in NOK, and then converted to USD.

Temporary differences in non-current assets include the part of tax conditioned excess value of SS Petroli that is expected to give tax conditioned accelerated depreciation in the ongoing 2,5 year drilling contract. Other tax conditioned excess values are not considered.

The Norwegian tax authorities notified the company in 2006 of a tax audit for Petroli Drilling ASA and its subsidiaries Petroli Drilling II AS, Petroli Rigs AS and Petroli Services AS for the period from the formation of the companies in 1997 until the accounting year 2005. The companies have, as of today, not received notice of any changes affecting the tax position of the companies.

The Norwegian tax authorities have made inquiries to the subsidiary PetroMENA ASAS as to whether options contracts have been assigned from PetroMENA ASA to subsidiaries of the company. Further on, the tax authorities have made inquiries related to the subsidiaries' conversion of debt to share capital. The tax authorities have stated that the tax assessments for the period in question may be subject to corrections in connection with such events (i.e. capital gains taxation). In a response to the inquiries the company have accounted for the options contracts in the subsidiaries and the conversion of debt. The view of the company is that neither the options contracts nor the conversion of debt should give rise to correction of the tax assessments for previous years in the form of capital gains taxation.

NOTE 6 INTANGIBLE ASSETS

	Goodwill	Debt financing	Total
(amounts in USD 1 000)			
Accounting year 2007			
Book value per 01.01.07	0	0	0
Addition	0	5 160	5 160
Acquisition of subsidiary	18 330	0	18 330
Translation differences	-400	0	-400
Book value per 31.12.07	17 930	5 160	23 090
Per 31 December 2007			
Acquisition cost	17 930	5 160	23 090
Accumulated depreciation and impairment	0	0	0
Book value per 31.12.07	17 930	5 160	23 090
Accounting year 2008			
Book value per 01.01.08	17 930	5 160	23 090
Addition	0	2 756	2 756
Acquisition of subsidiary	2 482	0	2 482
Expensed in 2008	0	-7 916	-7 916
Translation differences	-3 068	0	-3 068
Book value per 31.12.08	17 344	0	17 344
Per 31 December 2008			
Acquisition cost	17 344	0	14 862
Accumulated depreciation and impairment	0	0	0
Book value per 31.12.08	17 344	0	14 862

Goodwill relates to the acquisition of Independent Oil Tools AS. Hereof mUSD 5.9 relates to deferred tax on excess values.

The debt financing is expenses accrued in connection with debt financing of construction projects. In the final accounts for 2008 we have expensed this as financial cost related to the uncertain future of financing of the construction projects.

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units identified for each business segment. Goodwill is in its entirety allocated to the segment oilfield services.

Impairment test for cash-generating units is based on estimated present value of future cash flows. The analysis is based on the 2009 budget.

Assessment is based on EBITDA in the group Independent Oil Tools AS. The impairment test did not call for impairment of goodwill in 2008.

NOTE 7 PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

(amounts in USD 1 000)	SS "Petrolija" incl.equipment	Periodical maintenance	Drilling equip- ment	Rigs under construction	Land and buildings	Other equipment	Total
Per 1 January 2007							
Acquisition cost	79 826	4 101	2 898				86 825
Accumulated depreciation	-55 229	-420	0				-55 649
Book value 01.01.07	24 597	3 681	2 898	0	0	0	31 176
Accounting year 2007							
Book value 01.01.2007	24 597	3 681	2 898	0	0	0	31 176
Acquisition of subsidiary			48 501	733 344			781 845
Addition included leased equipment	6 247	4 289	78 293	589	3 149	48	92 615
Disposal at book value			-1 181				-1 181
Translation differences	-3 136	-556	-1 210		-6		-4 909
Depreciation of the year	-5 361	-1 145	-22 278		-27		-28 811
Book value 31.12.07	22 347	6 268	105 023	733 933	3 116	48	870 735
Per 31 December 2007							
Acquisition cost	82 937	7 833	127 301	733 933	3 143	48	955 195
Accumulated depreciation	-60 590	-1 565	-22 278	0	-27	0	-84 460
Book value 31.12.07	22 347	6 268	105 023	733 933	3 116	48	870 735
Accounting year 2008							
Book value 01.01.08	22 347	6 268	105 023	733 933	3 116	48	870 735
Translation differences			-21 065		-338		-21 403
Addition included leased equipment	2 344	28	70 892				73 264
Instalments yard/project expenses				246 450			246 450
Net construction loan interest				62 794			62 794
Impairment of construction contracts				-502 059			-502 059
Disposal at book value			-6 227				-6 227
Depreciation of the year	-914	-1 811	-29 152		-73	-10	-31 960
Book value 31.12.08	23 777	4 485	119 471	541 118	2 705	38	691 594
Per 31 December 2008							
Acquisition cost	85 282	7 861	170 901	541 118	2 805	48	808 014
Accumulated depreciation	-61 505	-3 376	-51 430	0	-100	-10	-116 420
Book value 31.12.08	23 777	4 485	119 471	541 118	2 705	38	691 594
Remaining useful life	14 year						
Depreciation period	15 year	5 year	5 year		33 year	5 year	
Residual value	10 800		0			0	
Construction year	1976/1995/2006						

Effective from 1 January 2008 the depreciation period for SS Petrolija has been changed from 5 years to 15 years in the group's accounts based on new estimates of remaining useful life. Residual value has also been recalculated causing a further reduction in depreciation. The net effect in the profit and loss statement for the fiscal year 2008 is mUSD 4.0.

Summary construction programme deepwater rigs

	USD	USD	USD	USD
Contract price yard	449 081	482 500	523 936	1 455 517
Additional and change orders	46 816	15 582	2 272	64 670
Paid instalments yard	50 %	50 %	50 %	
Expected completion according to contract	April 09	Sep 09	Jan 10	

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is considered to be fair value less net of estimated cost to sell due to the financial situation in the group. Fair value is established based on recent market values based on conditional offer (MOU) received in 2009.

Construction contracts, Deepwater rig

The three subsidiaries PetroRig I Pte Ltd, PetroRig II Pte Ltd and PetroRig III Pte Ltd have each entered into agreement with Jurong Shipyard Pte Ltd in Singapore for the construction of 3 semi submersible deepwater rigs (EPC-contracts). These are 6th generation units for drilling in ultra-deep waters. Expected delivery of the rigs is April 2009, September 2009 and January 2010 respectively.

In construction contract with the yard fixed price for the rigs corresponding to mUSD 449 for rig I, mUSD 483 for rig II og mUSD 524 for rig III has been agreed. For PetroRig I a success fee of mUSD 5 is included. For PetroRig II a success fee of mUSD 2,5 is included. PetroRig III has postponed the 4th instalment to yard, agreed interest rate in the period is fixed with 8 %. The instalment will be settled in SGD, mSGD 161. Calculated interest is included in the table below with TUSD 8,383.

Additional and variation orders and expenses related to project supervision and financing in the construction period will also accrue.

Remaining instalments to yard after the balance sheet date :

		Q2 2009	Q3 2009	Q1 2010	SUM USD
Rig I	USD	224 541			224 541
Rig II	USD		242 500		242 500
Rig III - including interest on deferred payment of 4th instalment to yard	USD			270 351	270 351
Total	USD	224 541	242 500	270 351	737 392

Contract PetroRig I og PetroRig II

Petrobras America Inc and Petroleo Brasileiro S.A (Petrobras) in August 2006 and January 2007 signed a five year drilling contract for drilling operations in Brazilian waters with Larsen Oil and Gas Ltd in Aberdeen, Scotland. According to contract with Larsen Oil & Gas Ltd., PetroRig I Pte Ltd and PetroRig II Pte Ltd, have a right and duty to operate this contract. The contract has planned start-up from delivery of the rigs in 2009. In the event of a possible sale of PetroRig I and PetroRig II, the contracts will follow the rigs.

Contract PetroRig III

Together with the drilling company Larsen Oil & Gas Ltd PetroMena ASA has entered into a 5 year drilling contract with Pemex at a value of MUSD 942 according to which PetroRig III shall operate in the Mexican Gulf. Start-up will take place in 2010 after delivery from yard.

Leased equipment

Drilling equipment acquired through financial leases amounts to:
(amounts in USD 1 000)

Per 1 January 2007	0
Acquisition cost – financial leases	27 549
Accumulated depreciation	-12 981
Book value per 31.12.2007	14 569
Accounting year 2007	
Book value 01.01.2007	0
Acquisition of subsidiary	13 228
Addition	5 833
Depreciation of the year	-4 492
Book value per 31.12.2007	14 569
Accounting year 2008	
Book value 01.01.2008	14 569
Addition	25 294
Depreciation of the year	-7 576
Translation differences	-1 833
Book value 31.12.2008	30 453
Acquisition cost – financial leases	51 010
Accumulated depreciation	-20 557
Book value 31.12.2008	30 453

The equipment is pledged as security for the leasing obligation.

NOTE 8 INVESTMENTS IN SUBSIDIARIES

Petrolia Drilling ASA has increased its shareholding in PetroMENA ASA from 50.6% to 51.5 % during 2008 by purchasing ordinary shares and through a private placement.

During 2008, the subsidiary Independent Oil Tools AS (100% owned) bought 51% of the shares in the oilfield services company Caspian Oilfield Services Company in Azerbaijan.

Acquisition of Independent Oil Tools AS (IOT AS)

The group acquired 100% of the shares in Independent Oil Tools AS (IOT AS) 15 January 2007. Independent Oil Tools AS consists of several companies with activity in, among other countries, Norway, Holland, Australia and New Zealand. The companies' main activity is hiring out drilling equipment and test strings for oil activity and drilling contractors. Independent Oil Tools AS (group) is consolidated in the group accounts as from 15 January 2007. Income consolidated for the period 15.01.07-31.12.07 amounted to mUSD 47.4.

(amounts in USD 1 000)

IOT AS Group

Acquisition cost	
- Cash	70 227
- paid off debt	-51 112
Total acquisition cost	19 116
Equity of the Group at the time of acquisition	-3 930
Excess value at the time of acquisition	15 186
Goodwill	5 906

Excess value is allocated to drilling equipment in its entirety and depreciated over 5 years.

Goodwill relates to deferred tax on excess values of assets in the group IOT AS. IOT AS (group) at the time of acquisition had goodwill from a previous acquisition of MUSD 12.4.

Acquisition of PetroMENA ASA

The group increased its shareholding in PetroMena ASA 15. November 2007 from 43.8% to 50.62%. The company is consolidated in the group accounts as from 15 November 2007. Income consolidated for the period 16.11.07-31.12.07 amounts to mUSD 3.7.

Excess values related to the acquisitions are included at 100% from the time of consolidation of the subsidiaries. Goodwill is calculated for each acquisition.

The result from PetroMena ASA (group) is considered as associate for the period 1.1.07 to 14.11.07 and recognised according to the equity method.

(amounts in USD 1 000)

Petro-Mena ASA Group

Fair value of the shares at the time of acquisition *)	207 169
Equity of the Group at the time of acquisition (50.57%)	-195 670
Excess value at the time of acquisition (majority share)	11 499
Excess value 100%	22 738

*) Cost price for the shares after the acquisition was mUSD 220.2.

The excess value is allocated to rigs under construction in its entirety.

Deferred tax/goodwill is not recognised due to uncertainty related to future tax rate and tax regime.

The assets and liabilities as of transaction date arising from the acquisition are as follows

(amounts in USD 1 000)	Final IOT AS 15.01.07		Final PetroMENA ASA 15.11.07	
	Book value	Fair value	Book value	Fair value
Assets				
Intangible fixed asset	0	0	2 182	2 182
Goodwill	12 424	18 330	0	0
Construction Rig contract	0	0	612 132	634 870
Drilling equipment	58 682	73 868	4 302	4 302
Available-for-sale financial assets	0	0	21 942	21 942
Total non-current assets	71 106	92 198	640 557	663 295
Other current assets	12 689	12 689	211	211
Other liquid assets	0	0	5 600	5 600
Bank deposits	4 209	4 209	428 365	428 365
Total current assets	16 898	16 898	434 176	434 176
Total assets	88 004	109 096	1 074 733	1 097 471
EQUITY AND LIABILITIES				
(amounts in USD 1 000)				
Majority interest	3 930	19 116	195 670	218 408
Minority interest			191 949	191 949
Total equity	3 930	19 116	387 619	410 357
Liabilities				
Deferred tax	4 572	10 478	0	0
Bond loan	0	0	650 997	650 997
Retirement benefit obligations	512	512	0	0
Leasing and long term liabilities	16 458	16 458	0	0
Total non-current liabilities	21 542	27 447	650 997	650 997
Short term portion of long term liabilities	0	0	1 810	1 810
Trade payables	1 371	1 371	26 790	26 790
Public duties	104	104	0	0
Taxes	2 955	2 955	0	0
Other current liabilities	58 102	58 102	7 517	7 517
Total current liabilities	62 533	62 533	36 117	36 117
Total liabilities	84 074	89 980	687 114	687 114
Total equity & liabilities	88 004	109 096	1 074 733	1 097 471

Pro forma accounting figures

A pro forma income statement has been prepared presenting the result of the Group based on the assumption of today's group structure including the acquisition of IOT AS (group) and PetroMena ASA (group) and increased shareholding in Petrojack ASA (group) being established 1 January 2007.

The pro forma income statement represents a hypothetical situation and not the Group's actual result.

The pro forma figures have been prepared by including the income statements of IOT AS (group) and PetroMena ASA (group) for 12 months in 2007 and 2008.

(amounts in USD 1 000)	Actual 2008	Proforma 2007
Pro forma income statement		
Revenue	155 484	133 237
Result of the year	-506 370	-25 940

NOTE 9 INVESTMENT IN JOINT VENTURE

Venture Drilling AS is a joint venture cooperation between Sinvest ASA and Petrolia Drilling ASA with business address in Kristiansand, Norway. Petrolia Drilling ASA's shareholding in the company is 50%.

(amounts i USD 1 000)	
Book value 01.01.07	48 612
Share of result of the year	13 819
Book value 31.12.07	62 431
Book value 01.01.08	62 431
Share of result of the year	28 451
Gain on sale of equipment within the group	-1 631
Dividends 2008	-12 424
Book value 31.12.08	76 827

In 2006 Venture Drilling AS entered into an agreement on lease of DS "Deep Venture", formerly DS "Valentin Shashin", for an period of five years with option on another 6 two-year periods. Venture Drilling AS has entered into a management agreement with Larsen Oil & Gas Ltd on technical and operational management of DS "Deep Venture". On behalf of Venture Drilling AS Larsen Oil & Gas Ltd has entered into a contract for the drilling vessel with ExxonMobil for a 18 month assignment in West-Africa. Deep Venture commenced this contract June 30 2007. The contract was recently extended, and DS Deep Venture will be engaged for Maersk Oil Angola until July 25 2009, at a day rate of USD 425,000 after withholding tax. Venture Drilling has agreed to a further 18 months contract with Maersk Oil Angola at a day rate of USD 495,000 after withholding tax. The rates are base rates, i.e. minimum rates, depending on where the drillship will operate under the contract.

Petrolia Drilling ASA and Sinvest ASA guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

Key figures for Venture Drilling AS
(amounts in USD 1 000)**Balance sheet**

	2008	2007
Non-current assets	123 768	121 311
Current assets	59 112	65 743
Equity	67 892	92 739
Non-current liabilities	21 067	47 723
Current liabilities	93 921	46 592

Income statement

Operating income	152 665	82 681
Operating expenses	65 528	35 961
Net financial items	-1 032	-7 893
Result of the year	56 681	24 848

The annual accounts has per date not been adopted by the Board of Venture Drilling.

NOTE 10 INVESTMENT IN ASSOCIATED COMPANIES

Company	Business address	Shareholding in 2008	Shareholding in 2007
Petrojack ASA	Oslo, Norway	39.95 %	39.95 %
Larsen Rig Ltd	Cayman Island	30.00 %	
Petroresources Ltd	Limassol, Cyprus	28.57 %	

Petrojack ASA

The group's book value of the shares in Petrojack ASA is NOK 2.93/USD 0.42 per share, equivalent to the quoted price on Oslo Stock Exchange 31.12.2008. Total fair value based on the quoted price is mUSD 10.8 which is the book value of the investment after impairment of the shares.

Larsen Rig Ltd

Petrolia Drilling has invested mUSD 42 in Larsen Rig Ltd and controls 30 % of the company. The company is incorporated in Cayman Island in 2008.

Petroresources Ltd

Petrolia Drilling has invested mUSD 6 in Petroresources Ltd and controls 28.57 % of the company.

Calculation of values in the balance sheet

(amounts in USD 1 000)	Petro- Mena ASA	Petrojack ASA	Larsen Rig Ltd	Petro- resources Ltd	Total
Book value per 1.1.2007	163 848	0	0	0	163 848
Transfers from available-for-sale financial asset		4 952			4 952
Addition of the year	27 923	34			27 957
Contribution in kind in Petrolia with shares in Petrojack		101 645			101 645
Disposal		-1 317			-1 317
Share of result of the year	-8 623	-4 888			-13 511
Disposal/transfer to group company	-183 149				-183 149
Book value per 31.12.2007	0	100 425	0	0	100 425
Transfers from subsidiary				1	1
Addition of the year	0	0	42 000	5 999	47 999
Share of result of the year	0	-24 759	-452	-110	-25 320
Impairment of shares	0	-59 271	-20 548	-3 000	-82 819
Depreciation/impairment of value added	0	-5 530	0	0	-5 530
Book value per 31.12.2008	0	10 866	21 000	2 890	34 756

Value added from acquisition of the shares in Petrojack ASA was entirely allocated to rigs under construction.

The sale of Petrojack II is treated as a financial lease in the Petrojack accounts in 2008. In PDR, the value added on Petrojack II has been included in the net profit from the sale in share of result of the year. The value added on Petrojack IV has been impaired to 0.

Gross values (100%) of profit and loss, assets and liabilities are:

Company	Assets	Liabilities	Revenue	Result of the year
(amounts in USD 1 000)				
2007				
PetroMena ASA (group)	1 367 076	985 394	3 100	-24 957
2008				
Petrojack ASA (group)	620 972	440 251	719	-15 036
Petrojack ASA (group)	439 786	383 821	34 269	-124 756
Larsen Rig Ltd	136 166	2 671	0	-6 505
Petroresources Ltd	21 440	821	0	-385

NOTE 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Company	No. of shares	Cost price	Market- value	Book value 2008	Book value 2007
(amount in USD 1 000)					
Island Oil & Gas Plc.	5 128 205	4 432	871	871	3 483
Total				871	3 483

The company is quoted on the London Stock Exchange.

The fair value of the shares is based on their current bid prices in an active market.

NOTE 12 TRADE- AND OTHER CURRENT RECEIVABLES

	2008	2007
Other current receivables (amounts in USD 1 000)		
Trade receivables	35 084	24 094
Prepaid expenses and value added tax owing	9 550	1 410
Mobilization expenses prepaid in 2007/2008	11 150	15 294
Receivable from joint venture	1 424	6 000
Receivable Larsen Oil & Gas Ltd 1)	15 274	0
Other current receivables	1 312	7 170
Total	73 795	53 968

1) Related to trade receivables to Pemex. LOG Ltd is manager and responsible for collecting payments from Pemex.

Recognised value of the Group's trade receivables and other receivables per foreign currency: (amounts in USD 1 000)	2008	2007
USD	58 236	32 141
GBP	0	5 657
EUR	12 627	7 069
AUD	2 474	3 714
NOK	457	5 388
Total	73 795	53 968

Aging of accounts receivables	< 3 months	4 - 6 months	> 6 months	Total
Accounts receivables	35 084			35 084
Other current receivables	15 274	2 736		18 010
Total	50 358	2 736	-	53 094

Prepaid expenses and mobilization expenses have been exempted in the above profile.

NOTE 13 INVESTMENT IN MONEY MARKET FUND

(amounts in USD 1 000)	2008	2007
Holberg Likviditet – money market fund	83	101
Total	83	101

Investments in cash unit trust are assessed at fair value at the balance sheet date.

NOTE 14 BANK DEPOSITS

(amounts in USD 1 000)	2008	2007
Bank deposits	127 812	612 275
Hereof deposit on suspense account for use as instalments on construction contract for rig I, II and III.		
Bank deposit in NOK translated to USD	35 116	292 080
Bank deposit in USD	1 574	2 298
Restricted capital from the financing of SS Petrolia for payment of accrued interest and belonging projects	0	41 519
Security in Lloyds bank for Pemex contract regarding PetroRig III	22 410	21 873
Security in Handelsbanken for Pemex contract regarding SS Petrolia	26 909	26 909
Restricted capital from net earning account for Pemex contract regarding SS Petrolia	5 000	0
Security in DnB for the bond loan in PDR ASA	6 646	0
Employees' tax deduction	114	231
Total restricted capital	97 769	384 910
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash and bank deposits in NOK	54 010	313 119
Cash and bank deposits in USD	68 481	298 426
Cash and bank deposits in SGD	130	72
Cash and bank deposits in GBP	453	658
Cash and bank deposits in EUR	3 354	0
Cash and bank deposits in AUD	1 384	0
Total	127 812	612 275

NOTE 15 SHARE CAPITAL

Share capital of Petrolia Drilling ASA per 31.12.2008:

	Number	Nominal value	Book value 2008	Book value 2007
Shares	1 012 596 745	NOK 0.50	USD 93 568	USD 93 568

Per 31 December 2008 Petrolia Drilling ASA holds 5 250 024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA.

Per 31 December 2007 Petrolia Drilling ASA holds 3 450 024 treasury shares, corresponding to 0.34 % of the shares outstanding in Petrolia Drilling ASA.

List of the major shareholders:

Petroliia Drilling ASA had a total of 6 129 shareholders per 31.12.08. The table below shows the company's 20 largest shareholders per 31 December 2008 according to the VPS (shares with nominal value NOK 0.50):

Shareholders	No. of shares	Shareholding
1 Petrojack ASA	253 000 000	24,99 %
2 Independent Oil & Resources ASA	227 952 747	22,51 %
3 JPMorgan Chase Bank S/A F+C Invest Trust	29 540 000	2,92 %
4 DNO Invest AS	23 469 385	2,32 %
5 NET AS	15 984 000	1,58 %
6 State Street Bank and Trust Co.	10 188 761	1,01 %
7 Jacob Haugen	10 000 000	0,99 %
8 Odin Offshore	8 500 000	0,84 %
9 Danske Bank A/S	7 114 239	0,70 %
10 Goldman Sachs Int Equity	6 512 246	0,64 %
11 JPMorgan Chase Bank	6 180 000	0,61 %
12 Thor Idar Pedersen	5 542 000	0,55 %
13 Askeladden Invest	5 300 300	0,52 %
14 Societe Generale Paris	5 211 123	0,51 %
15 Nesttun Invest AS	5 000 000	0,49 %
16 SEB Private Bank S.A Luxembourg	4 625 000	0,46 %
17 Molasset AS	4 496 799	0,44 %
18 Citibank N.A New York Branch	4 412 979	0,44 %
19 Increased Oil Recovery AS	4 350 000	0,43 %
20 Troika Invest AS	3 930 000	0,39 %
Others	366 037 142	36,15 %
Total no. of shares before treasury shares	1 007 346 721	99,48 %
Treasury shares	5 250 024	0,52 %
Total no. of shares	1 012 596 745	100,00 %

Shares owned by members of the board and other primary insiders

The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 0.50)

Name	31.12.2008
Members of the board and managing director:	
Klaus P. Tollefsen, Chairman of the Board	0
Unni F. Tefre, Board member	0
Gun Marit Stenersen, Board member	0
Terje O. Hellebo, Board member	3 424
Leif Holst, Board member 1)	1 924 762
Lars Moldestad, Managing Director 2)	4 496 799
Bernt Skeie, CFO of Petroliia Drilling ASA and PetroMENA ASA	400 000

Other primary insiders:

Petrojack ASA, Lars Moldestad is Managing Director, Berge G. Larsen and Terje O. Hellebo are Board members.	253 000 000
Independent Oil & Resources ASA, Bernt Skeie is Managing Director 4)	227 952 747
DNO Invest AS, Berge G. Larsen is Chairman of the Board	23 469 385
NET AS 5)	15 984 000
Increased Oil Recovery AS, Berge G. Larsen 3) is Board member, Lars Moldestad is Chairman of the Board	4 350 000
Time Critical Petroleum Resources AS, Berge G. Larsen is owner of the company	2 018

1) 974 762 shares are owned by Neuman Invest AS where Leif Holst is General Manager. 950 000 shares are owned by Novaci AS where Leif Holst is the company's Chairman of the Board.

2) 4 494 799 shares are owned through 100 % owned company, Molasset AS.

3) Berge G. Larsen indirectly owns 4 352 108 shares through Increased Oil Recovery AS and Time Critical Petroleum Resources AS. Increased Oil Recovery AS is controlled by Berge G. Larsen. Berge G. Larsen is Board member of the company. Time Critical Petroleum Resources AS is 100 % owned by Berge G. Larsen. Berge G. Larsen is the company's Chairman of the Board. Increased Oil Recovery AS owns 100 % in Larsen Oil & Gas AS.

4) Increased Oil Recovery AS owns 29.47 % of Independent Oil & Resources ASA

5) NET AS owns 26.7% in Increased Oil Recovery AS.

NOTE 16 BOND LOANS

Per December 31 the group had the following bond loans:

Bond Loans (amounts in USD 1 000)	Average interest rate	Effective interest rate	2008	2007
Bond loan (mNOK 500)	ISIN: NO 001044025.8 - 12% Petroliia Drilling ASA	12.00%	69 855	0
Bond loan (mNOK 2 000)	ISIN: NO 001031608.6 - 9.75% PetroMENA ASA	9.75%	0	362 473
Bond loan (mNOK 1 600)	ISIN: NO 001035264.4 -FRN PetroRig III Pte Ltd	12.00%	224 044	288 832
Bond loan (mUSD 300)	ISIN: NO 001039578.3 - 10.85% PetroMENA ASA	10.85%	124 501	256 722
Book value 31.12.2008			418 400	908 027
Split between long term and short term portion of bond loan 31.12.2008:				
	Long term portion	Short term portion	2008	2007
Bond loan (mNOK 500)	69 855	0	69 855	95 436
Bond loan (mNOK 2 000)	0	281 388	281 388	362 473
Bond loan (mNOK 1 600)	224 044	0	224 044	288 832
Bond loan (mUSD 300)	124 501	134 400	258 901	292 722
Book value 31.12.	418 400	415 788	834 188	1 039 463

Bond loan mNOK 500, was raised to refinance the bond of mNOK 250 and for general corporate purposes which may include investments in other companies/assets within the oil/offshore sector.

Bond loan mNOK 2 000, was raised for financing of instalments for construction contract rig I and II.

Bond loan mNOK 1 600, was raised for financing of instalments for construction contract rig III. Unused balance is deposited on suspense account for financing of future instalments for construction contract rig III.

Bond loan mUSD 300, was raised for among other things the financing of the acquisition of av SS Petroliia in November 2007.

Bond loan mNOK 500, book value reflects expenses directly attributable to the raising of the loan by mNOK 12.5 whereof mNOK 1.4 is recognised as interest expense in 2008.

Bond loan mNOK 2 000, book value reflects expenses directly attributable to the raising of the loan by mNOK 50 whereof mNOK 8.1 is recognised as interest expense in 2008.

Bond loan mNOK 1 600, book value reflects expenses directly attributable to the raising of the loan by mNOK 40 whereof mNOK 5.2 is recognised as interest expense in 2008.

Bond loan mUSD 300, book value reflects expenses directly attributable to the raising of the loan by mUSD 7.5 whereof mUSD 2.6 is recognised as interest expense in 2008.

Book value of mortgage

Bond loan mNOK 500 is subject to security in bank deposit.

Bond loans mNOK 2 000 og mNOK 1 600 is subject to security in bank deposit, and in the construction contracts I, II and III in Singapore.

Bond loan mUSD 300 in addition to security in bank deposit has first mortgage in the rig SS Petroli, security in revenue from drilling contract to SS Petroli, security in shares of subsidiary PetroMena Ltd, Cyprus, and security in construction contracts I, II og III in Singapore. PetroMena Ltd has guaranteed this loan.

	2008	2007
Bond loan mNOK 500		
Suspense bank account	6 646	0
Total book value of mortgage	6 646	0
Bond loan mNOK 2 000		
Rigs under construction, rig I and II	284 745	505 049
Suspense bank account	0	104 463
Total book value of mortgage	284 745	609 512
Bond loan mNOK 1 600		
Rigs under construction, rig III	256 373	206 146
Suspense bank account	36 690	189 915
Total book value of mortgage	293 063	396 061
Bond loan mUSD 300		
SS Petroli incl. drilling equipment	217 431	228 925
Suspense bank account	5 000	41 519
Total book value of mortgage	222 431	270 444

Original maturity structure bond loans:

	2009	2010	2011	2012	2013	2014	Total
NOK		200 000	370 000	2 090 000	130 000	1 310 000	4 100 000
USD	26 400	237 600					264 000

Maturity structure bond loan if PetroRig I and PetroRig II is sold in 2009:

There is no new agreement related to maturity structure of bond loan mNOK 2 000 related to possible sale of SS PetroRig I and SS PetroRig II. In the table below the original maturity structure of bond loan mNOK 2 000 is reduced by 50 % for each sale. The same percentage as used to determine repayment if possible sale. If SS PetroRig I is sold 50 % of the remaining borrowing amount in bond loan mNOK 2 000, mNOK 1 000, falls due. If SS PetroRig II is sold 50 % of the remaining borrowing amount in bond loan mNOK 2 000, mNOK 1 000, falls due. In bond loan mUSD 300, mUSD 60 falls due for each rig. See criteria related to sale below. In the original maturity structure for bond loan mUSD 300, mUSD 26.4 falls due in November 2009. This is 10 % of the remaining loan. Due to possible sale of SS PetroRig I and SS PetroRig II the remaining loan per November 2009 is reduced with mUSD 120 and therefore the original instalment in 2009 is reduced to mUSD 14.4. (10 % of estimated remaining loan per November 2009)

	2009	2010	2011	2012	2013	2014	Total
NOK	2 000 000	0	170 000	490 000	130 000	1 310 000	4 100 000
USD	134 400	129 600					264 000

If SS PetroRig I and SS PetroRig II is sold in the period between 24 March 2009 and 23 mai 2010 the redemption price in bond loan mNOK 2 000 is 7 % and 5 % in bond loan mUSD 300. See criteria related to sale below. This price is included in calculations related to impairment of rigs (fair value less cost to sell), see note 7.

Borrowing terms

Bond loan mNOK 500 in Petroli Drilling ASA

Petroli Drilling has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 21 June 2008 till 19 June 2009	106.00%
Redemption in the period 20 June 2009 till 19 June 2010	104.50%
Redemption in the period 20 June 2010 till 19 June 2011	103.50%
Redemption in the period 20 June 2011 till the expiry of the term of the loan	103.25%

According to the borrowing agreement Petroli Drilling can not incur mortgage debt, encumbrances, guarantees, right of retention or any other type of mortgage for present or future assets or give any guarantee or compensation, exemptions may, however, be made provided it is in compliance with normal market practice.

Covenants

Petroli Drilling can not, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 30% of the group's profit after taxes the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petroli Drilling is responsible that the company (parent) maintains a coverage ratio (ratio of total assets to total debt) of 2.0 or higher on each Balance Sheet Reporting Date, which is every quarter.

Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts. There is no breach in the borrowing terms per 31.12.2008.

Bond loan mNOK 2 000 in PetroMena ASA.

PetroMena ASA has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 24 May 2006 till 23 March 2009	109.00%
Redemption in the period 24 March 2009 till 23 May 2010	107.00%
Redemption in the period 24 May 2010 till 23 May 2011	105.50%
Redemption in the period 24 May 2011 till the expiry of the term of the loan	104.00%

Bond loan mNOK 1 600 i PetroMena ASA.

PetroMena ASA has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 20 February 2007 till 20 February 2010	108 %
Redemption in the period 20 February 2010 till 20 February 2011	106 %
Redemption in the period 20 February 2011 till 20 February 2012	105 %
Redemption in the period 20 February 2012 till 20 February 2013	104 %
Redemption in the period 20 February 2013 till the expiry of the term of the loan	103 %

Bond loan mUSD 300 in PetroMena ASA.

PetroMena ASA has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 19 November 2008 till 19 November 2009	105 %
Redemption in the period 19 November 2009 till the expiry of the term of the loan	103 %

Bond borrowing is recognised at amortised cost and not fair value adjusted. Change in time value on options for future redemption is consequently not recognised.

Covenants bond loan in PetroMena ASA (group)**Bond loan (mNOK 2 000)**

In the event of a sale of one of the rigs/construction contracts or more than 50 % of the shares in one of the subsidiaries (PetroRig I and II), the company shall repay 50 % of the remaining borrowing amount at the same borrowing terms as mentioned above. In the event of a sale of both rigs/building contracts or more than 50 % of the shares in both subsidiaries (PetroRig I and II), the company shall repay the total of the remaining borrowing amount at the same borrowing terms as mentioned above.

Dividends can not be paid and own shares can not be purchased before the rigs are delivered. After delivery of the rigs dividends can not be paid and own shares can not be purchased unless equity ratio exceeds 0.40. In the event that equity ratio exceeds 0.40 dividends can still not be paid and own shares still not be purchased beyond 30% of the Group's result after taxes, based on the financial statements of the preceding year.

Bond loan (mNOK 1 600)

In the event of a sale of rig/construction contract the company shall repay the total of the remaining borrowing amount at the same terms as mentioned above. The possibilities of the borrower to pay dividends are restricted. Borrower is subsidiary PetroRig III Pte Ltd.

Bond loan (mUSD 300)

In the event of a sale of SS Petrolia, mUSD 225 of the bond loan of the remaining mUSD 264 falls due for payment. In the event of a sale of rigs under construction/ construction contracts/shares in subsidiaries in Singapore, mUSD 60 of the loan per sold rig/construction contract/subsidiary falls due for payment.

There is no breach in the borrowing terms for any of the three loans per 31.12.2008. The company has received notice of default for bond loans after the balance sheet date cf. note 25. The company rejects that any default exists.

17 OTHER NON-CURRENT LIABILITIES		
(amounts in USD 1 000)	2008	2007
Liability connected to financial leasing of drilling equipment	22 452	8 901
Other non-current liabilities	4 830	1 183
Total other non-current liabilities	27 282	10 084

Financial leasing liability drilling equipment

The payment schedule is: (amounts in USD 1 000)	2008	2007
Falling due within 1 year	7 940	3 259
Falling due between 1 and 5 years	22 452	8 901
Total	30 392	12 160

Interest rate is 3 month LIBOR + p.t 1.85 % margin. Cf. note 7. Book value of assets financed through financial leasing amounts to mUSD 30.5. Petrolia Drilling ASA has given surety towards the leasing company at a value of mUSD 65.5.

NOTE 18 SHORT TERM PORTION OF NON-CURRENT LIABILITIES		
(amounts in USD 1 000)	2008	2007
Bond loan MNOK 500 (refinanced in 2008)	0	95 436
Accrued interest on bond loan MNOK 500	238	8 709
Accrued interest on bond loan mNOK 2 000, respectively mNOK 19.5 in both 2008 and 2007	2 786	3 604
Accrued interest on bond loan mNOK 1 600, respectively mNOK 58.3 in 2008 and 64.3 in 2007	8 326	11 890
Accrued interest on bond loan MUSD 300	3 183	3 888
Next year installment on debt, bond loan MUSD 300	14 400	36 000
Short term portion of leasing liability	7 940	4 442
Next year installment on bond loan MUSD 300 and MNOK 2,000 in the event of sale of PetroRig I and PetroRig II	401 389	0
Short term portion of long term liabilities	438 262	163 969

NOTE 19 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia Drilling ASA has issued a security for leasing equipment in Independent Tool Pool AS (100% owned by Petrolia Services AS) of mUSD 65.5. In 2007 the security was mUSD 14.4

The construction contract which PetroRig I Pte Ltd and PetroRig II Pte Ltd have entered into with the Jurong-yard is secured by a payment guarantee from the parent company, PetroMENA ASA (owned 51.5% of PDR ASA). The guarantee shall secure that the instalments to yard, change orders and possible interest are being paid at maturity.

Petrolia Drilling ASA and Sinvest ASA guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 20 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	2008	2007
Trade payables		
(amounts in USD 1 000)		
Trade payables	22 964	15 405
Total trade payables	22 964	15 405
Other current liabilities		
Public duties	331	355
Accrued expenses	7 684	12 721
Liabilities to related parties (note 22)	35 926	50 529
Other current liabilities	16 995	21 886
Total other current liabilities	60 936	85 491
Total trade payables and other current liabilities	83 899	100 896

Other current liabilities include borrowings regarding acquisition of shares of MUSD 8.3.

	2008	2007
Recognised value of debt per foreign exchange:		
USD	64 350	75 970
NOK	12 690	24 029
SGD	889	171
GBP	521	726
EUR	3 805	0
AUD	1 645	0
Total	83 900	100 896

NOTE 21 PENSIONS

The group has a pension scheme related to the subsidiary IOT AS. The scheme includes 20 active and 1 retired persons and entitles to defined future benefits. These are mainly based on contribution time, wage level at reached retirement age and the size of the payments from the National Insurance.

	2008	2007
Pension benefits		
(amounts in USD 1 000)		
Carried liability is calculated as follows:	Secured	Secured
Present value of funded obligations	922	1 927
Fair value of plan assets	-763	-1 502
Unrecognised effects of actuarial gains/ losses	257	0
Payroll tax	17	60
Net pension obligation per 31.12	433	485

Change in defined benefit obligation over the year		
Pension obligation per 01.01	1 927	0
Obligations taken over from acquisition	0	1 719
Present value of contributions by plan participants	0	150
Current service cost	59	0
Interest expense	46	77
Change in pensions plan	-728	0
Actuarial gains and losses	-93	0
Foreign exchange effect	-271	0
Benefits paid	-19	-18
Pension obligation per 31.12	922	1 927

Change in fair value of plan assets of the year		
Pension obligations per 01.01	1 502	0
Assets from acquisitions	0	1 269
Expected return on plan assets	34	73
Employee contributions	117	178
Change in pension plans	-589	0
Actuarial gains and losses	-59	0
Foreign exchange effect	-224	0
Benefits paid	-19	-18
Plan assets per 31.12	763	1 502

Total pension expense included in the income statement		
(amounts in USD 1 000)	Secured	Secured
Current service cost	57	153
Interest cost	44	71
Expected return on plan assets	-32	-68
Recognized actuarial gains/losses	32	0
Change in pension plans	58	0
Payroll tax	-9	22
Total, included in wage costs	149	178

The following principal actuarial assumptions have been used:

Discount rate	3,80 %	4,50 %
Expected return non plan assets	5,80 %	5,50 %
Annual salary increase	4,00 %	4,50 %
Annual pension increase	3,75 %	4,25 %
Annual regulation of the National Insurance Basic Amount	3,75 %	4,25 %

NOTE 22 RELATED PARTIES

Shareholding of related parties is discussed in note 15. Some persons and companies will have several positions in relation to the company and may, independent of the circumstances, have different interests as regards the Petrolia Drilling group. The following is a list of significant related parties.

a) Berge Gerdt Larsen

Berge G. Larsen is Chairman of the Board of DNO Invest AS and of Larsen Oil & Gas AS. He is also Board member of PetroMena ASA, PetroJack ASA and Increased Oil Recovery AS. Petrolia Drilling ASA owns 51.5% in PetroMena ASA and 39.95% in PetroJack ASA.

b) Larsen Oil & Gas AS

The group has entered into a business management agreement with Larsen Oil & Gas AS (LOG).

The company is 100 % owned by Increased Oil Recovery AS (IOR AS). Berge Gerdt Larsen is Board Member in IOR AS and Chairman of the Board in LOG AS.

Lars Moldestad is managing Director of LOG AS.

The agreement with LOG AS for Petrolia Drilling has the following main principles:

LOG is to take care of all current administration and place at disposal managing director for the company. LOG shall also take care of accounting and budgeting, hereunder reporting to the company's board. LOG shall attend to the company's external reporting and the demand for information that is made to a company noted on the stock exchange. LOG shall attend to the company's share register. LOG shall assist in the commercial and technical operation of the company's vessels. The agreement with LOG remains in force until the parties agree on termination, yet the agreement can be terminated subject to 6 months' written notice by legal cause. Legal cause is for example cease of activity in the company, merger with another company, establishment of own management, material change in activities etc. For these services LOG shall receive an annual compensation of mNOK 3.

In 2008 an additional fee of mNOK 2 has been paid. This is in accordance with the resolution at the ordinary general meeting at May 28 2008.

The agreement with LOG AS for PetroMena ASA has the following main principles:

Larsen Oil & Gas Ltd. has subcontracted some of the administration services for PetroMena ASA to LOG AS. LOG AS carries out administration, accounting and budgeting including reporting to management and board and external reporting and attends to the demand for information. LOG AS shall attend to the company's share register. The annual Business Administration fee is mNOK 2.5.

c) Larsen Oil & Gas Ltd in Aberdeen, Scotland

The company is 100% controlled by Berge G. Larsen. The company is drilling contractor for SS "Petrolia" and DS "Deep Venture". LOG is also technical and operational manager for SS "Petrolia" and DS "Deep Venture". LOG is also technical and operational manager for PetroRig I, II and III in PetroMena ASA.

Venture Drilling AS (50% owned by Petrolia Drilling ASA) has entered into a management agreement for technical and operational management of the rig DS "Deep Venture". The agreed fee is USD 5 000 per day when the rig is under drilling contract, USD 6 000 per day during reactivating and USD 3 000 per day if the rig is not in operation or is moved without being under drilling contract. Manager may earn a bonus of up to USD 1 000 000 in connection with the reactivating, provided certain demands are met. From October 2008, daily management fee when the rig is under drilling contract increased to USD 10 000. Effective from November 2005, Petrolia Drilling ASA has entered into an agreement in connection with the management agreement between Venture Drilling AS and Larsen Oil & Gas Ltd which commits the company to render an annual fee of mNOK 3 to Larsen Oil & Gas Ltd. The agreement is based on the fact that the agreement with Venture Drilling AS does not give Larsen Oil & Gas Ltd sufficient income to cover the company's operating expenses and secure a satisfactory profit from the agreement. In 2008 mUSD 1.8 has been expensed.

In connection with operations in countries in West Africa for DS Deep Venture, LOG branches/companies have been set up to support local matters. The expenses involved are included in the operation expenses.

PetroMena ASA has entered into the following agreements with LOG Ltd

1) Management contract in force from May 2005, comprises among other things management, project supervision and market activities in the construction period for the rigs I and II. For this work an annual fee of mUSD 0.8 per rig shall be paid.

In the event that more than 50 % of the rigs/controlling companies are sold, LOG Ltd shall receive 4 % of the sales amount.

The Board considers the probability of a sale of the SS PetroRig I and SS PetroRig II to be more than 50 %. Commission of 4 % of the sales amount is included in cost to sell. Fair value less cost to sell is the lowest and impairment of rigs is calculated on basis of this, cf. note 7.

The agreement may be terminated subject to 12 months' notice, but can not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligations to operate the rig when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, mUSD 1 shall be paid for each of the rigs I and II for discharge of management.

2) Technical operation contract to cover marketing and technical operation in the construction period and amounts to USD 3,000 per day for rig I and USD 4,500 per day for rig II and III. In 2008 MUSD 4.4 is recognised as expense for technical assistance.

LOG Ltd shall be manager for the rigs after delivery at a fee of USD 6,000 per day for rig I and USD 9,000 per day for rig II og III.

3) The company is drilling company for SS Petrolia, the agreement is transferred through the acquisition of SS Petrolia. Management fee is USD 10,240 per day. The contract also includes an incentive fee of USD 4,800 per day for each month without zero day-work rate from the drilling contract. A condition for the fee is that accumulated "zero day-work rate" is less than 72 hours per 3 month period and a possibility of bonus connected to the minimization of down time for the rig and general execution of the contract. LOG has established a local branch, LOG Mexico Branch, who is to attend to local matters in the operations. In 2008 mUSD 3.7 is recognised as expense for management of SS Petrolia.

d) Larsen Oil & Gas Pte Ltd (LOG Pte), Singapore

The company is 100 % owned by Larsen Oil & Gas FZCO in Dubai. LOG Ltd in Aberdeen owns 45 % of Larsen Oil & Gas FZCO.

Effective as of 04.05.07 PetroRig I Pte Ltd and PetroRig II Pte Ltd has entered into an agreement of Project Management and Construction Supervision with Larsen Oil & Gas Pte Ltd in Singapore. For this work an annual fee of mUSD 2.2 per rig shall be paid. This fee is deducted from the fee mUSD 3 to LOG Ltd PetroRig III Pte Ltd has entered into a corresponding agreement with LOG Pte Ltd in January 2007 with an annual fee of mUSD 2.2. The agreements may be terminated subject to 12 months' notice, but can not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligation to operate the rigs when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, mUSD 2 per rig shall be paid for discharge of project management services.

e) Larsen Oil & Gas FZCO, Dubai (LOG FZCO)

LOG Ltd is 45 % owned by LOG FZCO.

PetroRig III Pte Ltd has in 2007 entered into a Management Agreement with LOG FZCO involving an annual fee of MUSD 0.8. The fee shall cover project supervision services and market activities connected to Rig III.

The agreement may be terminated subject to 12 months' notice, but can not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligation to operate the rig when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, MUSD 1 shall be paid for rig III for discharge of management.

If the rig or more than 50 % of the holding company is sold, LOG FZCO shall receive 4 % of the sales amount. The Board considers the probability of a sale

of PetroRig III to be less than 50 %. Therefore no provision has been made for possible liability.

f) Petrolia Drilling (UK) Ltd. i Aberdeen, Scotland

Petrolia Drilling (UK) Ltd is 100 % owned by Larsen Oil & Gas Ltd. The company is a sub-supplier for Larsen Oil & Gas Ltd. in connection with operation of SS "Petrolia". The crew onboard the rig is employed in this company.

g) Independent Oilfields Rentals Ltd.

Berge G. Larsen is indirectly minority shareholder. In 2005 the Group purchased drilling equipment from the company worth USD 1 955 000. The equipment was in its entirety used as part of contribution in kind at the establishment of Venture Drilling AS. The amount is recognised in the balance sheet as other current liability per. 31.12.08.

h) Independent Oil & Resources ASA (IO&R)

Berge G. Larsen is indirectly minority shareholder. IO&R ASA has granted Independent Tool Pool AS a short term loan of mUSD 17.9. The loan is calculated at an interest of 6%.

i) Petrojack ASA

The company is 39.95% owned by Petrolia Drilling ASA.

Petrolia Services AS has bought drilling equipment from its associate Petrojack ASA in 2008. Costprice for the equipment was mUSD 11.5, based on the price established in an external valuation from third parties.

j) Venture Drilling AS

The company is 50% owned by Petrolia Drilling ASA.

Drilling equipment in Petrolia Services (100% owned by Petrolia Drilling ASA) was sold to Venture Drilling in 2008. The equipment is sold for mUSD 6, based on the price established in an external valuation from third parties.

k) Various

Accrued expenses involved in tax audit/taxes in Petrolia Drilling ASA with subsidiaries and associates and in companies related to board and top management of Petrolia Drilling are covered by the company pending a final result of the matters.

NOTE 23 SPECIFICATION OF FINANCIAL ITEMS		
(amounts in USD 1 000)	2008	2007
Interest income		
Interest income from current bank deposits	6 176	3 351
Profit from liquidity reserve	9	849
Interest on trade receivables	0	44
	<u>6 185</u>	<u>4 243</u>
Financial income		
Gain from sale of shares	70	54
Foreign exchange gain - net*)	142 996	0
	<u>143 066</u>	<u>54</u>
Interest expenses		
Interest expenses bonds	39 205	11 062
Other interest expense	0	27
Interest financial leasing	1 842	4 562
Interest expenses to related parties	0	2 163
Interest forward contract	2 301	4 192
	<u>43 348</u>	<u>22 005</u>
Financial expenses		
Value change shares at fair value through profit and loss	2 612	876
Foreign exchange loss - net*)		5 745
Other financial expenses	21 793	5 260
	<u>24 405</u>	<u>11 881</u>
Net finance	81 498	-29 590
*)Foreign exchange is presented net in the income statement		
Foreign exchange gain	255 789	6 912
Foreign exchange loss	112 793	12 657
Foreign exchange - net	<u>142 996</u>	<u>-5 745</u>

NOTE 24 OTHER EQUITY NOT RECOGNISED THROUGH PROFIT AND LOSS				
(amounts in USD 1 000)	Available-for-sale investment	Currency translations	Remeasurement of share in other companies	Total
At 1 January 2007	187	116	0	303
Available-for-sale investment sold	-187			-187
Remeasurement of shares in associated company			-3 989	-3 989
Currency translation differences in 2007		-3 652		-3 652
At 31 December 2007	0	-3 536	-3 989	-7 525
Remeasurement of shares in subsidiary			4 053	4 053
Issue expenses in subsidiary			-688	-688
Currency translation differences in 2008		-12 093		-12 093
At 31 December 2008	0	-15 629	-624	-16 253

NOTE 25 EVENTS AFTER THE BALANCE SHEET DATE

Petrojack ASA (39.95% owned)

After the balance sheet date Petrojack has taken delivery of the Petrojack IV, which commenced a drilling contract with PTT Exploration & Production Public Company Limited shortly after delivery. In order to secure financing for the last instalment regarding the construction of Petrojack IV, Petrojack II was sold to Saipem (Portugal) Comercio Maritimo S.U. LDA. Following the sale of the Petrojack II, the Company redeemed bonds in accordance with the amended loan agreements in the Bond Loans, approved on the bondholders meetings on 19 November 2008. The net proceeds after redemption of bonds were used to pay the final yard instalment for Petrojack IV.

PetroMENA ASA

After the balance sheet date, PetroMENA (subsidiary of Petrolia Drilling) has actively been working to secure additional financing and/or solutions for the rigs under construction.

Bondholder's meetings

On 16 January 2009 a bondholder meeting was arranged in each of the two bond loans of PetroMENA ASA (the "Company") with ISIN NO 001031608.6 and ISIN NO 001039578.3 (the "Loans"). The bondholders' meetings in each of the two Loans approved the proposed amendments, however with certain conditions, set by a group of bondholders (the "Group"), that were to be agreed upon in a separate Subsequent Agreement within 30 January 2009.

The Company and the Group did not reach an agreement on the final Subsequent Agreement within the original deadline of 30 January 2009. The Company will continue to work towards an agreement with the trustee Norsk Tillitsmann.

Conditional offer (MOU) for PetroRig III from an international drilling contractor

Larsen Oil & Gas (LOG) as Business Manager for PetroRig III Pte Ltd has received a conditional offer (MOU) of mUSD 545 for the drilling rig PetroRig III owned by PetroRig III Pte Ltd (including the Pemex contract).

Postponement of yard instalment and bank financing

Reference is made to the Company Update distributed on 19 December 2008 and the notice from PetroMENA ASA (the Company) distributed on 2 February 2009 regarding postponement of the second last yard instalment for PetroRig III as well as the financing of the remaining funding need for PetroRig I.

The Company is pleased to announce that the Company's subsidiary PetroRig III Pte Ltd and Jurong Shipyard have signed an agreement regarding the postponement of the mUSD 105 yard instalment related to PetroRig III that was due on 31 January 2009. Under the new agreement between the parties, the abovementioned instalment will be due on delivery date for PetroRig III.

Furthermore, the Company's subsidiary PetroRig I Pte Ltd has received a commitment letter from Lloyds TSB Bank plc, which is subject to the satisfaction of certain terms and conditions set out therein, regarding the financing of mUSD 200 out of the mUSD 300 required bank debt for PetroRig I under a mUSD 300 1st lien structure.

The Company is working actively with another bank to provide the other mUSD 100 under the loan structure.

Notice from bondholder's meetings

Reference is made to the summons letter published on 25 February 2009 by Petromena ASA ("the Company") and its subsidiary PetroRig III Pte Ltd. On 11 March 2009 a bondholder meeting was arranged in each of two bond loans of Petromena ASA with ISIN NO 001031608.6 (mNOK 2,000 Loan) and ISIN NO 001039578.3 (mUSD 264 Loan) and the loan of PetroRig III Pte Ltd with ISIN NO 001039578.3 (mNOK 1,600 Loan) (together the "Loans").

The bondholders' meetings in the mNOK 2,000 Loan and the mUSD 264 Loan voted in favor of the proposal.

For the mNOK 1,600 Loan, the proposal, including extending the mUSD 50 equity injection into PetroRig III Pte Ltd until December 2009, was not approved. However, the bondholders in the mNOK 1,600 Loan have given PetroRig III Pte Ltd an approval to extend the grace period, which currently matures on 13 March 2009, until such time as the bondholders gives PetroRig III Pte Ltd 2 banking days written notice of the expiry of the grace period.

Based on this the Company and its subsidiaries will continue to complete the work with the bank financing as well as pursue the MOU related to PetroRig III.

Voluntary switch of currency in the NOK 2,000 bond loan

Reference is made to the notice letter from the bondholders meeting on 11 March 2009 for the bond loan issued by Petromena ASA ("the Company") with ISIN NO 001031608.6 (mNOK 2,000 Loan) (the "Loan").

At the bondholders meeting for the Loan, the bondholders approved the introduction of a new USD tranche under the Loan under similar terms as the existing Loan. Bondholders who, on a voluntary basis, wants to switch into the USD tranche must return the attached Acceptance Form to Pareto Securities AS on fax + 47 22 87 87 10 within 16:00 Oslo time on Tuesday 24 March 2009.

PetroMENA ASA - regarding voluntary switch of currency in the MNOK 2,000 bond loan

Reference is made to the notice sent on 17 March 2009 regarding the bond loan issued by PetroMENA ASA ("the Company") with ISIN NO 001031608.6 (mNOK 2,000 Loan) (the "Loan").

The Trustee has informed the Company that all the conditions for the offer to voluntary switch from a NOK tranche under the Loan to a USD tranche under the Loan must be met before conversion. The previous announced exchange date of 25 March 2009 is therefore postponed. The Company will return with a new date for the exchange date when all the conditions for the voluntary switch are met.

Conditional offer (MOU) for PetroRig I from an international drilling contractor

PetroRig I Pte Ltd a company 100% controlled by PetroMENA ASA, has signed a Memorandum of Understanding with an international drilling contractor for the sale of the drilling rig PetroRig I for mUSD 450.

Status PetroMENA ASA

Reference is made to the latest announcements from the company concerning financing of PetroRig I, hereunder approval given in the bondholder meeting March 11 2009 and MOU concerning sale of PetroRig I and III.

The company has received notice of default for bond loans

ISIN: NO 001035264.4 -FRN PetroRig III Pte Ltd,
ISIN: NO 001031608.6 - 9.75% PetroMENA ASA and
ISIN: NO 001039578.3 - 10.85% PetroMENA ASA.

The main reason for default notice under the FRN loan is the deferred increase of mUSD 50 as equity.

The company has previously stated that the yard has accepted postponement of the mUSD 105 instalment until delivery in January 2010. Consequently also the equity increase of mUSD 50 could be postponed.

The default notice also includes the failure to take delivery March 31 2009.

The company has no obligation to take delivery March 31.

Technical acceptance has taken place and final delivery is expected in a couple of weeks.

It is further argued that sufficient information has not been provided to the bondholders. The company has done its utmost to supply all required documentation.

Therefore the company rejects that any default exist.

The company continues to secure financing of PetroRig I in accordance with the bondholders approval in the meeting March 11 2009.

The company also continues to complete the due diligence on the sale of PetroRig I and III together with the potential buyers.

Status PetroMENA ASA

Reference is made to the latest announcements from the company.

As previously stated, PetroMENA ASA has received notice of default for bond loans ISIN: NO 001035264.4 - FRN PetroRig III Pte Ltd, ISIN: NO 001031608.6 - 9.75% PetroMENA ASA and ISIN: NO 001039578.3 - 10.85% PetroMENA ASA. Norsk Tillitsmann stated that no enforcement action was taken.

PetroMENA ASA has continued with the acceptance procedure and prepared for delivery according to earlier statements, and worked with the MOU's regarding a sale of rigs as an alternative to reaching an agreement with bondholders.

PetroMENA ASA has been informed that Norsk Tillitsmann has, without any notice to the company, and with reference to the default notice, enforced their share pledge in PetroRig I, II and III all registered in Singapore.

Norsk Tillitsmann has further enforced the assignment of the construction contracts, hereunder notified the shipyard to take instructions from them.

They have also appointed representatives from bondholders to do Inspection and notified that they will take delivery of the SS Petrorig I.

PetroMENA ASA together with subsidiaries dispute that the loan agreements are in default and have consequently filed for injunctions in Singapore and Norway stating that the enforcements are invalid.

The Yard has declared and PetroRig I Ltd accepted delivery of the rig 14 April. The action from Norsk Tillitsmann is for the time being preventing PetroMENA ASA and its subsidiary to properly arrange delivery and/or sale of Rig I.

If not the delivery instalment is paid within 14 days the Yard will be entitled to terminate the contract.

PetroMENA ASA

Reference is made to a previous announcement regarding the filing of preliminary injunctions both in Singapore and Norway against enforcement actions initiated by Norsk Tillitsmann on behalf of the bondholders.

Singapore court has decided that the case shall be fully argued after 20 May 2009. Pending further hearing Rig I is not to be taken out of Singapore without prior notice to the court.

Oslo court (Oslo Byfogdembete) has today dismissed PetroMENA's filing for preliminary injunction.

Based on the court decisions the company will continue its efforts to secure the companies values for the creditors and its shareholders, hereunder its claim for damages against the bondholders.

Petrolia Drilling ASA
INCOME STATEMENT

(Amounts in USD 1 000)

Parent company

	Note	2008	2007
Revenue		0	6 127
Total revenue		<u>0</u>	<u>6 127</u>
Depreciation			1 322
Operating expenses	1	<u>5 295</u>	<u>2 940</u>
Total operating expenses		<u>5 295</u>	<u>4 262</u>
Operating result		<u>-5 295</u>	<u>1 865</u>
Interest income from group companies	6	8 828	6 309
Interest income		1 292	1 278
Financial income		83 313	897
Impairment of non-current financial assets	3,5	204 650	876
Impairment of current financial assets	8	2 612	0
Interest expense to group companies	6	5 164	74
Interest expenses		10 532	13 733
Financial expenses		<u>58 946</u>	<u>5 633</u>
Result before taxes		<u>-193 766</u>	<u>-9 967</u>
Tax on result	2	<u>11 279</u>	<u>-10 265</u>
Result of the year		<u>-205 045</u>	<u>299</u>
Attributable to:			
Transferred to/from other equity/uncovered loss		0	299
Transferred from share premium fund		-160 433	0
Transferred from other equity		<u>-44 612</u>	<u>0</u>
		<u>-205 045</u>	<u>299</u>

Petrolia Drilling ASA
BALANCE SHEET PER 31.12.

(Amounts in USD 1 000)

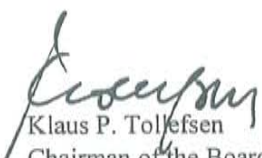
		Parent company	
	Note	2008	2007
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Deferred income tax assets	2	<u>11 210</u>	<u>22 489</u>
		<u>11 210</u>	<u>22 489</u>
<i>Financial non-current assets</i>			
Investments in subsidiaries	3	202 759	246 200
Investments in joint venture	4	52 553	56 025
Investments in associated companies	5	10 866	105 313
Loan to group companies	6	<u>74 244</u>	<u>109 648</u>
		<u>340 421</u>	<u>517 186</u>
Total non-current assets		<u>351 631</u>	<u>539 675</u>
Current assets			
<i>Debtors</i>			
Loan to joint venture	7	29 764	6 000
Other debtors	7	<u>62</u>	<u>360</u>
		<u>29 826</u>	<u>6 360</u>
<i>Investments</i>			
Market based investment shares	8	871	3 483
Investment in money market fund	9	<u>12</u>	<u>14</u>
		<u>883</u>	<u>3 497</u>
Bank deposits	10	<u>15 178</u>	<u>1 141</u>
Total current assets		<u>45 887</u>	<u>10 998</u>
TOTAL ASSETS		<u>397 518</u>	<u>550 672</u>

Petrolia Drilling ASA
BALANCE SHEET PER. 31.12.

(Amounts in USD 1 000)

		Parent company	
	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
<i>Paid-in equity</i>			
Share capital	11	93 568	93 568
Own shares	12	-486	-319
Share premium fund	12	123 119	283 552
		<u>216 201</u>	<u>376 802</u>
<i>Retained earnings</i>			
Other equity	12	0	45 134
			<u>45 134</u>
Total equity	12	<u>216 201</u>	<u>421 935</u>
Liabilities			
<i>Non-current liabilities</i>			
Bond loans	13	69 855	0
Loan from group companies	6	99 285	1 934
		<u>169 140</u>	<u>1 934</u>
<i>Current liabilities</i>			
Short term portion of long term liabilities			95 436
Trade creditors		1 426	183
Public duties payable		18	25
Other current liabilities	15	10 733	31 158
		<u>12 177</u>	<u>126 803</u>
Total liabilities		<u>181 317</u>	<u>128 737</u>
TOTAL EQUITY AND LIABILITIES		<u>397 518</u>	<u>550 672</u>

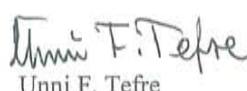
Bergen/Oslo, 28 April 2009


Klaus P. Tollefsen
Chairman of the Board


Terje Hellebø
Board member


Leif Holst
Board member


Gun Marit Stenersen
Board member


Unni F. Tefre
Board member


Lars Moldestad
Managing director

Petrolia Drilling ASA

Cash flow statement

	Parent company	
	2008	2007
(Amounts in USD 1 000)		
<i>Cash flows from operating activities</i>		
Result before taxes	-193 766	-9 967
Taxes paid in the period	0	0
Loss/gain from sale of non-current assets	0	-6 073
Loss/gain from sale of current assets	-70	0
Depreciation	0	1 322
Impairment of non-current financial assets	204 650	0
Impairment of current financial assets	2 612	876
Change in trade creditors	1 243	-378
Change in other provisions	-8 142	-496
Currency translation differences	-13 989	447
Net cash generated from operating activities	-7 462	-14 269
<i>Cash flows from investing activities</i>		
Proceeds from sale of property, plant and equipment	0	6 422
Proceeds from sale of shares and investments in other companies and liquidity reserves	2 614	57 931
Investment in shares in other companies	-2 858	-55 982
Investment in shares in subsidiaries	-63 319	0
Net cash used in investing activities	-63 563	8 371
<i>Cash flows from financing activities</i>		
Proceeds from bond loan	94 609	2 664
Current liabilities from purchase of shares in other companies	-11 992	-8 851
Change in loan to group companies	115 468	9 700
Repayment of bond loan	-103 898	
Purchase of own shares/issue costs	-690	-1 819
Net cash used in financing activities	93 497	1 694
Net cash flow of the period	22 472	-4 204
Cash and cash equivalents at the beginning of the period	1 140	5 344
Exchange gain (loss) on cash and cash equivalents	-8 435	0
Cash balance at 31 December	10	15 178
<i>Specification of cash and cash equivalents at period end:</i>		
Bank deposits	10	15 178
Whereof restricted bank account is	10	6 646
<i>Specification of cash and cash equivalents at period end:</i>		
Bank deposits	10	15 178
Whereof suspense bank account is	10	6 646

Accounting policies and general information**Introduction**

Petrolia Drilling ASA was established 13 March, 1997. The company owns, charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The financial statements per 31 December were passed by the Board of Directors on 28 April 2009.

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

Investments in subsidiaries, joint venture and associates

Subsidiaries, joint venture and associates are valued at cost in the financial statements. The investment is assessed at acquisition cost of the shares unless impairment has been necessary.

Group contribution to subsidiary, with the deduction of tax, is recognised as increased cost price for the shares.

Dividends/group contributions are recognised in the income statement in the same year as allocated in the subsidiary/joint venture. If dividends/group contributions materially exceed the share of retained earnings after the acquisition the excess part is considered as refund of invested capital and deducted the value of the investment in the balance sheet.

Share capital

Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the company purchases treasury shares (the company's equity share capital), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Borrowing expenses

Expenses involved in the raising of bond loan are capitalised and charged as expense over the term of the loan.

Policies for recognition of revenue and expenses

Income is recognised as earned and expenses are recognised in the same period as belonging income. Income and expenses related to activities that last after the turn of the year are accrued according to number of days that the activity lasts before and after the balance sheet date.

Impairment of non-current assets

Whenever events or changes in circumstances indicate that the carrying amount of a non-current asset exceeds recoverable amount, the asset is reviewed for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If carrying amount exceeds both net realizable value and recoverable amount (present value

from continued use/ownership) impairment is made to the higher of net realizable value and recoverable amount. Previous impairments are reversed to the extent that the basis of the impairment is no longer present.

The use of estimates

In connection with the preparation of the financial statements in accordance with generally accepted accounting principles and standards it will be necessary to use estimates and assumptions that have impact on the financial statements. Actual amounts may differ from these estimates. The impact of change of accounting estimates are recognised in the period that the estimate is changed.

Change of accounting policies

The impact of changes of accounting policies and correction of errors in previous years' financial statements are recognised directly against equity.

Classification of balance sheet items

Assets determined for permanent possession or use are classified as non-current assets. Other assets are classified as current assets. Receivables that are to be repaid within one year is in any case classified as current assets. By classification of liabilities analogue criteria are used.

Accounts receivable

Trade receivables and other receivables are recognised at nominal value after deduction of provision for bad debt. Provision for bad debt is made on the basis of an individual assessment of each receivable.

Foreign currency

Petrolia Drilling has with effect from 1 January 2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes. Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

Taxes

The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

Related parties

Information as to which persons and companies that are considered as related parties is stated in note 15 to the accounts. Agreements, transactions and outstanding accounts with related parties are described in the same note.

Statement of cash flow

The statement of cash flow is prepared according to the indirect method. The indirect method involves reporting of gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash in hand and cash equivalents comprise cash, bank deposit and interest bearing investments in fund.

Contingencies

Contingencies are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other contingencies, if any, are referred to in note.

Conditional profits

Conditional profits and earnings are not recognised.

Events after the balance sheet date

New information about conditions existing at the balance sheet date regarding the accounting period has been taken into the account in the financial statements according to standard estimation principles. Events related to circumstances that have taken place after the balance sheet date are referred to in note.

NOTE 1 REMUNERATION ETC.

The company has no employees.

Board of Directors' fee

The following fee has been paid to the members of the board:

	2008	2007
(Amounts in USD 1000)		
Klaus P. Tollefsen – Chairman of the board	192	51
Terje Hellebø	192	38
Leif Holst	192	38
Unni Tefre	34	0
Gun Marit Stenersen	34	0
Berge Gerdt Larsen	0	38
Total	645	166

Directors' fees for 2007 have been paid in 2008 in accordance with ordinary resolution.

The Managing Director is employed in Larsen Oil & Gas AS. For the fiscal year 2007 the Annual General Meeting granted the Managing Director a bonus amounting to TUSD 385.

The Group has a business management agreement with Larsen Oil & Gas AS. For the fiscal year 2007 the Annual General Meeting has granted the Manager a bonus of TUSD 385.

Auditors

(Amounts in USD 1000)

	2008	2007
Statutory audit (incl.technical accounting assistance)	159	98
Certification services	0	5
Tax assistance ¹⁾	10	129
Other services ²⁾	62	182
Total fee	231	415

¹⁾ Including TUSD 128.8 regarding services related to prospect and two information memorandums in 2007

²⁾ Including TUSD 137.2 regarding services related to prospect and two information memorandums in 2007

NOTE 2 TAXES**Basis for tax charges, change in deferred tax and payable tax**
(Amounts in USD 1000)

	2008	2007
Result before tax charge	-190 294	-9 967
Value changes market related bonds	1 822	876
Expenses not deductible for tax purpose	107 374	491
Expenses recognised directly against equity		-649
Change in temporary differences	-2 351	-3 793
Group contribution	62 200	0
Currency differences	-16 682	0
Taxable income of the year	-37 931	-13 041
Payable tax 28%	0	0
Payable tax of result of the year	0	0
Change deferred tax asset	11 280	-10 265
Tax charge	11 280	-10 265

Calculation of deferred tax asset

	2008	2007
Non-current assets		0
Receivables	-10 278	-13 294
Other non-current liabilities	1 584	1 588
Profit and loss account	1 071	1 732
Total temporary differences	-7 623	-9 974
Carry forward loss	-32 412	-70 343
Basis for deferred tax asset in the balance sheet	-40 035	-80 317
Deferred tax asset, 28%	-11 210	-22 489
Including not recognised in the balance sheet	0	0
Deferred tax asset in the balance sheet	-11 210	-22 489

Tax obligation is nominated and calculated in NOK, and converted to USD.

Capitalised deferred tax asset on net tax reducing temporary differences and on carry forward losses for tax purposes are based on the assessment that future taxable profit in the group will be available against which the temporary differences can be utilised.

The Norwegian tax authorities notified the company in 2006 of a tax audit for the period from the formation of the company in 1997 until the accounting year 2005. The company has as of today not received notice of any changes affecting the tax position of the company.

NOTE 3 SUBSIDIARIES

Investments in subsidiaries are recognised according to the cost method.

Company (Amounts in USD 1000)	Business address	Share- holding	Voting share	Result 2008	Equity per 31.12.08	Book value 2008	Book value 2007
Petrolia Drilling II AS	Oslo	100 %	100 %	7 018	31 927	166 328	25 918
Petrolia Invest AS	Oslo	100 %	100 %	-17 958	21 014	21 000	0
Petrolia Drilling Ltd.	Virgin Island / Jersey	100 %	100 %	326	-2 914	0	0
PetroMENA ASA (group)	Oslo	51,5 %	51,5 %	-369 561	57 576	15 431	220 282
Total						202 759	246 200

The shares in Petrolia Drilling II were impaired in 2005. Following the purchase of the IOT shares in 2007, the impairment of mUSD 140.4 has been reversed in 2008 based on present value and future cash flows in Petrolia Services AS and Petrolia Rigs AS.

Petrolia Drilling Ltd is controlled by a trust on Jersey. Petrolia Drilling ASA is "beneficial owner" of the trust.

The shares in Petrolia Invest AS were impaired with mUSD 18.0 in 2008.

The company owns 76 057 118 shares in PetroMena ASA. This makes 51.47 % of PetroMena ASA. The shares have been impaired to stock market price per 31.12.2008. Market price for the share at the turn of the year is NOK 1.42/USD 0.20 per share. The impairment is based on the current financial situation of PetroMENA ASA and amounted to mUSD 232.6.

NOTE 4 INVESTMENT IN JOINT VENTURE

Investment in joint venture is estimated according to the cost method.

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2008	Equity per 31.12.08	Book value 2008	Book value 2007
Venture Drilling AS	Kristiansand	50 %	50 %	56 681	67 892	52 553	56 025

Venture Drilling AS is a joint venture cooperation between Sinvest ASA and Petrolia Drilling ASA. In 2006 Venture Drilling AS has entered into an agreement on lease of DS "Deep Venture", formerly DS "Valentin Shashin", for a period of five years with option on another 6 two-year periods.

Venture Drilling AS has entered into a management agreement with Larsen Oil & Gas Ltd. on technical and operational management of DS "Deep Venture".

On behalf of Venture Drilling AS Larsen Oil & Gas Ltd has entered into a contract for the drilling vessel with ExxonMobil for a 18 month assignment in West-Africa. Deep Venture commenced this contract June 30 2007. The contract was recently extended, and DS Deep Venture will be engaged for Maersk Oil Angola until July 25 2009, at a day rate of USD 425,000 after withholding tax. Venture Drilling has agreed to a further 18 months contract with Maersk Oil Angola at a day rate of USD 495,000 after withholding tax. The rates are base rates, i.e. minimum rates, depending on where the drillship will operate under the contract.

Petrolia Drilling ASA and Sinvest ASA guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 5 INVESTMENT IN ASSOCIATE

Investment in associate is estimated according to the cost method.

Company (Amounts in USD 1000)	Business Address	Share- holding	Voting rights	Result 2008	Equity per 31.12.08	Book value 2008	Book value 2007
Petrojack ASA (group)	Oslo	39.95%	39.95%	-124 756	55 965	10 866	105 343

I 2007 the company increased its shareholding in Petrojack ASA. The acquisition was financed by an increase of the company's equity.

The company's shares in Petrojack ASA have been impaired to stock market price per 31.12.2008. Market price for the share at the turn of the year is NOK 2.93/USD 0.42 per share.

The company has called for an external estimation of value. The estimation is based on present value and future cash flows from the activities of Petrojack IV.

The estimation of value indicates a value far above market price.

NOTE 6 INTERCOMPANY ACCOUNTS

(Amounts in USD 1000)	2008	2007
Non-current receivables		
Petrolia Drilling II AS	34 880	71 982
Petrolia Services AS	39 375	37 653
Petrolia Drilling Ltd.	10 608	13 306
Provision for bad debts	-10 618	-13 294
Total non-current	74 244	109 647
Non-current liabilities		
Petrolia Rigs AS	-98 016	718
Petrolia Drilling Ltd.	-1 269	1 215
Total non-current	-99 285	1 933

Interest on non-current intercompany accounts are calculated at NIBOR/LIBOR + 2.25%.

NOTE 7 OTHER CURRENT RECEIVABLES

(Amounts in USD 1000)	2008	2007
Advance payment forward contract	0	188
Prepaid expenses and v.a.t. owing	62	171
Dividend Venture Drilling	29 764	6 070
Total	29 826	6 429

NOTE 8 MARKET BASED INVESTMENT SHARES

Company (Amounts in USD 1000)	No. of shares shares	Cost price	Market value	Book value 2008	Book value 2007
Island Oil & Gas Plc	5 128 205	4 432	871	871	3 483

The company is quoted on the London Stock Exchange.

NOTE 9 INVESTMENT IN MONEY MARKET FUND

(Amounts in USD 1000)	2008	2007
Holberg Likviditet – money market fund	12	14
Total	12	14

Shares in interest bearing fund have been assessed at fair value at balance sheet date. Return of the period has been reinvested in the fund.

NOTE 10 BANK DEPOSITS

(Amounts in USD 1000)	2008	2007
Bank deposits	15 178	1 141
Total	15 178	1 141

Incl. deposit on suspense account as security for the bond loan

6 646 0

NOTE 11 SHARE CAPITAL

Share capital of Petrolia Drilling ASA per 31.12.2008:

	Number	Nominal value	Book value
Shares	1 012 596 745	NOK 0.50	USD 93 568

Per 31 December 2008 Petrolia Drilling ASA holds 5 250 024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA.

Per 31 December 2007 Petrolia Drilling ASA holds 3 450 024 treasury shares, corresponding to 0.34 % of the shares outstanding in Petrolia Drilling ASA.

List of the major shareholders:

Petrolia Drilling ASA had a total of 6 129 shareholders per 31.12.08. The table below shows the company's 20 largest shareholders per 31 December 2008 according to the VPS (shares with nominal value NOK 0.50):

Shareholders	No. of shares	Shareholding
1 Petrojack ASA	253 000 000	24,99 %
2 Independent Oil & Resources ASA	227 952 747	22,51 %
3 JPMorgan Chase Bank S/A F+C Invest Trust	29 540 000	2,92 %
4 DNO Invest AS	23 469 385	2,32 %
5 NET AS	15 984 000	1,58 %
6 State Street Bank and Trust Co.	10 188 761	1,01 %
7 Jacob Haugen	10 000 000	0,99 %
8 Odin Offshore	8 500 000	0,84 %
9 Danske Bank A/S	7 114 239	0,70 %
10 Goldman Sachs Int Equity	6 512 246	0,64 %
11 JPMorgan Chase Bank	6 180 000	0,61 %
12 Thor Idar Pedersen	5 542 000	0,55 %
13 Askeladden Invest	5 300 300	0,52 %
14 Societe Generale Paris	5 211 123	0,51 %
15 Nesttun Invest AS	5 000 000	0,49 %
16 SEB Private Bank S.A Luxembourg	4 625 000	0,46 %
17 Molasset AS	4 496 799	0,44 %
18 Citibank N.A. New York Branch	4 412 979	0,44 %
19 Increased Oil Recovery AS	4 350 000	0,43 %
20 Troika Invest AS	3 930 000	0,39 %
Others	366 037 142	36,15 %
Total no. of shares before treasury shares	1 007 346 721	99,48 %
Treasury shares	5 250 024	0,52 %
Total no. of shares	1 012 596 745	100,00 %

Shares owned by members of the board and other primary insiders

The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 0.50):

Name	31.12.2008
Members of the board and managing director:	
Klaus P. Tollefsen, Chairman of the board	0
Unni F. Tefre, Board member	0
Gun Marit Stenersen, Board member	0
Terje O. Hellebo, Board member	3 424
Leif Holst, Board member 1)	1 924 762
Lars Moldestad, Managing Director 2)	4 496 799
Bernt Skeie, CFO of Petroli Drilling ASA and PetroMENA ASA	400 000
Other primary insiders:	
Petrojack ASA, Lars Moldestad is Managing Director, Berge G. Larsen and Terje O. Hellebo are Board members.	253 000 000
Independent Oil & Resources ASA, Bernt Skeie is Managing Director 4)	227 952 747
DNO Invest AS, Berge G. Larsen is Chairman of the board	23 469 385
NET AS 5)	15 984 000
Increased Oil Recovery AS, Berge G. Larsen 3) is board member, Lars Moldestad is Chairman of the board	4 350 000
Time Critical Petroleum Resources AS, Berge G. Larsen is owner of the company	2 018

1) 974 762 shares are owned by Neuman Invest AS where Leif Holst is general manager. 950 000 shares are owned by Novaci AS where Leif Holst is the company's Chairman of the board.

2) 4 494 799 shares are owned through 100 % owned company, Molasset AS.

3) Berge G. Larsen indirectly owns 4 352 108 shares through Increased Oil Recovery AS and Time Critical Petroleum Resources AS. Increased Oil Recovery AS is controlled by Berge G. Larsen. Berge G. Larsen is board member of the company. Time Critical Petroleum Resources AS is 100 % owned by Berge G. Larsen. Berge G. Larsen is the company's chairman of the board. Increased Oil Recovery AS owns 100 % in Larsen Oil & Gas AS.

4) Increased Oil Recovery AS owns 29.47 % of Independent Oil & Resources ASA

5) NET AS owns 26.7% in Increased Oil Recovery AS.

NOTE 12 EQUITY

Changes in equity of the year

(Amounts in USD 1000)

	Share capital	Own shares	Share premium fund	Other equity	Total
Equity 31.12.07	93 568	-319	283 552	45 134	421 936
Purchase/sale of treasury shares		-168		-522	-690
Result of the year			-160 433	-44 612	-205 045
Equity 31.12.08	93 568	-486	123 119	0	216 201

Per 31 December 2008 the company owns 5 250 024 own shares. These shares have been acquired at an average acquisition cost of NOK 2.21 per share.

Per 31 December 2007 the company owns 3 450 024 own shares. The shares have been purchased at an average purchase cost of NOK 2.29 per share.

NOTE 13 NON-CURRENT LIABILITIES

The company has the following non-current liabilities:

(Amounts in USD 1000)

	2008	2007
Intercompany liabilities	99 285	1 934
Bond loan	69 855	0
Total non-current liabilities	169 140	1 934
Current portion of bond loans	0	95 436
Total	169 140	97 370

The company has no liabilities with due date later than five years from the end of the accounting year per 31.12.08. There are no instalments due in 2009.

Bond loan NOK 500 million, raised in 2008.

In 2008 the company has issued a new bond loan of nominal value mNOK 500. The loan was disbursed 20 June 2008.

The loan has been raised to refinance the bond of mNOK 250 and for general corporate purposes which may include investments in other companies/assets within the oil/offshore sector.

An interest rate of 12.0 % shall be calculated. The interest is to be settled semi-annually, first time 20 December 2008. The loan is listed on Oslo Stock Exchange.

The loan shall be repaid in instalments as follows:

Date	Amount
On 20 June 2011	NOK 100 000 000
On the maturity date 20 June 2012	the remaining loan

The following borrowing terms are connected to the loan:

MNOK 45 is deposited in a DSR Account to serve interest payment of the loan.

Petroli Drilling has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 21 June 2008 till 19 June 2009	106.00%
Redemption in the period 20 June 2009 till 19 June 2010	104.50%
Redemption in the period 20 June 2010 till 19 June 2011	103.50%
Redemption in the period 20 June 2011 till the expiry of the term of the loan	103.25%

According to the borrowing agreement Petroli Drilling can not incur mortgage debt, encumbrances, guarantees, right of retention or any other type of mortgage for present or future assets or give any guarantee or compensation, exemptions may, however, be made provided it is in compliance with normal market practice.

Covenants

Petrolia Drilling can not, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 30% of the group's profit after taxes the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petrolia Drilling is responsible that the company maintains a coverage ratio (ratio of total assets to total debt) of 2.0x or higher on each Balance Sheet Reporting Date, which is every quarter. Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts.

There is no breach in the borrowing terms per 31.12.2008.

NOTE 14 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia Drilling ASA stand security for leasing equipment in Independet Tool Pool AS (100% owned by Petrolia Services AS) of mUSD 65.5.

Petrolia Drilling ASA and Sinvest ASA guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 15 OTHER CURRENT LIABILITIES

(Amounts in USD 1000)	2008	2007
Accrued interest expenses from bond loan	238	8 709
Debt to Independent Oilfield Rentals Ltd	1 955	1 955
Accrued expenses	218	180
Loan from other companies	8 322	20 314
Total other current liabilities	10 733	31 158

Loan from other companies includes loan regarding acquisition of shares by mUSD 8.3.

NOTE 16 RELATED PARTIES

Shareholding of related parties are discussed in note 11.

Some persons and companies will have several positions in relation to the company and may, independent of the circumstances, have different interests as regards the Petrolia Drilling group. According to the group's assessment this comes into force for the following:

a) Berge Gerdt Larsen

Berge G. Larsen is chairman of the board of DNO Invest AS and of Larsen Oil & Gas AS.

He is also board member of PetroMena ASA, PetroJack ASA and Increased Oil Recovery AS. Petrolia Drilling ASA owns 51.5% in PetroMena ASA and 39.95% in PetroJack ASA.

b) Larsen Oil & Gas AS

The Group has entered into a business management agreement with Larsen Oil & Gas AS (LOG).

Larsen Oil & Gas AS (LOG) is controlled by Berge G. Larsen. Lars Moldestad is managing director of LOG.

The agreement with LOG AS for Petrolia Drilling has the following main principles:

LOG is to take care of all current administration and place at disposal managing director for the company. LOG shall also take care of accounting and budgeting, hereunder reporting to the company's board. LOG shall attend to the company's external reporting and the demand for information that is made to a company noted on the stock exchange. LOG shall attend to the company's share register. LOG shall assist in the commercial and technical operation of the company's vessels. The agreement with LOG remains in force until the parties agree on termination, yet the agreement can be terminated subject to 6 months' written notice by legal cause. Legal cause is for example cease of activity in the company, merger with another company, establishment of own management, material change in activities etc. For these services LOG shall receive an annual compensation of mNOK 3.

In 2008 an additional fee at mNOK 2 has been paid. This is in accordance with the resolution at the ordinary general meeting at May 28 2008.

c) Larsen Oil & Gas Ltd. in Aberdeen, Scotland

The company is 100% controlled by Berge G. Larsen.

The company is drilling contractor for SS "Petrolia" and DS "Deep Venture".

Venture Drilling AS (50% owned by Petrolia Drilling ASA) has entered into a management agreement for technical and operational management of the rig DS "Deep Venture". Agreed fee is USD 5 000 per day when the rig is under drilling contract, USD 6 000 per day during reactivating and USD 3 000 per day if the rig is not in operation or is moved without being under drilling contract. Manager may obtain a bonus of up to USD 1 000 000 in connection with the reactivating, provided certain demands are met. From October 2008, daily management fee when the rig is under drilling contract has increased to USD 10 000.

Petrolia Drilling ASA has entered into an agreement in connection with the management agreement between Venture Drilling AS and Larsen Oil & Gas Ltd which commits the company to render an annual fee of mNOK 3 to Larsen Oil & Gas Ltd. The agreement is based on the fact that the agreement with Venture Drilling AS does not give Larsen Oil & Gas Ltd sufficient income to cover the company's operating expenses and secure a satisfactory profit from the agreement. In 2008 mUSD 1.8 has been expensed. In connection with operations in countries in West Africa for DS Deep Venture, LOG branches/companies have been set up to support local matters. The expenses involved are included in the operation expenses.

d) Independent Oilfields Rentals Ltd.

Berge G. Larsen is indirectly minority shareholder.

In 2005 the Group purchased drilling equipment from the company worth USD 1 955 000. The equipment was in its entirety used as part of contribution in kind at the establishment of Venture Drilling AS. The amount is recognised in the balance sheet as other current liability per. 31.12.08.

e) PetroMena ASA

The company is 51.5 % owned by Petrolia Drilling ASA.

Petrolia Services (100% owned by Petrolia Drilling ASA) has bought drilling equipment from PetroMENA ASA (51.5%owned) in 2008. Costprice for the equipment was mUSD 26.3 based on the price established in an external valuation from third parties.

f) Petrojack ASA

The company is 39.93% owned by Petrolia Drilling ASA.

Petrolia Services AS has bought drilling equipment from Petrojack ASA in 2008.

Costprice for the equipment was mUSD 11.5, based on the price established in an external valuation from third parties.

g) Venture Drilling AS

The company is 50% owned by Petrolia Drilling ASA.

Drilling equipment in Petrolia Services (100% owned by Petrolia Drilling ASA) was sold to Venture Drilling in 2008.

The equipment is sold for mUSD 6.0, based on the price established in an external valuation from third parties.

h) Various

Accrued expenses involved in tax audit/taxes in Petrolia Drilling ASA with subsidiaries and associates and in companies related to board and top management of Petrolia Drilling ASA are covered by the company pending a final result of the matters.

To the Annual Shareholders' Meeting of Petrolia Drilling ASA

Auditor's report for 2008

We have audited the annual financial statements of Petrolia Drilling ASA as of December 31, 2008, showing a loss of USD 205 045 055 for the parent company and a loss of USD 506 369 911 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2008 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of December 31, 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Without qualifying our opinion above we emphasise that there is significant uncertainty as to the ability to continue operations. In a possible liquidation cost will incur which are not provided for and there is significant risk that a realisation of the company's and group's assets will cause losses above the write-downs made in the financial statements.

We also emphasise that creditors in subsidiaries in 2009 have declared substantial parts of the group's debt as default and have taken legal possession of the shares in subsidiaries. The company contests the realisation of the security and a final outcome can not yet be established.

We refer to further remarks about the issues above in the financial statements and the Annual Report.

Bergen, April 30, 2009
PricewaterhouseCoopers AS


Jon Haugervåg
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2008 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

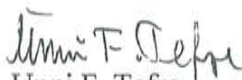
Bergen/Oslo, 28 April 2009


Klaus P. Tollefsen
Chairman of the Board


Gun Marit Stenersen
Board member


Terje O. Hellebø
Board member


Leif Holst
Board member


Unni F. Tefre
Board member


Lars Moldstad
Managing Director



Principles for Corporate Governance for Petrolia Drilling ASA

Adopted by the Board of Directors on 28 April 2008.

1. Principles for corporate governance

1.1 Introduction

Petrolia Drilling ASA ("PDR" or the "Company") is dedicated to maintaining high standards of Corporate Governance. Corporate Governance addresses the interaction between the shareholders, the Board of Directors and the Executive Management. The purpose of this document is to summarize the key principles of Corporate Governance of Petrolia Drilling. The Board of Directors has also formulated a Code of Ethics.

PDR believes that maintaining high standards of Corporate Governance will improve the quality of discussions and work to be carried out by the corporate bodies. A sound Corporate Governance practice will strengthen confidence in the Company among shareholders, the capital market and other interested parties and thus contribute to value creation for the shareholders.

1.2 Relevant codes of practice

Being incorporated in Norway and listed on the Oslo Stock Exchange, PDR is subject to the Norwegian Code of Practice for Corporate Governance of 8 December 2005. Adherence to the Code of Practice is based on a "comply or explain" principle, whereby companies will be expected to either comply with the Code of Practice or explain why they have chosen an alternative approach.

1.3 Relevant legislation

The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 governs the incorporation and management of Norwegian public limited companies. Further, PDR is under numerous obligations provided for in relevant Norwegian and other jurisdictions' laws in respect of the business operations carried out by the Company and its subsidiaries

2. Business and object

PDR's business is clearly defined in the Company's Articles of Association, as follows:

"The object of the company is to own and operate drilling rigs, investments in vessels, and everything that is connected herewith." (office translation)

PDR's objective and principal strategies for its business is related to activities in the deepwater market, drilling for oil and gas in ultra deep waters. PDR's priority area of activity is connected to this segment.

The Companies basic value is to secure the shareholders competitive return for the invested capital in the longer term. In accordance with this purpose the board and the management shall actively develop and control the company and its possessions in order for the values to be made visible in the best way possible.

3. Equity and dividends

PDR shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile.

The Board of Directors' principal policy as regards the payment of dividends is to maximize returns on equity primarily in terms of increase in the share price. Dividend payments will be dependent on PDR's earnings, financial situation and cash flow; possibilities for further value creation through investments taken into account.

Authorizations granted to the Board of Directors to increase PDR's share capital or to purchase own shares shall as a general rule be restricted to defined purposes. At each Annual General Meeting, the shareholders shall have the opportunity to evaluate and consider the board authorizations granted. Thus, the authorizations should be limited in time to no later than the date of the next Annual General Meeting. All authorizations not in compliance with these guidelines should be accounted for in the Annual Report.

4. Equal treatment of shareholders, transactions with close associates

PDR has one class of shares, and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable.

No shareholders shall be treated on unequally unless in the Company's and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase of PDR's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

Any transactions carried out by PDR in its own shares shall be made either through the stock exchange or, if carried out in any other way, at prevailing stock exchange prices. If there is limited liquidity in the Company's shares, the Company should consider other ways to ensure equal treatment of all shareholders.

In the event of any not immaterial transactions between the Company and its shareholders, directors, members of the Executive Management or close associates of

any such parties, the Board of Directors shall arrange for valuation to be obtained from an independent third party. The same shall apply to transactions between companies within the PDR group where any of the companies involved have minority shareholders. All such transactions shall be reported by the Board of Directors in the Annual Report.

The Company has established and operates guidelines to ensure that members of the Board of Directors and the Executive Management promptly notify the Board of Directors if they have any significant direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

No form of restriction on negotiability is or will be included in the Articles of Association of PDR.

6. General Meetings

Through the General Meeting the shareholders exercise the highest authority in PDR.

General Meetings are convened by written notice to all shareholders with known addresses with a minimum of 14 days notice. All shareholders are entitled to submit items to the agenda, meet, speak and vote at the General Meetings.

Proposed resolutions and supporting information shall be distributed to shareholders no later than the date of the notice. In order to ensure that the General Meeting is an effective forum for the views of the shareholders and the Board of Directors, the Board shall see that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings in PDR, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The Board of Directors shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting.

The General Meetings shall be organized in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the auditor (and, if any, the nomination committee) are present at all General Meetings. Also, the Board of Directors shall make arrangements to ensure an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman.

The Minutes of the General Meetings shall be made available on PDR's web site.

7. Nomination committee

Due to the size of the Company, PDR has chosen not to elect a nomination committee. However, a continuous evaluation is carried out of whether or not a nomination committee should be laid down in the Articles of Association and elected.

8. The Board of Directors

The Board of Directors has the overall responsibility for the management of the Company, including responsibility to supervise and exercise control of the Company's activities.

The Board of Directors of PDR shall consist of 3 - 5 directors elected by the General Meeting.

In order to give shareholders an opportunity to re-evaluate the members of the Board, term of office for members of the Board of Directors of PDR is two years. Directors may and should be re-elected so that the entire Board of Directors is not replaced at the same time (save for in extraordinary situations). However, when re-electing members of the Board, the value of continuity should be balanced against the need for renewal, the Board's independence of the Executive Management taken into consideration. The existing directors shall be presented in the Annual Report and on the Company's web site. All proposed directors will be introduced in detail minimum two weeks prior to the General Meeting.

The Chairman of the Board of Directors shall always be elected by the General Meeting.

The composition of the Board of Directors shall always ensure that the Board can attend to the common interests of all shareholders and meet the Company's need for expertise, capacity and diversity.

Attention should be paid that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. At least half of the members of the Board shall be independent of the Company's Executive Management and material business contacts. At least two of the directors shall be independent of the Company's main shareholder(s).

Members of the Board of Directors, or persons closely connected with them, shall not be consultants for any Company in the PDR group, not be employed by or have any other agreements of economic significance with any such companies. The PDR group cannot without the approval of the Board of Directors of PDR buy consultancy services from companies in which any director is an owner, employee or otherwise has an interest. This extends to any Company that according to the Public Limited Companies Act § 1-3 is in the same group of companies.

All the directors are encouraged to hold shares in PDR, however not to an extent which can encourage a short-term approach which is not in the best interest of PDR and its shareholders over the longer term.

PDR does not have more than 200 employees, and therefore, no corporate assembly has been elected.

9. The work of the Board of Directors

The proceedings and responsibilities of the Board of Directors have been laid down in written guidelines adopted by the Board of Directors.

The main responsibilities of the Board of Directors are to:

- Lead PDR's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- Ensure that all instructions given by the Board of Directors are complied with;
- Ensure that the Board of Directors are well informed about the Company's and the group's financial position,
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's Executive Management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the Executive Management and the Board of Directors,
- Agree on dividend policy;
- Annually evaluate its work, performance, composition and expertise and that of the Chief Executive Officer (the "CEO"). The evaluation of the Board's work should, in case a nomination committee is being established, be made available to such committee; and
- The Board of Directors shall carry out an annual review of the most important areas of risk exposure, including risks and controls related to financial reporting. In that connection, the Board shall ensure that an appropriate system of direction, risk management and internal control is established and maintained. Such system shall ensure that the Company group activities are conducted in accordance with all rules and regulations applicable to the group, PDR's Articles of Association, its corporate values and its ethical guidelines, as well as authorizations and instructions approved by the General Meeting. The internal control arrangements must address the organization and implementation of the Company's financial reporting. The Board must provide information in the Annual Report on how the Company's internal control procedures are organized.

- Adopt guidelines for the frequency and policy for external financial reporting.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organized.

The Board of Directors will elect a deputy chairman who takes chair in the event that the Chairman of the Board cannot or should not lead the work of the Board, including in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors may appoint board committees, for instance in order to help ensure thorough and independent preparation of matters relating to financial reporting and compensation paid to the members of the Executive Management. The Board of Directors of PDR has currently not appointed any committees. If the Board of Directors should choose to appoint board committees, the Board of Directors shall adopt guidelines for the activities and responsibilities of such Board committees and account for details in the Annual Report on all committees appointed. Membership of board committees should be restricted to directors who are independent of the Executive Management.

The CEO is responsible for the day-to-day management of the Company. Further, the CEO is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are monthly managed.

The CEO is appointed by the Board of Directors and reports to the Board of Directors. His or her powers and responsibilities are defined in more detailed instructions adopted by the Board of Directors.

10. Remuneration of the Board of Directors

The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of PDR. As the directors are encouraged to own shares in the Company, consideration should be given in this respect to arrange for members to invest part of their remuneration in such shares at market price.

The remuneration is not linked to the Company's performance. No directors have been granted or will be granted share options and no directors are parts in incentive programs available for the Executive Management and/or other employees.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included.

11. Remuneration of the Executive Management

The CEO's remuneration shall be determined by a convened meeting of the Board of Directors.

Remuneration for the other members of the Executive Management is determined by the CEO in accordance with guidelines provided by the Board of Directors. The guidelines are annually communicated to the General Meeting and included in the Annual Report together with i. a. detailed information on all elements of the remuneration. The information to the General Meeting shall pay particular attention to any changes made during the last year.

PDR does not have share option schemes or other arrangements to award shares to employees, as other kinds of bonus schemes or incentives are being preferred. Any incentives provided to members of the Executive Management shall be in accordance with the principles set out in the Guidelines for Remuneration of Executive Management.

12. Information and communication

PDR will ensure that the shareholders receive accurate, clear, relevant and timely information related to all matters of significance to shareholders. The medium used for publication will be selected to ensure simultaneous and equal access for all equity shareholders to the information:

- Each year, PDR publishes an overview of the dates for major events.
- All information distributed to PDR's shareholders is published on www.petrolia.no at the same time as it is sent to shareholders.
- When publishing annual and interim reports, the Company holds public presentations that are simultaneously broadcast over the world wide web.
- All information is available in English.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law.

The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

13. Take-Overs

The Board of Directors and the Executive Management will not seek to hinder or obstruct take-over bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting

following announcement of the bid. Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

14. Guidelines for the auditors and associated persons' non-auditing work

The auditor is elected by the General Meeting and shall report to the General Meeting.

Too much non-auditing work being assigned to the auditor may jeopardize this position and diminish the public confidence in the auditor's integrity and independence of PDR. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards.

The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the Executive Management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present.

The Board of Directors of PDR has adopted guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company.

The Board of Directors must report the remuneration paid to the auditor at the Annual General Meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

* * * * *