ANNUAL REPORT 2007

PETROLIA DRILLING ASA

SS "Petrolia"

DIRECTOR'S REPORT 2007

INTRODUCTION

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

STRATEGY

Petrolia Drilling ASA is directing its activities towards the offshore market, drilling for oil and gas in shallow and deep waters. The object of the company is acquisition and operation of drilling vessels and everything that is connected herewith, including partnership in other companies. Through the fully owned subsidiary Petrolia Services AS, Petrolia Drilling ASA purchased the group Independent Oil Tools AS in January 2007. The main activity of IOT is hiring out drilling equipment and test strings, including accessories to oil companies, oil service companies and drilling contractors.

The purpose of the company 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.

HIGHLIGHTS 2007

Summary: Positive 2007 results and good prospects

- SS Petrolia has operated satisfactorily in 2007 and has been on contract in the North Sea until October when the contract with Island Oil & Gas was terminated. For the rest of the year the rig has been under towage to the Mexican Gulf in order to start on a 913 days contract with Pemex.

- In December 2007 SS Petrolia was sold to PetroMena Ltd, a subsidiary of PetroMena ASA, at MUSD 225. The sale will have no impact on the result of the Group as it is a sale to subsidiary, but strengthens the free capital of the Group.

- Stronger balance sheet: In 2007 Petrolia Drilling has increased its shareholding in PetroMena ASA to more than 50%. In accordance with IFRS PetroMena ASA is incorporated as subsidiary in the financial statements. The impact is an increase in the equity of the Group from MNOK 1,399.3 per 31.12.2006 to MNOK 2,998.7 per 31.12.2007. Recognised equity per share was 2.96 per 31.12.2007 and total assets amounted to MNOK 9,402.8 including 100% of PetroMena ASA.

- 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. Expected delivery of the rigs is January 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 2007 Petrolia Drilling ASA has increased its shareholding in Petrojack ASA to 39.9%. Petrojack ASA has two modern jack-up's under construction at the Jurong Shipyard in Singapore. One of the rigs was delivered in Q1 2008 and has entered into a four year hiring contract with Saipem at a day rate of USD 100,000 plus services. Expected delivery of the second rig is Q4 2008. Petrojack ASA also controls 23.6% of Petrolia Drilling ASA and 42.1% of PetroProd Ltd. PetroProd is planning reconstruction of 3 Aframax tankers to FPSO's at the Jurong Shipyard whereof the first is scheduled for delivery in 4th quarter of 2008. PetroProd has also ordered a CJ70 jack-up rig from Jurong. The CJ70 jack-up' is a big, robust drilling rig which can drill and produce at the same time. The Jack-up' will meet the requirements made for drilling in Norwegian sector and will be the biggest jack-up' ever constructed. Expected delivery time is July 2010.

- Petrolia Services AS, 100% owned subsidiary of Petrolia Drilling ASA acquired 100% of the shares in Independent Oil Tools AS in January 2007. The company is incorporated as subsidiary in the financial statements.

- DS Deep Venture (50% controlled through Venture Drilling AS) started on an 18 months contract with ExxonMobil at the end of June 2007. The value of the contract is in the order of MUSD 200-220. Result after tax was MUSD 25 in 2007.

MARKET

The utilization in the deepwater segment, including drilling vessels, is close to 100%. Recent contracts made in the market for drilling vessels correspond to day rates of approx. USD 400,000.

The market for hiring out drilling equipment has been satisfactory and resulted in a EBITDA for 2007 of totally MNOK 145.

Petrolia Drilling ASA has invested in PetroMena ASA in order to increase its exposure to modern deepwater units. PetroMena ASA has entered into contracts for construction of three modern, semi submersible drilling rigs, at the Jurong yard in Singapore. The deepwater rigs are 6th generation units for drilling in ultra deep waters as the Mexican-gulf, Brazil and West Africa. Petrolia Drilling also has exposure to the jack-up market through Petrojack ASA, with two modern units under construction at the Jurong yard. The company's board is expecting a favourable rig market in the next few years.

ANALYSIS OF THE FINANCIAL STATEMENTS

Financial information

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Total revenue of the Group per 31.12.2007 was MNOK 773, divided by MNOK 495 from SS Petrolia and MNOK 278 from Petrolia Services AS group. Total revenue in 2006 var MNOK 298.

EBITDA for the Group for the full year 2007 was MNOK 385.2. The expenses mainly relate to OPEX in connection with SS Petrolia and the operations of the hiring out business. EBIT for the Group amounts to MNOK 229.3 for 2007, after deduction of depreciation MNOK 155.9. EBIT for the Group for 2006 was MNOK 98.6 after deduction of depreciation MNOK 27.

Result after tax for the Group amounts to MNOK 42.7, incl. net financial items with loss MNOK (173.4) and loss from investment in associates (PetroMena ASA till 15.11.2007 and Petrojack ASA by MNOK (73.1). Share of result from Venture Drilling AS (50% controlled) contributes positively by MNOK 74.8.

Per 31 December 2007 total assets of the Group amounted to MNOK 9,402.9.

SS Petrolia has a carrying value of MNOK 154.8, reflecting historical cost, including upgrades, adjusted for depreciation. The value of the rig in today's market is believed to be higher.

The 39.9% ownership in Petrojack ASA is carried at a value of NOK 20.94 per share. The market value of the share as per 31.12.07 was NOK 17.80. Based on recent prices for new constructions the Board of Directors of Petrolia Drilling considers the carried value of Petrojack as reasonable.

Carried equity of the Group amounts to MNOK 2,998.7 per 31.12.2007, including minority interest of MNOK 1,093.8. Carried equity 31.12.2006 was MNOK 1,399.3 (no minority interest).

The revenue of the parent company for the same period amounts to MNOK 35.9 compared to 0 in 2006 and consists in full of the profit from the sale of drilling equipment of SS Petrolia. The operating expenses for 2007 made MNOK 25.0 including depreciations MNOK 7.7. In 2006 total operating expenses made MNOK 20.7, whereof depreciations made MNOK 8.9. Net finance in 2007 is negative by MNOK (69.3) partly owing to call options of the bond loan of MNOK 25 in connection with the sale of SS Petrolia. I 2006 net finance was MNOK (40,1).

Result after tax for the parent company is MNOK 1.8 compared to negative result MNOK (14.3) in 2006. Carried equity has increased to MNOK 2,283.1 per 31.12.07 compared to MNOK 1,742.0 in 2006. The Group has achieved positive cash flows through the year of MNOK 3,197.2 compared to MNOK 12.4 in 2006. Through the acquisition of Independent Oil Tools AS and PetroMena ASA in 2007 the Group was supplied liquid reserves of net MNOK 2,220.8.

During 2007 Petrolia Drilling ASA has issued 163,204,747 new shares in connection with the acquisition of 25,000,000 Petrojack shares. Per 31 December 2007, the total number of shares outstanding in Petrolia Drilling ASA was 1,012,596,745, each with par value NOK 0.50.

GOING CONCERN ASSUMPTION

The Board of Directors and the Managing Director are of the opinion that the submission of the financial statements should be based on the going concern assumption. The parent company have solid equity and survey the current liquidity situation in order to secure sufficient financing of current operations and investments. In order to finance the construction program it is necessary for the Group to provide new financing in 2008 and the Group is continuously assessing a possible raise of capital through external financing up against possible sale of other assets, including shares of associates who are quoted on the Stock Exchange, cf. note 10 to the consolidated financial statements.

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 198 employees through the IOT group in respectively Norway, Australia, New Zealand and Romania, including 31 women. Total number of man-labour years was 197.5. As far as The Board of Directors are aware, there have not been any serious damages or accidents in 2007.

Total absence due to sickness has been 3.5% during the accounting year.

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

SS Petrolia started on the Pemex contract in the Mexican Gulf 3 February 2008.

Oslo, 31 March 2008

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 Moldestad *Managing director*

FINANCIAL STATEMENTS
PETROLIA DRILLING ASA - GROUP

INCOME STATEMENT
PETROLIA DRILLING ASA - GROUP

(Amounts in NOK 1 000)	Note	2007	2006	2005
Revenue	1	**773 092**	298 030	21 321
Cost of goods sold		**71 302**	0	0
Wage cost	2	**44 454**	0	0
Depreciation	6	**155 899**	27 001	38 177
Reversal of previous years' impairment		**0**	0	-60 000
Other operating expenses	3	**272 177**	172 452	77 047
Operating result		**229 260**	98 578	-33 902
Result from investment in joint venture	9	**74 773**	-13 015	-5 773
Result from associated companies	10	**-73 108**	-1 470	0
Interest income	20	**24 862**	12 114	1 195
Financial income	20	**40 818**	8 522	31 120
Interest expenses	20	**128 948**	65 297	66 102
Financial expenses	20	**110 131**	15 260	22 654
Result before taxes		**57 525**	24 172	-96 116
Tax on result	5	**-14 793**	35 455	52 920
Result of the year		**42 732**	59 627	-43 196
Attributable to:				
Shareholders		**44 596**	59 627	-43 196
Minority interests		**-1 864**	0	0
		42 732	59 627	-43 196
Earnings per share for the result attributable to the shareholders of the company during the year				
(NOK per share)				
Earnings per share	4	**0,04**	0,08	-0,13
Earnings per share fully diluted	4	**0,04**	0,08	-0,08

BALANCE SHEET PER 31.12
PETROLIA DRILLING ASA - GROUP

(Amounts in NOK 1 000)	Note	2007	2006
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	7	**124 938**	0
Deferred income tax assets	7	**60 728**	88 375
Drilling units	6	**154 836**	153 036
Construction contracts Semi-Rigs	6	**3 971 309**	0
Drilling equipment	6	**568 277**	15 679
Buildings	6	**16 863**	0
Other operating equipment	6	**262**	0
Investments in joint venture	9	**337 815**	263 042
Investment in associated companies	10	**543 399**	886 582
Available-for-sale financial assets		**0**	26 793
Other financial assets		**0**	230 000
Total non-current assets		**5 778 428**	1 663 507
CURRENT ASSETS			
Other debtors	12	**292 022**	67 850
Financial assets at fair value through profit and loss	11	**18 848**	0
Investment in money market fund	13	**546**	333 439
Bank deposits	14	**3 313 018**	115 868
Total current assets		**3 624 434**	517 157
TOTAL ASSETS		**9 402 862**	2 180 663

BALANCE SHEET PER 31.12
PETROLIA DRILLING ASA - GROUP

(Amounts in NOK 1 000)	Note	2007	2006
EQUITY AND LIABILITIES			
EQUITY			
Share capital (1 012 596 745 shares each NOK 0,50)	15	**506 298**	424 696
Own shares		**-7 919**	0
Share premium fund		**1 534 301**	1 068 642
Other equity not recognised through profit and loss		**-40 713**	1 641
Uncovered loss		**-87 032**	-95 680
		1 904 935	1 399 299
Minority interests		**1 093 811**	0
Total equity		**2 998 746**	1 399 299
LIABILITIES			
Non-current liabilities			
Bond loans	16	**5 108 130**	488 656
Pension liability	18	**2 624**	0
Other non-current liabilities	16	**54 562**	8 295
		5 165 316	496 951
Current liabilities			
Short term portion of non-current liabilities	16	**692 442**	3 845
Trade payables		**83 359**	35 847
Payable tax		**412**	0
Public duties payable		**1 918**	60
Other current liabilities	17	**460 668**	244 661
		1 238 800	284 413
Total liabilities		**6 404 116**	781 365
TOTAL EQUITY AND LIABILITIES		**9 402 862**	2 180 663

Oslo, 31 March 2008

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 Moldestad
Managing director

EQUITY STATEMENT

PETROLIA DRILLING ASA - GROUP

(Amounts in NOK 1 000)	Share Capital	Own shares	Share premium fund	Other equity not recognised through profit and loss	Uncovered loss	Total	Minority interests	Total equity
Equity per 1 January 2006	**256 108**	**0**	**145 078**	**0**	**-155 307**	**245 880**	**0**	**245 880**
Capital increase from conversion of debt	15 230		50 650	0	0	65 880		65 880
Capital increase through share issue	153 358		916 316	0	0	1 069 674		1 069 674
Issue expenses covered by share premium fund	0		-43 403	0	0	-43 403		-43 403
Currency translation differences	0		0	630	0	630		630
Available-for-sale financial assets				1 010	0	1 010		1 010
Result of the year to equity	0		0	0	59 627	59 627		59 627
Equity 31 December 2006	**424 696**	**0**	**1 068 642**	**1 641**	**-95 680**	**1 399 299**	**0**	**1 399 299**
Equity 1 January 2007	**424 696**	**0**	**1 068 642**	**1 641**	**-95 680**	**1 399 299**	**0**	**1 399 299**
Capital increase through contribution in kind	81 602		468 398			550 000		550 000
Result of step by step acquisition				-21 583		-21 583		-21 583
Addition minority share through acquisition							1 095 675	1 095 675
Issue expenses covered by share premium fund			-2 738			-2 738		-2 738
Purchase/sale of own shares		-7 919			-35 948	-43 867		-43 867
Currency translation differences				-19 761		-19 761		-19 761
Available-for-sale financial assets				-1 010		-1 010		-1 010
Result of the year to equity					44 596	44 596	-1 864	42 732
Equity 31 December 2007	**506 298**	**-7 919**	**1 534 301**	**-40 713**	**-87 032**	**1 904 935**	**1 093 811**	**2 998 746**

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.

In addition a sale of own shares has been made by the group.
The sale involved a loss of NOK 35 947 643, which has been recognised directly against the equity of the group.

STATEMENT OF CASH FLOW

PETROLIA DRILLING ASA - GROUP

YEAR ENDED 31 DESEMBER

(Amounts in NOK 1 000)	Note	2007	2006
Cash flows from operating activities			
Result before taxes		**57 525**	24 172
Taxes paid in the period		**412**	0
Loss/gain from sale of non-current assets	6	**-917**	0
Ordinary depreciation	6	**155 899**	27 000
Change in net pension liability	18	**2 624**	0
Change in trade debtors	12	**-70 283**	-60 088
Change in trade creditors		**47 512**	-8 991
Accruals and items classified as financing/investment		**-63 476**	7 052
Result from investment in joint venture	9	**-74 773**	13 015
Result from investment in associated companies	10	**73 108**	1 470
Net cash generated from operating activities		**127 631**	3 630
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	6	**6 992**	0
Purchase of operating equipment	6	**-921 452**	-87 548
Purchase of intangible assets	7	**-59 878**	0
Repayment of long term/short term borrowings	12	**-32 467**	-230 000
Cash flow from acquisition [1]		**2 220 788**	
Proceeds from sale of shares and investments in other companies		**6 746**	50 378
Investment in shares in other companies	10	**-328 054**	-810 503
Proceeds from sales of liquid reserves	13	**332 893**	
Purchase of liquid reserves	13		-333 439
Investment in joint venture	9		-101 251
Net cash used in investing activities		**1 225 568**	-1 512 363
Cash flows from financing activities			
Proceeds from convertible bond loan	16	**1 924 085**	486 250
Proceeds from short-term loan	17	**-44 866**	160 682
Repayment of long-term loans	16	**-23 972**	-147 220
Purchase of own shares/issue costs		**-10 657**	
Net share issues			1 026 272
Payment of leasing debt	16		-4 856
Net cash used in financing activities		**1 844 590**	1 521 128
Net cash flow of the period		**3 197 789**	12 395
Cash and cash equivalents at the beginning of the period		**115 868**	103 473
Cash balance at December 31		**3 313 657**	115 868
Specification of cash and cash equivalents at period end			
Bank deposits		**3 313 018**	115 868

[1] Through the acquisition of Independent Oil Tools AS and PetroMena ASA the Group was supplied liquid reserves of net NOK 2.2 billions.

ACCOUNTING POLICIES AND GENERAL INFORMATION

INTRODUCTION

Petrolia Drilling ASA was established 13 March, 1997. The consolidated financial statements for the accounting year 2007 comprise the company and its subsidiaries (together referred to as "the Group") and the Group's share of a joint venture. Through the shareholding of 50.6% in PetroMena ASA the group owns the semi submersible drilling rig SS "Petrolia" and has another three semi submersible drilling rigs under construction. Also the group owns a 50% share of the joint venture Venture Drilling AS. The Group's activities are directed towards drilling activity and test production within offshore petroleum activity. 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 company's Board of Directors on 31 March 2008.

BASIC POLICIES

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

The consolidated financial statements have been prepared under the historical cost convention with the following modifications: Available-for-sale financial assets and 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.

Estimates and the underlying conditions are assessed currently. Changes in accounting estimates are included in the period in which the changes occur, if they only come into force for this period. If the changes also come into force for future periods, the impact is split on present and future periods.

Standards, amendments and interpretations effective in 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments. The standard does not have any impact on the classification and valuation of the group's financial instruments.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the group's financial statements.

Standards, interpretations and amendments effective in 2007 but not relevant to the group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are considered not relevant to the group's operations:

- IFRS 4 - Insurance contracts
- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies; and
- IFRIC 9 - Re-assessment of embedded derivatives.

Interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009). The amendment to this standard is at present subject to adoption in the European Union. IAS 23 requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. As the group already capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, the amendment in IAS 23 does not have any impact on the group's financial statements.

- IFRS 8 Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009, but the standard is not expected to have material impact on the group's segment reporting.

- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the group's financial statements.

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

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but have been considered by management not to be relevant for the group's operations:

- IFRIC 12, Service concession arrangements (effective from 1 January 2008)
- IFRIC 13, Customer loyalty programmes (effective from 1 July 2008)

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 31.12.2007 the consolidated companies are presented in the balance sheet as follows (Amounts in TNOK):

Owner	Share-holding	Share capital	Object, activity
Shares owned directly by the parent company:			
Petrolia Drilling II AS	100%	140 000	Holding company for Petrolia Rigs AS and Petrolia Services AS.
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.
PetroMena ASA - group	50,60%	2 015 000	Owner of the rig SS "Petrolia"and has three semi submersible rigs under construction at the Jurong yard in Singapore.
Shares owned by PDR II AS:			
Petrolia Rigs AS	100%	100 000	Owns all shares in the subsidiary PDR Ltd on Cyprus.
Petrolia Services AS	100%	710 000	Owner of drilling equipment.
Shares owned by Petrolia Rigs AS:			
PDR Ltd	100%	8	No activity
Shares owned by Petrolia Services AS:			
Independent Oil Tools AS	100%	100	Hiring out drilling equipment.
Shares owned by Independent Oil Tools AS			
Independent Tool Pool AS	100%	5 958	Hiring out drilling equipment.
Premium Casing Services Pty Ltd	100%	15 664	Hiring out/service of drilling equipment.
SM Industriservice AS	100%	150	
Independent Oil Tools BV	100%	144	
Independent Oil Tools Dosco	100%	82	

Inter-company transactions, receivables and liabilities are eliminated. The consolidated financial statements have been prepared according to equal accounting principles for transactions and other events under equal circumstances.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(ii) Joint venture
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.

Investments in joint venture are recognised according to the equity method. At the time of purchase the investment in joint venture is recognised at historical cost.

The group's part of profit or loss in the joint venture is recognised and added to capitalised value of the investments together with part of not recognised changes in equity. Part of loss is not recognised if, as a consequence, the capitalised value of the investment becomes negative (including unsecured receivables), unless the Group has taken on liabilities or provided guarantees for the liabilities of the consolidated company.

The group's share of unrealised gain from transactions between the Group and the joint venture is eliminated. The same comes into force for unrealised loss unless the transaction requires an impairment of the transferred asset.

The share of the result in the consolidated financial statements is based on the companies' result after taxes. Inter-company transactions are eliminated. In the income statements the shares of the result are reported under financial items, while the assets in the balance sheet are presented under financial non-current assets.

(iii) Associates
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 capital. Investments in associates are accounted for using the equity method of accounting. Initially the Group's investments in associates are recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its 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 an associate equals or exceeds its interest in the 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 associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. On each balance sheet date the company makes an assessment whether objective indicators exist which imply an impairment of associates. For associated companies a considerable or long-lasting drop in net realisable value below acquisition cost would be an indicator of impairment of the share.

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 has mainly directed its activity towards Norwegian shelf, but has established activities through subsidiaries in Australia, New Zealand, Netherlands and Romania.

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'). The majority of the Group's revenue and expense items are in USD. The consolidated financial statements are presented in NOK.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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.

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.

CLASSIFICATION OF ASSETS AND LIABILITIES
Assets are classified as current assets when:

- the asset is part of the service cycle of the unit and is expected to be realised or used during the normal production time of the unit;
- the asset is kept for trading purposes;

- the asset is expected to be realised within 12 months after balance sheet date;

- the asset is cash or cash equivalents that can be exchanged or used for payment of debts within 12 months from balance sheet date.

All other assets are classified as non-current assets.

Liabilities are classified as current liabilities when:

- the liability is part of the service cycle and is expected to be settled during normal production time;

- the liability is kept for trading purposes;

- settlement within 12 months after balance sheet date has been agreed;

- the unit does not have an unconditional right to postpone settlement of the liability until at least 12 months after the balance sheet date.

All other liabilities are classified as non-current liabilities.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Non-current assets are valued at historical cost less depreciation and impairment. When assets are sold or disposed of the historical cost and accumulated depreciation are reversed in the statements and loss or gain from realisation is recognised in the income statement.

Expenses related to upgrading and improvement are recognised in the balance sheet as part of the historical cost. Current maintenance that is not covered by periodical maintenance intervals (classification costs) is expensed as the maintenance is carried out.

Depreciations are straight-line and determined on the basis of expected useful life. For the drilling vessels a total useful life of 35 years, calculated from original construction year, is used.

Property, plant and equipment are impaired to fair value if carried value based on straight-line depreciation is higher than fair value. Fair value is based on discounted value of expected future cash flows/earnings. Depreciations are reversed to the extent that basis of the depreciation no longer is present.

The useful life of the operating equipment and residual value are reassessed at each balance sheet date and altered if required.

Gains and losses from disposal are recognised in the income statement and constitute the difference between selling price and carried amount.

PERIODICAL MAINTENANCE

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.

Construction contracts

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

Construction expenses are recognised 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. The Group allocates goodwill to each business segment in each country in which it operates.

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.

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

By drawing of the loan this is reflected as acquisition cost and subsequently as amortisation cost using the effective interest method.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Property, plant and equipment and intangible 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.

FINANCIAL ASSETS

Monetary items and liabilities in foreign currencies are translated to NOK based on the currency exchange rate on the balance sheet date. Due to its international activity the Group is exposed to variation in currency exchange rates. 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 derivates 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 receivables" 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.

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 are 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 "other (losses)/gains – net", 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 other 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 gains or losses from investment in securities.

Fair value of quoted investments is based on prevailing 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.

Closed time contracts are treated as financial derivatives and assessed at fair value on the balance sheet date. Value change is recognised in the income statement.

TRADE RECEIVABLES
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method (the interest element is disregarded if immaterial), less provision for impairment. A provision for impairment of trade 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. 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 as other operating expenses. When a trade 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; using the effective interest method. 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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and included in shareholders' equity, net of income tax effects.

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.

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

LEASING AND LEASING LIABILITIES

Financial leasing contracts

The group is reporting financial leasing agreements 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 leasing contract. By calculation of present value of the leasing contract the implicit interest expense in the leasing contract is applied, when determinable. If not determinable the company's marginal market borrowing rate is used. Direct expenses connected to the leasing contract 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 expense for the balance due is the same in different periods.

The asset that is included in a financial leasing contract 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 leasing contract the asset is depreciated over the shorter of the term of the leasing contract and depreciation period for corresponding assets owned by the group.

If a "sale and back-lease" transaction results in a financial leasing contract, a possible profit will be deferred and recognized over the leasing period.

Operational leasing contracts

Leasing contracts where the main risk is on the hand of the contracting party, are classified as operational leasing contracts. 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 leasing contract 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 amortized over the leasing period. If the selling price is above fair value, the excess price will be amortized over estimated period of use for the asset.

TAXES

The Norwegian companies of the group have been and are subject to ordinary Norwegian taxation. Petrolia Drilling Ltd has requested taxation as NOKUS-company (Norwegian controlled foreign company in low tax country).

The tax charge in the income statements comprises both payable taxes for the period and change in deferred tax. Deferred tax is calculated at 28% based on the temporary differences that exist between accounting and tax related values in addition to possible carry-forward loss for tax purposes at year end. Tax enhancing or tax reducing temporary differences that are reversed or may be reversed in the same period, are eliminated. Deferred tax asset is recognised in the balance sheet to the extent that it is considered probable that there will be future taxable income and that the temporary differences can be deducted this income. Deferred tax assets and liabilities are calculated according to the tax rates that are expected to be in force in the year that the assets are disposed of or the liabilities settled, based on current tax rates (or tax legislation) at the balance sheet date.

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.

UNSECURED LIABILITIES AND ALLOCATIONS

Unsecured liabilities 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. Unsecured debts and allocations are estimated at each balance sheet date and the recognized amount reflects best estimate of the liability.

REVENUE RECOGNITION

The Group's activity is mainly hiring out drilling units and drilling equipment. The revenue is recognised on the basis of day rates and actually accrued time. Revenue is recognised when it is probable that the transaction will generate future financial advantages that will be due to the company and the size of the amount can be measured reliably.

Revenue is reported exclusive of value added tax and after deduction of possible discounts. Income and expenses related to activities lasting past the turn of the year are accrued in accordance to number of days that the activity lasts prior to and after the closing of the annual accounts. The total cost is reassessed currently. For projects that are assumed to result in a loss the total estimated loss is recognised immediately.

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.

Mobilization expenses

Net mobilization expenses are distributed on belonging contractual period.

Changes in accounting policies

The impact of changes in accounting policies and correction of material errors in the financial statements of previous years are recognised directly against equity. The corresponding figures are corrected suitably.

RELATED PARTIES

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.

Calculation of diluted earnings per share is made by adding the number of shares that can be issued through conversion of bond loans and unused subscription rights from 1.1. or issued in the period, to an average number of ordinary shares.

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.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group uses financial instruments as bond loans, forward contracts, financial leasing 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.

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 6 and carrying value of trade receivables and other receivables referred to in note 12.

The Group's revenues are limited to a number of transactions and customers and therefore credit risk is well arranged.

Interest rate risk

The Group is exposed to interest rate risk through its financing activities (cf. note 16) 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 31.12.2007 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
(Amounts in NOK 1000)

	2007	2006
Changes in interest rate level in basic items	50	50
Impact on result before tax	4 187	1 073
Impact on equity	3 015	758

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 MNOK 2 000 in PetroMena is deposited on suspense account for the financing of instalments on construction contract Petrorig I and II. Correspondingly unused part of capital collected for the construction of Petrorig III is deposited on suspense account for the financing of instalments on construction contract Petrorig III. It is referred to further information in notes 14 and 16.

In order to finance the construction program it is necessary for the Group to provide new financing in 2008 and the Group is continuously assessing a possible raise of capital through external financing up against possible sale of other assets, including shares of associates who are quoted on the Stock Exchange, cf. note 10.

The table below states maturity profile of financial liabilities recognised per 31.12.2007:

Foreign exchange risk
The foreign exchange risk exposure mainly relates to the program of new constructions of the Group and associated company (Petrojack). 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. Parts of the financing and expense base are in other foreign currencies, including NOK.

The new construction program of the Group is exposed to exchange rate fluctuations connected to the value of NOK relatively against other foreign exchange due to the fact that the consideration for the rigs under construction has been contracted in USD and that 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.

The Group's exposure to exchange rate fluctuations is in principle related to the fact that future revenue and expenses connected to the rigs under construction will be nominated in USD and net cash flows in NOK will depend on future exchange rate of USD. Parts of the financing and the expense base are in other currencies, including NOK. Depreciation of the exchange rate of USD will, provided all other assumptions keep constant, result in lower cash flows from operational activities in NOK. Since parts of the financing of the new construction program is nominated in NOK, a reduction of cash flows from operational activities in NOK, as a result of a depreciation of the USD exchange rate, result in a reduction in the ability to service financing in NOK. Correspondingly an appreciation of the USD exchange rate will result in higher cash flows from operational activities in NOK and thus in a stronger ability to service the financing in NOK.

The Group's investment in Petrojack involves an exposure to foreign exchange risk owing to the fact that Petrojack has activities in countries with different foreign exchange. The value of the Group's investment in Petrojack in NOK will be subject to exchange rate fluctuations.

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 gearing ratio connected to equity and liabilities 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 NOK 1000)

	2007	2006
Total liabilities	6 404 116	781 365
Equity of majority	1 904 935	1 399 299
Debt ratio	3,36	0,56

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".

REMAINING PERIOD PER 31.12.2007
(Amounts in NOK 1000)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
Bonds		275 000	275 000[1]	3 786 666	1 562 870	5 899 536
Interest		53 750	122 285			176 035
Trade payables	83 359					83 359
Other non-current liabilities				54 562		54 562
Other current liabilities		111 545	351 455			463 000

[1] Provided that the Group redeems the remaining part of the loan in Petrolia Drilling ASA (MNOK 500), cf. note 16.

Fair value of financial assets classified as "at fair value through profit and loss" have 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.

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

(Amounts in NOK 1000)

	2007		2006	
(amounts in NOK 1.000)	**Book value**	**Fair value / quoted price**	**Book value**	**Fair value / quoted price**
Financial assets				
Cash and cash equivalents	3 313 564	3 313 564	449 307	449 307
Trade receivables	130 372	130 372	60 888	60 888
Investments of fair value through profit and loss	18 848	18 848		
Available-for-sale investments			26 793	26 793
Investment in TS- quoted shares	543 399	461 994*	886 582	835 702
Financial liabilities				
Trade payables	83 359	83 359	35 847	35 847
Interest bearing liabilities				
Bonds	5 624 536	5 802 300	488 656	527 500
Liabilities from financial leasing contracts	65 797	65 797	12 140	12 140
Borrowing element in forward contract	109 627	109 627	160 682	160 682

Fair value is based on quoted price per 31.12.07. We refer to note 10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SEGMENT INFORMATION

Per 31 December 2007 the Group is operating within two main segments:

Drilling

The drilling rig "SS Petrolia" has operated on drilling contract in the North Sea/Irish Sea till October 2007, when it was tugged to the Mexican Gulf to start a new contract with Pemex. In addition PetroMena ASA has three semi submersible rigs under construction at the Jurong yard in Singapore and Petrojack ASA has had two jackups under construction at the same yard in 2007.

SS "Petrolia"

SS "Petrolia" has been hired out on the following contracts in 2007:

Apache North Sea Ltd	The North Sea, British sector	01.01.07 – 28.04.07
Island Oil & Gas Plc	The Irish Sea	29.04.07 – 16.10.07

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 months assignment for the drilling vessel in West Africa. Deep Venture started on this contract 30 June 2007.

Contracts made for the rigs under construction of PetroMena ASA.

Larsen Oil & Gas Ltd. in Aberdeen has signed two drilling contracts on behalf of PetroRig I Ptd. Ltd. and PetroRig II Pte. Ltd. with Petrobas 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 approx. 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. Together with the manager Larsen Oil & Gas AS a 5 year drilling contract for PetroRig III Ptd. Ltd. was signed with Pemex in 2007 at a value of approx. 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, Australia, New Zealand, Singapore and Dubai, among others.

Independent Oil Tools AS

In January 2007 the Group acquired the oil service company Independent Oil Tools AS at a price of NOK 380 Million.

The Group's primary reporting format is business segments.

The segment results for 2007 are as follows:

	Drilling		Oilfield services		Total	
(Amounts i NOK 1 000)	YTD 07	YTD 06	YTD 07	YTD 06	YTD 07	YTD 06
Operating revenue	495 375	298 030	277 717		773 092	298 030
EBITDA	240 397	125 578	144 762		385 159	125 578
EBIT	205 187	98 578	24 073		229 260	98 578
EBITDA%	49%	42%	52%		50%	42%
EBIT%	41%	33%	9%		30%	33%
Net finance expenses					-173 400	-59 921
Share of result from joint venture	74 773	-13 015			74 773	-13 015
Share of result from associates	-73 108	-1 470			-73 108	-1 470
Result before taxes					57 525	24 172
Tax charge					-14 793	35 455
Result of the year					42 732	59 627

Other items included in the segment results are:

(Amounts i NOK 1 000)	01.01 - 31.12 2007 Drilling	01.01 - 31.12 2007 Oilfield services	01.01 - 31.12 2007 Group	01.01 – 31.12.2006 Drilling	01.01 – 31.12.2006 Oilfield services	01.01 – 31.12.2006 Group
Depreciation (note 6)	35 210	120 689	155 899	27 000	0	27 000

Oilfield services was not a separate segment in 2006 as Independent Oil Tools AS was not acquired until early 2007.

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 6) and intangible assets (note 7), including additions resulting from acquisitions.

Segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended:

(Amounts i NOK 1 000)	Drilling	Oilfield services	Group
Assets	8 440 598	962 264	9 402 860
Liabilities	6 051 904	352 211	6 404 116
Capital expenditure (note 6 and 7)	4 099 959	756 683	4 856 642

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

Revenue *(Amounts in NOK 1 000)*	2007	2006
Norway	51 243	
Europe outside Norway	537 287	298 030
Asia and Australia	184 344	
Other countries	218	
Total	**773 092**	**298 030**

Assets *(Amounts in NOK 1 000)*	2007	2006
Norway	447 507	
Europe outside Norway	54 041	168 692
Asia and Australia [1]	4 054 901	
Other countries (SS Petrolia)	155 099	
Total	**4 711 548**	**168 692**

[1] Whereof rigs under construction amount to TNOK 3 997 725.

NOTE 2 WAGES AND REMUNERATIONS ETC.

Wage costs (amounts in NOK 1 000)	2007	2006	2005
Wages	39 594	0	0
Payroll tax	3 669	0	0
Pension costs	1 046	0	0
Other contributions	144	0	0
Total	**44 454**	**0**	**0**

Average number of man-labour years of the Group has been 197 in 2007. The Group has employees through the subsidiary Independent Oil Tools AS (group). 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.

Remuneration for the Board of Directors
The members of the Board have received the following remuneration for 2007:

Name *(Amounts in NOK 1 000)*	2007	2006	2005
Klaus P. Tollefsen – Chairman of the Board	300	1 000	125
Terje Hellebø	225	1 000	100
Leif Holst	225	1 000	100
Berge Gerdt Larsen	225	0	100
Total	**975**	**3 000**	**425**

The general manager is employed in Larsen Oil & Gas AS and receives his payment from this company.

The Group has a business management agreement with Larsen Oil & Gas AS. For the work an expense of NOK 3 000 000 has been recognised in 2007.

Auditors
Recognised fee for auditors of the Group and other auditors:

(Amounts in NOK 1 000)	2007	2006	2005
Audit by auditors of the Group	763	811	410
Audit by other auditors	420		
Certification services by auditors of the Group	31	33	21
Certification services by other auditors	52		
Tax assistance by auditors of the Group [1]	1 259	574	222
Tax assistance by other auditors	133		
Other services by auditors of the Group [2]	1 464	527	155
Other services by other auditors	58		
Total fee	**4 180**	**1 947**	**809**

The amounts are exclusive of value added tax.

[1] Including TNOK 1 047 regarding tax assistance related to prospectus and two information memorandums

[2] Including TNOK 804 regarding other services related to prospectus and two information memorandums

NOTE 3 SPECIFICATION OF OTHER OPERATING EXPENSES

Other operating expenses comprise the following main items:

(Amounts in NOK 1 000)	2007	2006	2005
Operating expenses SS "Petrolia"	175 497	121 586	0
Laid-up expenses SS "Petrolia"	0	8 819	32 767
Expenses connected to DS "Valentin Shashin"	0	0	9 293
Insurance	22 875	16 710	4 216
Business management fee (administrative and technical fee)	32 370	15 755	12 246
Other operating expenses	41 435	9 582	18 011
Total operating expenses	**272 177**	**172 452**	**77 047**

NOTE 4 EARNINGS PER SHARE

	2007	2006	2005
Average no. of shares	998 735 016	704 935 387	338 945 377
No. of shares at period end	1 012 595 745	849 391 998	512 215 714
Fully diluted no. of shares	1 012 595 745	849 391 998	555 202 643
Earnings per share	0,04	0,08	-0,13
Earnings per share fully diluted	0,04	0,08	-0,08

By calculation of diluted earnings per share the average number of shares has been added to the number of shares that can be issued by conversion of bond loan and adoption of unused subscription rights from 1.1. or issued in the period.

NOTE 5 TAXES

Basis for tax charges, change in deferred tax and tax payable

(Amounts in NOK 1 000)	2007	2006	2005
Tax payable	0	0	0
Change in deferred income tax assets	14 793	-35 455	-52 920
	14 793	**-35 455**	**-52 920**
Result before tax charges	57 525	24 172	-96 116
Calculated tax charge	16 107	6 768	-26 912
Revenue not liable to taxes	-88	-3 371	-1 616
Not recognised deductible expenses	-1 064	-11 872	-1 863
Expenses not tax deductible	2 331	4 292	7 430
Tax loss from deferred tax asset not recognised in balance sheet	-2 493	-31 272	-29 959
Tax charge	**14 793**	**-35 455**	**-52 920**

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

(Amounts in NOK 1 000)	2007	2006	2005
Temporary differences			
Non-current assets	-37 453	-68 355	-102 296
Current assets	-71 935		0
Non-current liabilities	8 593	12 180	0
Pension	860	0	0
Profit and loss account	564 174	-279 013	-270 524
Net temporary differences	464 240	-335 188	-372 820
Carry forward loss	-681 128	-804 440	-761 740
Basis for deferred tax asset	**-216 888**	**-1 139 628**	**-1 134 560**
Deferred tax asset, 28%	60 729	319 095	317 676
Including not recognised in the balance sheet		-230 720	-264 756
Deferred tax asset in the balance sheet	**60 729**	**88 375**	**52 920**

Temporary differences non-current assets include the part of tax conditioned excess value of SS Petrolia 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.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

(Amounts in NOK 1 000)	**SS "Petrolia" incl. upgrading**	**Equipment SS Petrolia**	**Periodical mainte-nance**	**Drilling equip-ment**	**Rigs under construction**	**Buildings**	**Cars**	**Total**
Per 1 January 2006								
Acquisition cost	325 441	54 089	2 734					382 264
Accumulated depreciation	238 495	35 602						274 097
Book value 01.01.06	**86 946**	**18 487**	**2 734**	**0**	**0**	**0**	**0**	**108 167**
Accounting year 2006								
Book value 01.01.2006	86 946	18 487	2 734					108 167
Addition	51 726		19 458	15 679				86 863
Disposal at book value								
Translation differences	684							684
Depreciation of the year	15 782	8 966	2 273					27 021
Book value 31.12.06	**123 573**	**9 521**	**19 919**	**15 679**	**0**	**0**	**0**	**168 692**
Per 31 December 2006								
Acquisition cost	377 851	54 089	22 192	15 679				469 811
Accumulated depreciation	254 278	44 568	2 273					301 119
Book value 31.12.06	**123 573**	**9 521**	**19 919**	**15 679**	**0**	**0**	**0**	**168 692**
Accounting year 2007								
Book value 01.01.07	123 573	9 521	19 919	15 679				168 692
Translation differences	-16 399	-567	-3 011	-6 550		-33		-26 560
Addition	33 803		23 206	686 083	3 971 309	17 041	262	4 731 704
Disposal at book value				6 391				6 391
Depreciation of the year	21 311	7 701	6 196	120 544		145		155 897
Book value 31.12.07	**119 666**	**1 253**	**33 918**	**568 277**	**3 971 309**	**16 863**	**262**	**4 711 548**
Per 31 December 2007								
Acquisition cost	395 255	53 522	42 387	688 821	3 971 309	17 008	262	5 168 564
Accumulated depreciation	275 589	52 269	8 469	120 544		145		457 016
Book value 31.12.07	**119 666**	**1 253**	**33 918**	**568 277**	**3 971 309**	**16 863**	**262**	**4 711 548**
Remaining useful life	5,5 år							
Depreciation period		8 - 10,5 år	5 år	5 år		33 år	5 år	
Construction year	1976/1995/2006							

Upgrading of the rig in 2006 is subject to depreciation over the remaining useful life of the rig.

Remaining value and removal expenses are not included in the calculation of depreciations. This is explained by the estimated remaining value and removal expenses not considered to be material.

Book value of rigs and rigs under construction which are pledged as security for bond loan is TNOK 4 126 145.

Leased equipment
Drilling equipment acquired through financial leasing contracts amounts to:

(Amounts in NOK 1 000)	**2007**	**2006**
Cost – financial leasing contracts	149 070	29 416
Accumulated depreciation	-70 239	-23 932
Book value per 31.12.	**78 831**	**5 484**

The equipment is pledged as security for the leasing obligation.

NOTE 7 INTANGIBLE ASSETS

(Amounts in NOK 1 000)	Goodwill	Debt financing	Total
Accounting year 2007			
Book value per 01.01.07	0	0	0
Addition	0	27 922	27 922
Acqusition of subsidiary	97 016		97 016
Book value per 31.12.07	**97 016**	**27 922**	**124 938**
Per 31 December 2007			
Acquisition cost	97 016	27 922	124 938
Accumulated depreciation and impairment	0	0	0
Book value per 31.12.07	**97 016**	**27 922**	**124 938**

Goodwill relates to the acquisition of Independent Oil Tools AS. Hereof NOK 31.9 mill relates to deferred tax on excess values.

The debt financing is expenses accrued in connection with debt financing of construction projects. After disbursement of the loan expenses will be reclassified and presented in the balance sheet together with the sum borrowed. The expenses will be recognised according to the amortized cost method.

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 2008 budget. Assessment is based on EBITDA in the group Independent Oil Tools AS.

Impairment test did not call for depreciation of goodwill in 2007.

NOTE 8 INVESTMENTS IN SUBSIDIARIES IN 2007

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, 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.

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.

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.

Acquisition of IOT AS (group)

(Amounts in NOK 1 000)	**IOT AS Group**
Acquisition cost	
- Cash	380 000
- paid off debt	-276 566
Total acquisition cost	**103 434**
Equity of the Group at the time of acquisition	-21 263
Excess value at the time of acquisition	**82 171**
Goodwill	**31 955**

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 MNOK 65.1.

Acquisition of PetroMena ASA (group)

(Amounts in NOK 1 000)	**PetroMena ASA group**
Fair value of the shares at the time of acquisition	1 120 992
Equity of the Group at the time of acquisition	-1 058 773
Excess value at the time of acquisition (majority share)	**62 219**
Excess value 100%	**123 033**

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.

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 2006. 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 og for 12 months in 2006.

(Amounts in NOK 1 000)	**2007**	**2006**
Pro forma income statement		
Revenue	780 766	492 166
Operating expenses	617 208	407 706
Operating result	**163 558**	**84 460**
Revenue from associates/joint venture	48 435	213 205[1]
Net financial items	-364 000	-160 086
Result before taxes	**-152 006**	**137 580**

[1] Included in this amount is a share of the result from Petrojack ASA (group). In 2006 Petrojack ASA sold a construction contract and the gain from this sale is included in the result from associate.

NOTE 9 INVESTMENT IN JOINT VENTURE

	Business address	Shareholding
Venture Drilling AS	Kristiansand	50%

Venture Drilling AS is a joint venture cooperation between Sinvest ASA and Petrolia Drilling ASA.

(amounts i NOK 1 000)	
Book value 01.01.	263 042
Share of result of the year	74 773
Book value 31.12.07	**337 815**

In 2006 Venture Drilling AS entered into an agreement on lease of SS "Deep Venture", formerly DS "Valentin Shashin", for a period of 5 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".

Key figures for Venture Drilling AS

(amounts in USD 1 000)	2007	2006
Non-current assets	121 311	94 987
Current assets	66 200	21 344
Equity	93 070	66 437
Non-current liabilities	39 853	40 000
Current liabilities	54 588	9 894
Income statement		
Operating income	82 681	0
Operating expenses	39 836	2 480
Net financial items	-7 873	-2 581
Result of the year after taxes	25 178	-5 061

NOTE 10 INVESTMENT IN ASSOCIATES

Company	Business address	Shareholding
PetroMena ASA (subsidiary from 15.11.07)	Oslo	50.62%
Petrojack ASA	Oslo	39.93%

PetroMena ASA
Petrolia Drilling ASA acquired 9 095 800 shares 15 November 2007 and thus owns more than 50%. From this date PetroMena ASA is considered a subsidiary and consolidated in the group accounts of Petrolia Drilling ASA.

Petrojack ASA
In 2007 the Group has acquired in total 25 008 500 shares in Petrojack ASA. The acquisition of the shares was settled by issue of new shares in Petrolia Drilling ASA. The Group held a minor shareholding in 2006. This was presented as available-for-sale financial asset in 2006.

The Group's cost price of the shares amounts to NOK 20.94 per share. The stock value of the share at the turn of the year is NOK 17.90 per share. Based on the underlying values in Petrojack ASA the difference is considered not to be material.

Calculation of values in the balance sheet

(Amounts in NOK 1 000)	PetroMena ASA	Petrojack ASA	Total
Book value per 1.1.	**886 582**		**886 582**
Addition of the year	151 094	569 850	720 944
Share of result of the year	-46 657	-26 451	-73 108
Disposal/transfer to group company	-991 019		-991 019
Closing balance per 31.12.07	**0**	**543 399**	**543 399**

Excess value from acquisition of the shares in Petrojack ASA is in its entirety allocated to rigs under construction. Depreciation of the excess value commences when the rigs are delivered.

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

Company *(Amounts in NOK 1 000)*	Assets	Liabilities	Revenue	Result of the year
2006				
PetroMena ASA (group)	3 902 942	1 996 186	0	-12 414
2007				
Petrojack ASA (group)	3 360 080	2 382 197	4 213	-88 113

NOTE 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Company *(amount in NOK 1 000)*	No. of shares	Cost price	Market value	Book value
Island Oil & Gas Plc.	5 128 205	23 984	18 848	18 848
		23 984	**18 848**	**18 848**

NOTE 12 OTHER CURRENT RECEIVABLES

Other current receivables

(Amounts in NOK 1 000)	2007	2006
Trade receivables	130 372	60 088
Prepaid expenses and value added tax owing	7 632	7 762
Mobilization expenses accrued in 2007	82 756	0
Receivable from joint venture	32 467	0
Other current receivcables	38 795	0
Total	**292 022**	**67 850**

Recognised value of the Group's trade receivables and other receivables per foreign currency:

(Amounts in NOK 1 000)	2007	2006
USD	173 914	66 734
GBP	30 611	627
EUR	38 249	0
AUD	20 095	0
NOK	29 153	489
Total	**292 022**	**67 850**

NOTE 13 INVESTMENT IN MONEY MARKET TRUST

(Amounts in NOK 1 000)	2007	2006
Holberg Likviditet – money market trust	546	333 439
Total	**546**	**333 439**

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

NOTE 14 BANK DEPOSITS

(amounts i NOK 1 000)	2007	2006
Bank deposits	**3 313 018**	**115 868**
Hereof deposit on suspense account for use as instalments on construction contract for rig I, II and III.		
- Bank deposit in NOK at interest rate 5,8%	1 580 444	
- Bank deposit in USD at interest rate 2,8% translated to NOK	12 433	
Restricted capital from the financing of SS Petrolia for payment of accrued interest and belonging projects	224 658	
Security in Lloyds bank for Pemex contract USD 21,8 mill.	118 357	
Security to Pemex USD 26,9 mill.	145 604	
Employees' tax deduction	1 250	
Total restricted capital	**2 082 742**	

NOTE 15 SHARE CAPITAL

Share capital of Petrolia Drilling ASA per 31.12.2007:

	Number	Nominal value	Book value
Shares	1 012 596 745	NOK 0,50	506 298 373

List of the major shareholders:
Petrolia Drilling ASA had a total of 6 590 shareholders per 31.12.07.

The table below shows the company's 20 largest shareholders per 31 December 2007 according to the VPS - Norwegian Registry of Securities, (shares with nominal value NOK 0.50):

Shareholder	No. of shares	Shareholding
Petrojack ASA	228 231 359	22,54%
Independent Oil & Resources ASA	167 204 747	16,51%
ABG Sundal Collier Norge ASA	63 888 000	6,31%
Bank of New York, Brussel's branch	28 646 000	2,83%
DNO Invest AS	25 099 385	2,48%
Svenska Handelsbanken Depot	12 617 575	1,25%
NET AS	10 984 000	1,08%
Jacob Haugen	10 000 000	0,99%
Credit Suisse Securities	9 649 584	0,95%
State Street Bank and Trust Co.	8 046 725	0,79%
Deutche bank AG London	6 896 656	0,68%
Skandinaviska Enskilda Banken	6 727 240	0,66%
RBC Dexia Investor Services Bank	6 708 515	0,66%
Danske Bank A/S	6 343 846	0,63%
Sævik Invest AS	4 806 000	0,47%
Thor Idar Pedersen	4 575 520	0,45%
DNB NOR Bank ASA	4 448 500	0,44%
Dresdner Bank AG London Branch	4 440 000	0,44%
Citibank N.A.	4 352 000	0,43%
Verdipapirfondet KLP Aksjenorge	4 160 000	0,41%
Remaining shareholders	394 771 093	38,99%
Total	**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	31.12.07
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. Lars Moldestad is the company's chairman of the board.	0
Terje O. Hellebø, board member	3 424
Leif Holst, board membe[1]	974 762
Lars Moldestad, managing director[2]	4 003 201
Other primary insiders:	
Petrojack ASA, Lars Moldestad is managing director, Berge G. Larsen and Terje O. Hellebø are board members.	228 231 359
Independent Oil & Resources ASA.	167 204 747
DNO Invest AS, Berge G. Larsen is chairman of the board.	25 099 385
Increased Oil Recovery AS, Berge G. Larsen[3] is board member. Lars Moldestad is the company's chairman of the board.	3 600 000
Time Critical Petroleum Resources AS, Berge G. Larsen[3] is owner of the company.	2 108

[1] Total shares are owned by Neuman Invest AS where Leif Holst is general manager.

[2] 4 000 000 shares are owned through 100% owned company, Norwegian Oil Company AS. In addition Norwegian Oil Company AS has an option on purchase of 1 500 000 shares.

[3] Berge G. Larsen indirectly owns 3 602 108 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.

NOTE 16 NON-CURRENT LIABILITIES

Per 31. December the Group had the following non-current liabilities:

Borrowings *(Amounts in NOK 1 000)*	2007	2006
Bond loan (MNOK 500) Fixed rate of interest 10,75%	0	488 656
Bond loan (MNOK 2 000) Fixed rate of interest 9,75%	1 961 342	0
Bond loan (MNOK 1 600) 6 month Nibor + 5,75%	1 562 870	0
Bond loan (MUSD 300) Fixed rate of interest 10,85%	1 583 918	0
Total	**5 108 130**	**488 656**
Liability connected to financial leasing of drilling equipment	48 162	8 295
Other non-current liabilities	6 400	
Total non-current liabilities	**5 162 692**	**496 951**
Current portion of bond loans	668 406	47 123
Current portion of financial leasing/other non-current liabilities	24 035	
Total	**5 855 133**	**544 074**

Maturity structure bond loans:

(Amounts in NOK 1 000)	2008	2009	2010	2011	2012	2013	2014	Total
NOK	550 000[1]		200 000	520 000	1 690 000	130 000	1 310 000	**4 400 000**
USD	36 000	26 400	237 400					**300 000**

[1] Provided that the total bond loan (MNOK 500) is redeemed in 2008

Bond loan MNOK 500, raised in 2006.

In 2006 the company issued a new bond loan of nominal value NOK 500 mill. The loan was disbursed 14 February 2006. An interest rate of 10,75% shall be calculated. The interest is to be settled annually, first time in February 2007. The loan is listed on Oslo Stock Exchange. The loan is interest-only and becomes due in February 2011.

The following borrowing terms are connected to the loan:

Petrolia 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 14 February 2006 till 13 February 2009	110%
Redemption in the period 14 February 2009 till 13 February 2010	107%
Redemption in the period 14 February 2010 till expiry of the term of the loan	105%

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.

In case of a sale of the rig to a third party the company shall repay 50% of the borrowing amount at the same terms as mentioned above. The rig was sold to PetroMena Ltd. in 2007, consequently 50% of the loan shall be redeemed at a premium of MNOK 25. This premium has been added to the loan and is virtually paid in 2008.

According to the borrowing agreement Petrolia 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 market adjusted equity ratio of minimum 50% per 30 June and per 31 December every year, the market value of the equity is to be calculated based on volume weighed average share quotation on Oslo Stock Exchange on the 20 banking days prior to the time of measuring. If the company fails to comply with these conditions on two subsequent reporting points the company can not take on further debt before the market adjusted equity rate is minimum 50%.

Per 31.12.07 the market value of the company is below the Group's liabilities and therefore the company will breach the conditions unless the matter is corrected by 30.06.08. In this case the company plans to redeem the loan in 2008. Consequently the loan is classified as current liabilities per 31.12.07. No provision is made for the premium of a redemption of the remaining loan of MNOK 250.

Bond loan MNOK 2 000 in PetroMena ASA

Unused borrowing balance is deposited on a suspense account for the financing of instalments connected to construction contracts I and II.

The loan is subject to following terms:

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

Unused borrowing balance is deposited on suspense account for financing of instalments connected to construction contract III.

The loan is subject to following terms:

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.

Raised for the financing of the acquisition of SS "Petrolia" in November 2007.
The loan is subject to following terms:

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 2007 till 19 November 2008	106,5%
Redemption in the period 19 November 2008 till 19 November 2009	105,0%
Redemption in the period 19 November 2009 till the expiry of the term of the loan	103,0%

Covenants bond loan in PetroMena ASA (group)

Bond loan MNOK 2 000

In the event of a sale of the rigs/construction contracts or more than 50% of the shares in one of the subsidiaries (PetroRig I og II), the company shall repay 50% of remaining borrowing amount at the same terms as above. In the event of a sale of both rigs/construction contracts or more than 50% of the shares in both subsidiaries (PetroRig I og II), the company shall repay 100% of remaining borrowing amount at the same terms as above.

Bond loan MNOK 1 600

In the event of a sale of rig/construction contract the company shall repay the total remaining borrowing amount at the same terms as above.

Bond loan MUSD 300

In the event of a sale of SS "Petrolia" parts of the bond loan fall due by MUSD 225. 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.

There has been no breach in any of the borrowing terms for these three loans per 31.12.2007.

Assets pledged as security bond loan in PetroMena ASA (group)

For the bond loans of MNOK 2 000 and MNOK 1 600 bank account and construction contract I, II and III in Singapore have been pledged as security.

In addition to the bank account security for the bond loan of MUSD 300 the rig SS "Petrolia" is pledged as first mortgage security and the shares of PetroMena Ltd, Cyprus and construction contracts I, II and III in Singapore are pledged as security. PetroMena Ltd has guaranteed the loan. Further on, revenue from drilling contract is pledged as security.

Financial leasing liability drilling equipment

The payment schedule is:

(Amounts in NOK 1 000)	2007	2006
Falling due within 1 year	17 635	3 845
Falling due between 1 and 5 years	48 162	8 295
Total	**65 797**	**12 140**

Interest rate is 3 months LIBOR + p.t 1,65% margin. Cf. note 6. Book value of assets financed through financial leasing amounts to NOK 78,8 mill.

Petrolia Drilling ASA har given surety towards the leasing company at a value of USD 14,37 mill.

NOTE 17 OTHER CURRENT LIABILITIES

Other current liabilities *(Amounts in NOK 1 000)*	2007	2006
Accrued interest	0	47 123
Advance payment from customers	0	21 511
Accrued expenses	68 829	507
Borrowings from related parties (note 19)	273 413	12 228
Borrowings from other companies	118 426	163 292
Total other current liabilities	**460 668**	**244 661**

Borrowings from other companies include borrowings regarding forward contracts on acquisition of shares at MNOK 110.

NOTE 18 PENSIONS

The Group has a pension scheme related to the subsidiary IOT AS. The scheme includes 17 active and 2 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.

The Group had no pension obligations in 2006.

Pension benefits *(Amounts in NOK 1 000)*	**Secured**
Carried liability is calculated as follows:	
Present value of funded obligations	10 428
Fair value of plan assets	-8 129
Payroll tax	325
Net pension obligation per 31.12. 2007	**2 624**
Change in defined benefit obligation over the year	
Obligations taken over from acquisition	9 299
Present value of contributions by plan participants	810
Interest expense	416
Benefits paid	-97
Pension obligation per 31.12. 2007	**10 428**
Change in fair value of plan assets of the year	
Assets from acquisitions	6 868
Expected return on plan assets	396
Employee contributions	962
Benefits paid	-97
Plan assets per 31.12. 2007	**8 129**

Total pension expense included in the income statement in 2007 *(Amounts in NOK 1 000)*	**Secured**
Current service cost	897
Interest cost	416
Expected return on plan assets	-396
Payroll tax	129
Total, included in wage costs	**1 046**

The following principal actuarial assumptions have been used:

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

NOTE 19 RELATED PARTIES

Shareholding of related parties are 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. 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 and Petrojack ASA. Petrolia Drilling ASA owns 50.62% in PetroMena ASA and 39.93% 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 100% owned 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 NOK 3 million.

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. LOG AS is annually invoicing LOG Ltd NOK 2.5 million for these services.

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 PetroRig I, II and III in PetroMena ASA.

The company has had management responsibility connected to the reactivation and upgrading of SS "Petrolia" from 01.08.05. Agreed fee after start-up of the rig's operations was GBP 2 435 per day. As "Petrolia" started contract with Island Oil & Gas at the end of April 2007 the management fee increased to GBP 5 120 per day. The contract also includes an incentive fee of GBP 2 400 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. In connection with the sale of SS "Petrolia" the contract was transferred to PetroMena Ltd.

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.

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 NOK 3 million 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 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 agreement comprising management and project supervision in the construction period for the rigs I, II and III. An annual fee of MUSD 0.8 per rig is to be charged for this work. If more than 50% of the rigs/holding companies are sold, LOG shall receive 4% of the sales amount. The probability of sale of the rigs is considered by the company's board to be less than 50% and no provision has therefore been made for possible liability.

   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 each of the rigs I and II for discharge of management.

2. Agreement for technical and operational management shall cover tasks as marketing and technical operation under the construction period and makes USD 3 000 per day for rig I og USD 4 500 for rig II and III. In 2007 MUSD 3,8 is recognised as expense for technical assistance.

After delivery LOG Ltd will be drilling company for operation of the rigs with a fee of USD 6 000 per day for rig I and USD 9 000 per day for rig II and III.

3. The company is drilling company for SS "Petrolia". The management fee is USD 10 240 per day. The contract also include 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 Ltd. has set up a local branch, LOG Mexico Branch, who is to support local matters for the operations.

d) Larsen Oil & Gas Pte Ltd. (LOG Pte), Singapore
The companny is 100% owned by Larsen Oil & Gas FZCO in Dubai. LOG Ltd owns 45% of Larsen Oil & Gas FZCO.

Effective as of 04.05.07 PetroMena ASA has entered into an agreement of project management and construction supervision between PetroRig I Pte Ltd., and PetroRig II Pte Ltd. on the one hand and Larsen Oil & Gas Pte Ltd. in Singapore on the other hand. 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 Ltd. owns 45% of LOG FZCO.

PetroRig III Pte Ltd (subsidiary of PetroMena ASA) has in 2007 entered into a business and 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 probability of sale of the rig is considered less than 50% by the company's board, 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 31.12.07.

h) Independent Oil & Resources ASA
Berge G. Larsen is indirectly minority shareholder.

In 2007 the Group acquired 100% of the shares in Independent Oil Tool AS at a price of MNOK 380, whereof transferred loan MNOK 276. Per 31.12.07 the company has borrowing from Independent Oil & Resources ASA of MNOK 210.6.

The Group entered into an agreement 1 February 2007 for the acquisition of 25 000 000 shares in Petrojack ASA from IOT Holding ASA (now Independent Oil & Resources ASA) worth MNOK 550 (value per share NOK 22). As settlement the company has issued 163 204 747 shares worth MNOK 550 (value per share NOK 3.37). The investment is from first quarter of 2007 treated as investment in associate.

i) 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 20 SPECIFICATION OF FINANCIAL ITEMS

Other interest income *(Amounts in NOK 1 000)*	**2007**	**2006**	**2005**
Interest income	19 634	4 161	107
Profit from liquidity reserve	4 973	7 983	838
Interest on trade receivables	255		
Total other interest income	**24 862**	**12 144**	**1 195**

Other financial income *(Amounts in NOK 1 000)*	**2007**	**2006**	**2005**
Gain from sale of shares	316		
Foreign exchange gains	40 502	7 511	10 219
Change in value shares at fair value through profit and loss		1 011	20 901
Total other financial income	**40 818**	**8 522**	**31 120**

Other interest expenses *(Amounts in NOK 1 000)*	**2007**	**2006**	**2005**
Interest expenses bank	156		
Interest expenses bond loan	64 821	50 247	65 008
Interest financial leasing	26 732	1 123	1 094
Interest expenses to related parties	12 675		
Interest forward contract	24 564	13 927	
Total other interest expenses	**128 948**	**65 297**	**66 102**

Other financial expenses *(Amounts in NOK 1 000)*	**2007**	**2006**	**2005**
Value change shares at fair value through profit and loss	5 136		
Foreign exchange loss	74 172	6 184	10 594
Other financial expenses	30 823	9 076	12 060
Total other financial expenses	**110 131**	**15 260**	**22 654**

NOTE 21 EVENTS AFTER THE BALANCE SHEET DATE

As manager of SS "Petrolia" Larsen Oil & Gas Ltd, UK has entered into an agreement with Pemex for drilling assignment for 913 days. SS "Petrolia" started on the contract 3 February 2008.

FINANCIAL STATEMENTS

PETROLIA DRILLING ASA - PARENT COMPANY

INCOME STATEMENT
PETROLIA DRILLING ASA - PARENT COMPANY

(Amounts in NOK 1,000)	Note	2007	2006	2005
Revenue	3	**35 904**		2 330
Total revenue		**35 904**		2 330
Depreciation	3	**7 748**	8 855	15 329
Operating expenses	1	**17 228**	11 892	16 594
Total operating expenses		**24 977**	20 747	31 923
Operating result		**10 927**	-20 747	-29 593
Interest income from group companies	8	**36 970**	12 881	10 578
Interest income		**7 490**	9 822	945
Financial income		**5 259**	40	28 849
Impairment of financial assets		**5 136**		
Interest expense to group companies	8	**433**	1 688	
Interest expenses		**80 473**	65 869	48 394
Financial expenses		**33 010**	9 173	14 423
Result before taxes		**-58 405**	-74 733	-52 038
Tax charge on result	2	**-60 156**	60 466	
Result of the year		**1 751**	-14 267	-52 038
Attributable to:				
Transferred to/from other equity/uncovered loss		**1 751**	-14 267	-52 038

BALANCE SHEET PER 31.12

PETROLIA DRILLING ASA - PARENT COMPANY

(Amounts in NOK 1,000)	Note	2007	2006
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Deferred income tax assets	2	**121 687**	60 466
		121 687	60 466
Property, plant and equipment			
Drilling equipment	3		9 478
			9 478
Financial non-current assets			
Investments in subsidiaries	4	**1 332 186**	140 244
Investments in joint venture	5	**303 151**	303 151
Investments in associated companies	6	**569 850**	888 052
Investments in other companies	6		25 783
Loan to group companies	7	**593 306**	672 149
		2 798 493	2 029 380
Total non-current assets		**2 920 179**	2 099 324
CURRENT ASSETS			
Debtors			
Loan to joint venture		**32 467**	
Other debtors	8	**1 945**	339
		34 413	339
Investments			
Market based investment shares	9	**18 848**	
Investment in money market fund	10	**76**	333 439
		18 924	333 439
Bank deposits		**6 172**	33 427
Total current assets		**59 509**	367 205
TOTAL ASSETS		**2 979 688**	2 466 529

BALANCE SHEET PER 31.12
PETROLIA DRILLING ASA - PARENT COMPANY

	Note	2007	2006
EQUITY AND LIABILITIES			
EQUITY			
Paid-in equity			
Share capital (1 012 596 745 shares each NOK 0,5)	11	506 298	424 696
Own shares	12	-1 725	
Share premium fund	12	1 534 301	1 068 642
		2 038 874	1 493 338
Retained earnings			
Other equity	12	244 217	248 661
		244 217	248 661
Total equity	12	2 283 092	1 741 999
LIABILITIES			
Non-current liabilities			
Bond loans	13		488 656
Loan from group companies	7	10 463	
Other long term liabilities	13		8 295
		10 463	496 951
Current liabilities			
Short term portion of long term liabilities	13	516 406	3 845
Trade creditors		992	3 210
Public duties payable		137	60
Other current liabilities	14	168 598	220 464
		686 133	227 579
Total liabilities		696 596	724 530
TOTAL EQUITY AND LIABILITIES		2 979 688	2 466 529

Oslo, 31 March 2008

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 Moldestad
Managing director

STATEMENT OF CASH FLOW

PETROLIA DRILLING ASA - PARENT COMPANY

(Amounts in NOK 1 000)	**2007**	**2006**
Cash flows from operating activities		
Result before taxes	**-58 405**	-74 734
Taxes paid in the period	**0**	0
Loss/gain from sale of non-current assets	**-35 588**	0
Ordinary depreciation	**7 748**	8 855
Change in trade creditors	**-2 218**	-22 745
Change in other provisions	**-2 908**	16 084
Items classified as financing/investment	**5 135**	-19 710
Net cash generated from operating activities	**-86 236**	-92 250
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**37 633**	0
Change in loan to group companies	**-32 467**	-221 954
Proceeds from sale of shares and investments in other companies and liquidity reserves	**339 477**	48 445
Investment in shares in other companies	**-328 055**	-810 503
Purchase of liquid reserves	**0**	-333 439
Investment in joint venture	**0**	-101 251
Net cash used in investing activities	**16 588**	-1 418 702
Cash flows from financing activities		
Proceeds from convertible bond loan	**15 610**	486 250
Current liabilities from purchase of shares in other companies	**-51 866**	160 682
Change in loan to group companies	**89 305**	-55 326
Repayment of long-term loans	**0**	-147 220
Purchase of own shares/issue costs	**-10 657**	0
Net share issues	**0**	1 026 272
Payment of leasing debt	**0**	-4 856
Net cash used in financing activities	**42 392**	1 465 802
Net cash flow of the period	**-27 256**	-45 151
Cash and cash equivalents at the beginning of the period	**33 427**	78 578
Cash balance at 31 December	**6 171**	33 427
Specification of cash and cash equivalents at period end:		
Bank deposits	**6 171**	33 427

ACCOUNTING POLICIES AND GENERAL INFORMATION

INTRODUCTION

Petrolia Drilling ASA was established 13 March, 1997. The company's activities are directed towards drilling activity and test production within offshore petroleum activity.

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

INVESTMENTS IN SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

Subsidiaries, joint venture and associates are estimated according to the cost method 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.

ISSUE EXPENSES

Issue expenses are recognised as reduction of share premium fund.

BORROWING EXPENSES

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

POLICIES FOR RECOGNITION OF INCOME 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.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATIONS

Property, plant and equipment have been capitalised at acquisition cost and deducted accumulated depreciations. Expenses involved in upgrading and improvements are capitalised as part of cost price. Interest in the upgrading period is included in cost price. Current maintenance that is not covered by the periodical maintenance intervals (classification expenses) are recognised as the maintenance is carried out.

Depreciations are straight-line and based on assumed economic life.

Property, plant and equipment are impaired to fair value if book value based on straight-line depreciation is higher than fair value. Fair value is based on discounted value of expected future cash flows/earnings. Impairments are reversed to the extent that the basis of the impairment is no longer present.

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 ITEMS IN THE ACCOUNTS

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.

HIRING- AND LEASING LIABILITIES

A leasing contract is classified as financial or operational according to the real contents of the individual contract. If material part of financial risk and control connected to the underlying leasing object has been transferred to the lessee, the contract is classified as financial. Other leasing contracts are classified as operational.

Operating equipment in leasing contracts classified as financial leasing are activated in the balance sheet at the value of the consideration in the leasing contract and depreciated as property, plant and equipment. The instalment part of the leasing liability is recognised as non-current liability. The liability is reduced with paid rent after deduction of calculated interest expense

For contracts that are classified as operational the lease payments are recognised as an operating expense that is distributed systematically over the total leasing period.

ACCOUNTS RECEIVABLE

Trade receivables and other receivables are presented 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

Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

TAXES

The company's subsidiary Petrolia Drilling Ltd has required taxation as NOKUS-company (Norwegian controlled foreign company in low-tax country).

The tax charge in the income statement comprises both payable tax of the period and change in deferred tax. Deferred tax is calculated at 28% based on the temporary differences that exist between accounting and tax related values in addition to possible carry-forward loss for tax purposes at year end. Tax enhancing or tax reducing temporary differences that are reversed or may be reversed in the same period, are eliminated. According to NRS(F). Deferred tax asset is capitalised if deferred tax asset is considered probable in future earnings.

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.

UNSECURED LIABILITIES

Unsecured liabilities are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other unsecured liabilities, 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.

NOTES TO THE FINANCIAL STATEMENTS

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:

(Amounts in NOK 1000)	2007	2006	2005
Klaus P. Tollefsen – chairman of the board	300	1 000	125
Terje Hellebø	225	1 000	100
Leif Holst	225	1 000	100
Berge Gerdt Larsen	225	0	100
Total	**975**	**3 000**	**425**

Directors' fees for 2006 have been paid in 2007 in accordance with ordinary resolution.

The general manager is employed in Larsen Oil & Gas AS and receives his remuneration from this company.

The Group has a business management agreement with Larsen Oil & Gas AS. For the work an expense of NOK 3 000 000 has been recognised in 2007

Auditors

(Amounts in NOK 1000)	2007	2006	2005
Statutory audit	575	652	232
Certification services	32	33	21
Tax assistance [1]	755	366	151
Other services [2]	1 069	464	150
Total fee	**2 431**	**1 515**	**554**

The amounts are exclusive of v.a.t.

[1] Including TNOK 755 regarding services related to prospect and two information memorandums
[2] Including TNOK 804 regarding services related to prospect and two information memorandums

NOTE 2 TAXES

Payable tax of tax charges of the year is calculated as follows:

(Amounts in NOK 1000)	**2007**	**2006**
Ordinary result before tax charges	-58 405	-74 733
Value changes market related bonds	5 135	4 299
Expenses not tax deductible	2 877	1 227
Expenses recognised directly against equity	-3 803	-43 403
Change in temporary differences	-22 225	-7 332
Taxable income of the year	**-76 421**	**-119 942**
Payable tax 28%	0	0
Payable tax of result of the year	**0**	**0**
Change deferred tax asset	-60 155	60 466
Tax charge	**-60 155**	**60 466**
Temporary differences		
Non-current assets	0	-15 135
Receivables	-71 935	-71 935
Other non-current liabilities	8 593	12 180
Profit and loss account	9 373	-1 303
Total temporary differences	**-53 967**	**-76 193**
Carry forward loss	-380 627	-304 205
Basis for deferred tax asset in the balance sheet	**-434 595**	**-380 398**
Deferred tax asset, 28%	-121 686	-106 511
Including not recognised in the balance sheet	0	46 045
Deferred tax asset in the balance sheet	**-121 686**	**-60 466**

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.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

(Amounts in NOK 1000)	**Equipment SS Petrolia**	**Total**
Acquisition cost per 01.01	44 562	44 562
Addition in the period	0	0
Disposal in the period	-44 562	-44 562
Acquisition cost per 31.12	**0**	**0**
Acc. depreciation per 01.01.	35 083	35 083
Depreciations of the year	7 748	7 748
Depreciations disposal	-42 831	-42 831
Acc. depreciations 31.12	**0**	**0**
Book value per 31.12	**0**	**0**
Economic residual lifetime	5-8 years	
Depreciation plan	Straight-line	

In 2007 the company sold the equipment of SS Petrolia to the subsidiary Petrolia Rigs AS.
SS Petrolia with equipment is sold from Petrolia Rigs AS to PetroMena Ltd. being a subsidiary of PetroMena ASA.

NOTE 4 SUBSIDIARIES

Investments in subsidiaries are recognised according to the cost method.

Company *(Amounts in NOK 1000)*	**Business address**	**Share-holding**	**Voting share**	**Result 2007**	**Equity per 31.12.07**	**Book value**
Petrolia Drilling II AS	Oslo	100 %	100 %	478	134 780	140 244
Petrolia Drilling Ltd.	Virgin Island / Jersey	100 %	100 %	8 844	-17 530	0
PetroMena ASA (group)	Oslo	50,62 %	50,62 %	-146 249	2 065 279	1 191 942

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

The company now owns 68 002 450 shares in PetroMena ASA incl. 8 333 333 shares on forward contract. This makes 50,62% of PetroMena ASA. The company's average cost price for the shares amounts to NOK 17,53 per share. The stock value of the share at the turn of the year is NOK 15,50 per share. Based on underlying values in PetroMena ASA, the difference is considered not to be material.

NOTE 5 INVESTMENT IN JOINT VENTURE

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

Company *(Amounts in NOK 1000)*	**Business address**	**Share-holding**	**Voting share**	**Result 2007**	**Equity per 31.12.07**	**Book value**
Venture Drilling AS	Kristiansand	50 %	50 %	149 546	503 599	303 151

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 months assignment in West-Africa. Deep Venture commenced this contract 30 June 2007.

NOTE 6 INVESTMENT IN ASSOCIATE

Investment in associate is estimated according to the cost method.

Company *(Amounts in NOK 1000)*	**Business address**	**Shar e-holding**	**Voting share**	**Result 2007**	**Equity per 31.12.07**	**Book value**
Petrojack ASA (consolidated figures)	Oslo	39,93 %	39,93 %	-88 113	977 883	569 850

Per 31.12.06 the company owned 1.96% av Petrojack ASA. The shares were then recognised as investment in other companies.

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

The company's average cost price of the shares makes NOK 21.96 per share. The stock value of the share at the turn of the year is NOK 17.80 per share. Based on the underlying values of Petrojack ASA, the difference is considered not to be material.

NOTE 7 INTERCOMPANY ACCOUNTS

(Amounts in NOK 1000)	**2007**	**2006**
Non-current receivables		
Petrolia Drilling II AS	389 494	370 643
Petrolia Services AS	203 740	187 196
Petrolia Rigs AS		114 253
Petrolia Drilling Ltd.	72 001	71 991
Provision for bad debts	-71 935	-71 935
Total	**593 306**	**672 149**
Current liabilities		
Petrolia Drilling Ltd	6 575	0
Petrolia Rigs AS	3 887	0
Total	**10 462**	**0**

Interest on non-current intercompany accounts are calculated at 5 %.

NOTE 8 OTHER CURRENT RECEIVABLES

Other current receivables *(Amounts in NOK 1000)*	**2007**	**2006**
Advance payment forward contract	1 018	0
Prepaid expenses and v.a.t.owing	927	339
Total	**1 945**	**339**

NOTE 9 MARKET BASED SHARES

Company *(Amounts in NOK 1000)*	**No. of shares**	**Cost price**	**Market**	**Book value**
Island Oil & Gas Plc	5 128 205	23 984	18 848	18 848

The company is quoted on the London Stock Exchange.

NOTE 10 INVESTMENT IN CASH UNIT TRUST

(Amounts in NOK 1 000)	**2007**	**2006**
Holberg Likviditet – cash unit trust	76	333 439
Total	**76**	**333 439**

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 11 SHARE CAPITAL AND SHAREHOLDERS' INFORMATION

Share capital of Petrolia Drilling ASA per 31.12.2007	Number	Nominal value	Capitalised
Shares	1 012 596 745	NOK 0,50	506 298 373

List of the major shareholders:

Petrolia Drilling ASA had a total of 6 590 shareholders per 31.12.07. The table below shows the company's 20 largest shareholders per 31 December 2007 according to the VPS (shares with nominal value NOK 0.50):

Shareholders	No. of shares	Shareholding
Petrojack ASA	228 231 359	22,54 %
Independent Oil & Resources ASA	167 204 747	16,51 %
ABG Sundal Collier Norge ASA	63 888 000	6,31 %
Bank of New York, Brussel's branch	28 646 000	2,83 %
DNO Invest AS	25 099 385	2,48 %
Svenska Handelsbanken Depot	12 617 575	1,25 %
NET AS	10 984 000	1,08 %
Jacob Haugen	10 000 000	0,99 %
Credit Suisse Securities	9 649 584	0,95 %
State Street Bank and Trust Co.	8 046 725	0,79 %
Deutche bank AG London	6 896 656	0,68 %
Skandinaviska Enskilda Banken	6 727 240	0,66 %
RBC Dexia Investor Services Bank	6 708 515	0,66 %
Danske Bank A/S	6 343 846	0,63 %
Sævik Invest AS	4 806 000	0,47 %
Thor Idar Pedersen	4 575 520	0,45 %
DNB NOR Bank ASA	4 448 500	0,44 %
Dresdner Bank AG London Branch	4 440 000	0,44 %
Citibank N.A.	4 352 000	0,43 %
Verdipapirfondet KLP Aksjenorge	4 160 000	0,41 %
Remaining shareholders	394 771 093	38,99 %
Total	**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	31.12.07
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. Hellebø, board member	3 424
Leif Holst, board member[1]	974 762
Lars Moldestad, managing director[2]	4 003 201
Remaining primary insiders:	
Petrojack ASA, Lars Moldestad is managing director. Berge G. Larsen og Terje O. Hellebø are board members.	228 231 359
Independent Oil & Resources ASA	167 204 747
DNO Invest AS, Berge G. Larsen is chairman of the board.	25 099 385
Increased Oil Recovery AS, Berge G. Larsen[3] is board member. Lars Moldestad is the company's chairman of the board	3 600 000
Time Critical Petroleum Resources AS, Berge G. Larsen[3] owns the company	2 108

[1] Total shares are owned by Neuman Invest AS where Leif Holst is general manager.

[2] 4 000 000 shares are owned through 100 % owned company, Norwegian Oil Company AS. In addition Norwegian Oil Company AS has an option on purchase of 1 500 000 shares.

[3] Berge G. Larsen indirectly owns 3 602 108 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.

NOTE 12 EQUITY

Changes in equity of the year

(Amounts in NOK 1000)	Share capital	Own shares	Share premium fund	Other equity	Total
Equity 31.12.06	424 696		1 068 642	248 661	1 741 999
Capital increase 01.02.07 through contribution in kind of Petrojack shares	81 602		468 398		550 000
Issue expenses covered by share premium fund			-2 738		-2 738
Treasury shares		-1 725		-6 194	-7 919
Result of the year				1 751	1 751
Equity 31.12.07	**506 298**	**-1 725**	**1 534 301**	**244 217**	**2 283 092**

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

NOTE 13 NON-CURRENT LIABILITIES

The company has the following non-current liabilities:

(Amounts in NOK 1000)	2007	2006
Intercompany liabilities	10 463	
Liabilities connected to financial leasing of equipment	0	8 295
Bond loan	0	488 656
Total non-current liabilities	**10 463**	**496 951**
Current portion of bond loans	516 406	
Total	**526 869**	**496 951**

The company has no liabilities with due date later than five years from the end of the accounting year per 31.12.07.
Next years' instalment has been classified as current liabilities.

Bond loan NOK 500 million, raised in 2006.

In 2006 the company has issued a new bond loan of nominal value NOK 500 mill. The loan was disbursed 14 February 2006. An interest rate of 10.5 % shall be calculated. The interest is to be settled annually, first time in February 2007. The loan is listed on Oslo Stock Exchange. The loan is interest-only and becomes due in February 2011.

The following borrowing terms are connected to the loan:

Petrolia 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 14 February 2006 till 13 February 2009	110 %
Redemption in the period 14 February 2009 till 13 February 2010	107 %
Redemption in the period 14 February 2010 till expiry of the term of the loan	105 %

In case of a sale of the rig to a third party the company shall repay 50% of the borrowing amount at the same terms as mentioned above. In 2007 the rig was sold to PetroMena Ltd., consequently 50% of the loan shall be redeemed at a premium of MNOK 25. This premium is allocated to the loan and virtually paid in 2008.

According to the borrowing agreement Petrolia 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 market adjusted equity ratio of minimum 50 % per 30 June and per 31 December every year, the market value of the equity is to be calculated based on volume weighed average share quotation on Oslo Stock Exchange on the 20 banking days prior to the time of measuring. If the company fails to comply with these conditions on two subsequent reporting points the company can not take on further debt before the market adjusted equity rate is minimum 50%.

Per 31.12.07 the market value of the company is below the Group's liabilities and therefore the company will breach the conditions unless the matter is corrected by 30.06.08. In this case the company plans to redeem the loan in 2008. Consequently the loan is classified as current liabilities per 31.12.07. No provision is made for the premium of a redemption of the remaining loan of MNOK 250 .

NOTE 14 OTHER CURRENT LIABILITIES

(Amounts in NOK 1000)	2007	2006
Accrued interest expenses from bond loan	47 123	47 123
Debt to Independent Oilfield Rentals Ltd	10 579	12 228
Accrued expenses	975	429
Loan from other companies	109 921	160 682
Total other current liabilities	**168 597**	**220 464**

Loan from other companies includes loan regarding forward contracts for acquisition of shares by MNOK 110.

NOTE 15 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 and Petrojack ASA. Petrolia Drilling ASA owns 50.62% in PetroMena ASA and 39.93% in Petrojack ASA.

b) Larsen Oil & Gas AS
Petrolia Drilling ASA has no employees. The Group has entered into a business management agreement with Larsen Oil & Gas AS (LOG).

Larsen Oil & Gas AS (LOG) is 100 % owned 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 NOK 3 million.

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.

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 NOK 3 million 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 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 31.12.07.

e) Independent Oil & Resources ASA
Berge G. Larsen is indirectly minority shareholder.

In 2007 Petrolia Drilling ASA through the subsidiary Petrolia Services AS acquired 100% of the shares in Independent Oil Tool AS at a price of MNOK 380, whereof transferred loan MNOK 276.

The company entered into an agreement 1 February 2007 for the acquisition of 25 000 000 shares in Petrojack ASA from IOT Holding ASA (now Independent Oil & Resources ASA) worth MNOK 550 (value per share NOK 22). As settlement the company has issued 163 204 747 shares worth MNOK 550 (value per share NOK 3.37).

f) 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.

g) Sale of equipment to Petrolia Rigs AS
In connection with the sale of the rig SS"Petrolia" from the subsidiary Petrolia Rigs AS to PetroMena Ltd., equipment of MNOK 37,6 was sold to Petrolia Rigs AS who resold the equipment to PetroMena Ltd. The sales amount is based on external valuation.

PricewaterhouseCoopers AS
Postboks 3984 - Dreggen
NO-5835 Bergen
Telephone +47 02316
Telefax +47 23 16 10 00

To the Annual Shareholders' Meeting of Petrolia Drilling ASA

AUDITOR'S REPORT FOR 2007

We have audited the annual financial statements of Petrolia Drilling ASA as of December 31, 2007, showing a profit of NOK 1 750 656 for the parent company and a profit of NOK 42 731 911 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 allocation of the profit. 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 statement 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, 2007 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, 2007, 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 allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Bergen, April 24, 2008
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant (Norway)

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

PRINCIPLES FOR CORPORATE GOVERNANCE FOR PETROLIA DRILLING ASA

ADOPTED BY THE BOARD OF DIRECTORS ON 31 MARCH 2007

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 summarise 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 Article s 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 maximise 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.

Authorisations 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 authorisations granted. Thus, the authorisations should be limited in time to no later than the date of the next Annual General Meeting. All authorisations 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 organised 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

- Ensure that a system of direction and internal control is established and maintained as to 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 authorisations and instructions approved by the General Meeting. The internal control arrangements must address the organisation 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 organised.

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 organised.

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 programmes 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 both Norwegian and 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 jeopardise 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.

PETROLIA

MAILING ADDRESS: HOPSNESVEIEN 127, 5232 PARADIS, NORWAY
TEL: +47 55 22 47 10 FAX: +47 55 22 47 01
OFFICE ADDRESS: HAAKON VIIIS 1, 0116 OSLO, NORWAY
TEL: +47 23 11 32 85
WWW.PETROLIA.NO