



**PETROLIA**

**Q3 2016**

## PETROLIA SE ('the Company') third quarter results 2016:

### Highlights

- Total comprehensive income of USD -3.7 million in Q3 2016 compared to USD -12.5 million in Q3 2015.
- EBITDAX of USD 1.1 million in Q3 2016 compared to USD -0.2 million in Q3 2015.
- Revenue was USD 10.2 million in Q3 2016 compared to USD 14.6 million in Q3 2015.
- Shareholders' equity as at 30 September 2016 was USD 1.33 per share. Share price was NOK 3.54, or USD 0.44 at an exchange rate of USD/NOK 0.1242.
- Earnings per share was USD -0.07 per share in Q3 2016 compared to USD -0.52 per share in Q3 2015.
- Challenging market conditions impacting on activity levels in the OilService division.  
High focus on cost saving initiatives.
- On 4 November 2016 the Ministry of Petroleum and Energy confirmed that Petrolia NOCO has been prequalified as an operator on the Norwegian Continental Shelf (NCS).

### Key figures

All figures in USD (million)	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Operating revenues	10.2	14.6	30.3	47.0
EBITDAX	1.1	-0.2	0.8	-4.7
EBITDA	1.1	-1.1	0.8	-18.0
Total comprehensive income for the year	-3.7	-12.5	-12.5	-32.1
Earnings per share in USD	-0.07	-0.52	-0.28	-1.17
Equity per share in USD	1.33	2.55	1.33	2.55

### Financial information

#### Profit and loss for the third quarter of 2016 compared to the third quarter of 2015

Total revenue was USD 10.2 million compared to USD 14.6 million in the third quarter of 2015. Operating expenses were USD 9.8 million compared to USD 14.7 million in the third quarter of 2015. EBITDAX was USD 1.1 million compared to USD -0.2 million in the third quarter of 2015. Exploration cost was USD 4,000 compared to USD 1.0 million in the third quarter of 2015. EBITDA was USD 1.1 million compared to USD -1.1 million in the third quarter of 2015.

Depreciation was USD 2.8 million in the third quarter of 2016 compared to USD 4.1 million in the corresponding quarter of 2015. Operating loss was USD 1.7 million compared to USD 13.3 million in the third quarter of 2015. Result from associated company was a loss of USD 1.3 million compared to USD 1.0 in the third quarter of 2015. Net financial income was USD 1.1 million compared to a cost of USD 0.9 million in the third quarter of 2015.

The net result after tax was USD -1.9 million compared to USD -14.1 million in the third quarter of 2015. Total comprehensive income was USD -3.7 million compared to USD -12.5 million in the third quarter of 2015.

#### Profit and loss for the first nine months of 2016 compared to the first nine months of 2015

Total revenue was USD 30.3 million compared to USD 47.0 million in 2015. Operating expenses were USD 30.9 million compared to USD 47.3 million in 2015. EBITDAX was USD 0.8 million compared to USD -4.7 million in 2015. Exploration cost was USD 4,000 compared to USD 13.3 million in 2015. EBITDA was USD 0.8 million compared to USD -18.0 million in 2015.

Depreciation was USD 9.4 million in 2016 compared to USD 12.0 million in 2015. Operating loss was USD 8.6 million compared to USD 38.1 million in 2015. Result from associated company was a loss of USD 0.5 million compared to a loss of USD 1.0 in 2015. Net financial income was USD 2.6 million compared to a cost of USD 2.5 million in 2015.

The net result after tax was USD -7.5 million compared to USD -31.9 million in 2015. Total comprehensive income was USD -12.5 million compared to USD -32.1 million in 2015.

#### Cash flow for the first nine months of 2016 compared to the first nine months of 2015

Cash flow from operations was USD 2.7 million in the first nine months of 2016, compared to USD -13.0 million in 2015. Cash flow from investments in 2016 was USD -0.1 million compared to USD 2.2 million in 2015. Cash flow from financing activities in 2016 was USD -2.0 million compared to USD -12.3 million in 2015.

Free cash as at 30 September 2016 was USD 8.5 million compared to USD 5.9 million as at 30 September 2015.

#### Statement of financial position

As at 30 September 2016, total assets amounted to USD 81.6 million. Investment in OilService equipment had a book value of USD 28.1 million, investment in land rigs had a book value of USD 0.1 million, investment in listed shares had a book value of USD 0.4 million and total cash was USD 8.8 million.

As at 30 September 2016, net interest bearing bond loans amounted to USD 17.7 million. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 15.1 million (total bond loan is USD 32.8 million). In addition, there are financial leasing facilities for OilService equipment of USD 4.7 million.

Total equity was USD 36.3 million as at 30 September 2016, including a minority interest of USD 0.9 million. Book value of equity per share was USD 1.33 as at 30 September 2016, including minority interests of USD 0.03 per share.

#### Share information

As at 30 September 2016, the total number of shares outstanding in Petrolia SE was 27,235,867, each with a par value of USD 1.00. The Company has no outstanding or authorised stock options, warrants or convertible debt. As at 30 September 2016, the Company held no treasury shares.

## Operational development, market and outlook

### E&P division

Within the E&P division, Petrolia NOCO AS ('Petrolia NOCO') is actively developing its licence portfolio. It has established a cost efficient, robust and scalable business model, with the current drilling programme fully funded. Petrolia NOCO will actively pursue farm-in opportunities and participate in upcoming APA rounds. One new licence was awarded in January 2016. Petrolia NOCO will continue to focus on capital discipline through an on-going cost saving programme, which is expected to yield positive financial benefits throughout 2016.

In July 2015, following a strategic review, Petrolia NOCO announced that it had commenced the preparation process to become pre-qualified as an operator on the Norwegian Continental Shelf. In parallel, Petrolia NOCO raised NOK 50 million in new equity through a share issue offered to the 20 largest shareholders in Petrolia SE. Petrolia SE wanted to allow wider ownership of Petrolia NOCO and as a result it did not subscribe to new shares in this issue. There is no plan to list the shares. With a larger investor base, Petrolia NOCO will be better positioned to pursue the attractive opportunities that are expected to emerge in the present market of lower oil prices.

The transaction was completed on 18 August 2015. Following the share issue, Petrolia SE owns 49.9% of the shares of Petrolia NOCO which now is accounted for as an associated company.

On 1 July 2016 an extraordinary general assembly in Petrolia NOCO resolved change its name from Petrolia Norway AS and to raise NOK 50 million in new equity and the issue was fully subscribed. Petrolia subscribed to its pro rata share through Petrolia Drilling II AS. The new share capital and the name change were recorded at [www.brreg.no](http://www.brreg.no) on 9 September 2016.

On 4 November 2016 the Ministry of Petroleum and Energy confirmed that Petrolia NOCO has been prequalified as an operator on the Norwegian Continental Shelf (NCS).

### OilService division

Since the end of 2014, the industry has experienced a significant reduction in capital expenditure by oil companies, oil service companies and other customers of the OilService Division. This challenging environment has affected the activity levels and profit margins of this division, which has excellent customer relationships and is a well-known and respected service and rental equipment company. Costs have been cut substantially in 2015 and 2016, whilst at the same time, there has been a higher focus on business development in order to maintain or even increase market share.

Overall, the Board expects continued weak revenues for this division during 2016 as activity remains low and margins reflect more cost conscious buyers of oil services who demand a 30% price reduction as a minimum.

The drilling rig completed one short term work-over contract in the Kurdistan region of Iraq in January and commenced a further short term contract in September for two wells. The cost efficient rig continues to operate well.

### Related party transactions

The loan to Petrolia NOCO AS has been re-structured. The loan Petrolia NOCO had received from Petrolia SE has been repaid. Petrolia Drilling II AS has provided an exploration facility of NOK 100 million to Petrolia NOCO.

### About the Company

#### E&P division:

#### Petrolia NOCO AS (Associate Company):

Petrolia NOCO seeks to maximise field potential through innovative exploration in mature areas of the Norwegian Continental Shelf ('NCS'), leveraging on the extensive industry experience of its management team. Petrolia NOCO currently holds 6 licences on the NCS. Petrolia holds 49.9% of the share capital of Petrolia NOCO and is the main shareholder.

#### OilService division:

The Company's involvement in oilfield services began through the acquisition of Independent Oil Tools AS in 2007. Total investment in equipment has subsequently exceeded USD 310 million. The investments were largely financed by Petrolia SE and in addition financial leases of more than USD 40 million were obtained. The division has developed into a well-respected, international equipment rental group with a global presence. This division owns drill pipes, test strings & tubing, handling and auxiliary tools, pressure control equipment for on and offshore activities and other equipment. In addition, the division provides associated services such as tubular running services.

The OilService division benefits from an excellent track record of availability, technical compliance, experience and performance. It has a well-established, large, international client base, including a portfolio of contracts in place with numerous major oil service companies, oil companies and drilling contractors.

### Key risks and uncertainty

The activities and assets of the group are primarily in USD and the loan to Petrolia NOCO AS (reported as 'other financial fixed asset') is in NOK. There is therefore a currency risk regarding the USD/NOK exchange rate. In January 2016, the Bond Loan was re-financed and is now denominated in USD.

### Going Concern

The Board closely monitors the cash position of the group and the cash flow forecasts, and remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going-concern for the foreseeable future.

### Board of Directors, Petrolia SE, Limassol, Cyprus 24 November 2016



## Financial report third quarter 2016 – preliminary

### Consolidated Statement of Comprehensive Income

All figures in USD (1,000)

	Q3 2016	YTD 2016	Q3 2015	YTD 2015
Operating revenues	10,223	30,335	14,582	47,039
Impairment current assets	706	1,372	-27	-4,405
Operating expenses	-9,782	-30,918	-14,735	-47,342
<b>EBITDAX</b>	<b>1,147</b>	<b>789</b>	<b>-180</b>	<b>-4,708</b>
Exploration expenses	-4	-4	-965	-13,328
<b>EBITDA</b>	<b>1,143</b>	<b>785</b>	<b>-1,145</b>	<b>-18,036</b>
Depreciation	-2,813	-9,360	-4,131	-12,030
Impairment	0	0	-8,036	-8,036
<b>Operating profit (loss-)</b>	<b>-1,670</b>	<b>-8,575</b>	<b>-13,312</b>	<b>-38,102</b>
Result from associated companies	-1,275	-543	-975	-1,035
Impairment other financial fixed assets	0	0	-3	-2,053
Interest income	-23	62	13	52
Other financial income	0	0	0	1,749
Fair value through P&L	-44	134	-108	-245
Interest cost	-335	-1,053	-613	-2,266
Other financial cost	-6	-12	-206	-308
Currency gain/loss	1,470	3,507	-11	-1,509
<b>Profit / (loss-) before income tax</b>	<b>-1,883</b>	<b>-6,480</b>	<b>-15,215</b>	<b>-43,717</b>
Tax on result	-27	-1,038	1,120	11,823
<b>Profit / (loss-) for the year</b>	<b>-1,910</b>	<b>-7,518</b>	<b>-14,095</b>	<b>-31,894</b>
<b>Other comprehensive income</b>				
Currency translation differences	-1,825	-4,969	1,641	-232
<b>Total other comprehensive income / (loss-)</b>	<b>-1,825</b>	<b>-4,969</b>	<b>1,641</b>	<b>-232</b>
<b>Total comprehensive income / (loss-) for the year</b>	<b>-3,735</b>	<b>-12,487</b>	<b>-12,454</b>	<b>-32,126</b>
Number of shares	27,235,867	27,235,867	27,235,867	27,235,867
<b>Earnings per share, basic</b>	<b>-0.07</b>	<b>-0.28</b>	<b>-0.52</b>	<b>-1.17</b>

# Condensed Consolidated Statement of Financial Position

All figures in USD (1,000)

<b>Assets</b>	<b>30.09.2016</b>	<b>Audited 31.12.2015</b>
Deferred tax assets	7,078	6,268
Land rigs	100	438
OilService and other equipment	28,087	35,680
Land and buildings	3,083	3,071
Investments in associates	3,612	1,130
Other financial fixed assets	12,504	16,631
Restricted cash	19	19
<b>Total non-current assets</b>	<b>54,483</b>	<b>63,237</b>
Inventory	1,019	947
Tax receivables	609	857
Accounts receivable	12,735	15,799
Other current assets	3,552	2,989
Financial asset at fair value through P&L	419	285
Free cash	8,549	8,005
Restricted cash	265	312
<b>Total current assets</b>	<b>27,148</b>	<b>29,194</b>
<b>Total assets</b>	<b>81,631</b>	<b>92,431</b>
<b>Equity and liabilities</b>	<b>30.09.2016</b>	<b>31.12.2015</b>
Share capital	27 236	27 236
Other equity	8,172	20,029
Majority interest	35,408	47,265
Minority interest	937	1,567
<b>Total equity</b>	<b>36,345</b>	<b>48,832</b>
Bond loan	17,681	17,672
Deferred tax liability	6,268	6,268
Other long-term liabilities	3,645	4,327
<b>Total non-current liabilities</b>	<b>27,594</b>	<b>28,267</b>
Short-term portion of non-current liabilities	1,473	1,650
Accounts payable	11,753	11,643
Bank loan	337	60
Other current liabilities	4,129	1,979
<b>Total current liabilities</b>	<b>17,692</b>	<b>15,332</b>
<b>Total liabilities</b>	<b>45,286</b>	<b>43,599</b>
<b>Total equity and liabilities</b>	<b>81,631</b>	<b>92,431</b>
Total book equity per share (end of period shares)	1.33	1.79
Equity (total) ratio	44.52%	52.83%





### Condensed Consolidated Statement of changes in Equity

All figures in USD (1,000)

	YTD 2016	YTD 2015
Equity period start 01.01	48,832	101,544
Total equity from shareholders in the period	0	0
Total comprehensive income/loss (-) for the period	-12,487	-32,126
<b>Total change of equity in the period</b>	<b>-12,487</b>	<b>-32,126</b>
<b>Equity at period end</b>	<b>36,345</b>	<b>69,418</b>

### Condensed Consolidated Cash Flow Statement

All figures in USD (1,000)

	Q3 2016	YTD 2016	Q3 2015	YTD 2015
Net cash flow from operating activities	525	2,663	-4,322	-12,982
Net cash flow from investing activities	1,567	-71	-447	2,163
Net cash flow from financing activities	-850	-1,999	1,062	-12,296
<b>Net change in cash and cash equivalents</b>	<b>1,242</b>	<b>593</b>	<b>-3,707</b>	<b>-23,115</b>
Free cash and cash equivalents at beginning of period	7,273	8,005	9,646	29,975
Exchange gain/loss (-) on cash and cash equivalents	34	-49	0	-921
<b>Free cash and cash equivalents at period end</b>	<b>8,549</b>	<b>8,549</b>	<b>5,939</b>	<b>5,939</b>

## Notes to the unaudited condensed consolidated figures:

### Note 1 Applied accounting principles

This third quarter report is prepared according to the International Financial Reporting Standards (IFRS as adopted by the EU) and the appurtenant standard for quarterly reporting (IAS 34). The quarterly accounts are based on the current IFRS standards and interpretations and were approved by the Board on 24 November 2016.

This third quarter report is prepared according to the same principles as the most recent annual financial statements, but does not include all the information and disclosures required in the annual financial statements. Consequently, this report should be read in conjunction with the latest annual report for the Company (2015). Changes in standards and interpretations may result in other figures.

The same accounting principles and methods for calculation, which were applied in the latest annual report (2015), have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2015 which is available on the Company's website [www.petrolia.eu](http://www.petrolia.eu).

The consolidated accounts are based on historical cost, with the exception of items required to be reported at fair value.

## Note 2 Tangible fixed assets

The table below outlines the development of tangible fixed assets as of 30 September 2016:

All figures in USD (1,000)	Drilling- and other equipment	Land rigs	Land and buildings	Total
<b>Balance at 1 Jan 2016</b>	35,680	438	3,071	39,189
Acquisition cost:				
Acquisition cost at 1 Jan 2016	310,815	14,243	3,495	328,553
Purchased tangibles in 2016	2,685	28	0	2,713
Disposal in 2016	-35,483	0	0	-35,483
Translation differences	282	1	50	333
<b>Acquisition cost at 30 September 2016</b>	<b>278,299</b>	<b>14,272</b>	<b>3,545</b>	<b>296,116</b>
Depreciation/impairment:				
Balance depreciation at 1 January 2016	-245,154	-2,595	-119	-247,868
Balance impairment at 1 January 2016	-29,981	-11,210	-305	-41,496
Depreciation in 2016	-8,955	-367	-38	-9,360
Impairment in 2016	0	0	0	0
Disposal of depreciation in 2016	27,424	0	0	27,424
Disposal of impairment in 2016	6,454	0	0	6,454
<b>Depreciation/impairment as at 30 September 2016</b>	<b>-250,212</b>	<b>-14,172</b>	<b>-462</b>	<b>-264,846</b>
Carrying amount:				
<b>Balance at 30 September 2016</b>	<b>28,087</b>	<b>100</b>	<b>3,083</b>	<b>31,270</b>
<b>Residual value</b>				

## Note 3 Investments in associates

All figures in USD (1,000)	Petrolia NOCO AS
<b>Investments in associates</b>	
Shareholding	49.9%
Business address	Bergen, Norway
<b>Balance 1 January 2016</b>	<b>1,130</b>
Investments	2,904
Share of result	-422
<b>Balance at 30 September 2016</b>	<b>3,612</b>



## Note 4 Segment Information

All figures in USD (1,000) YTD 2016	Oil & Gas	OilService	Total
Revenue	Na	30,335	30,335
EBITDA	Na	785	785
Rental equipment, land rigs, licences	Na	28,187	28,187
Property	Na	3,083	3,083

### Oil & Gas

Petrolia NOCO was awarded one new license in the 2015 APA and now holds 6 licences on the NCS.

### OilService

In the third quarter of 2016, the OilService division has continued the ongoing business improvement programme with emphasis on business development, cost savings, equipment utilisation and equipment lifetime optimisation.

## Note 5 Legal disputes

The board of PetroMENA ASA, under bankruptcy proceedings, has filed a claim of USD 1.2 billion against Deutsche Bank for various breaches of law and governance. Petrolia understands that the parties are in a process of negotiating an out of court settlement which will have limited financial effect for Petrolia.

## Note 6 Events after the balance sheet date

On 4 November 2016 the Ministry of Petroleum and Energy confirmed that Petrolia NOCO AS has been prequalified as an operator on the Norwegian Continental Shelf (NCS).

## Glossary

APA	Awards in Predefined Areas
BOEPD	Barrels of oil equivalent per day
BOE	Barrels of oil equivalents
BOPD	Barrels of oil per day
EBIT	Earnings before Interest and taxes
EBITDAX	Earnings before interest, taxes and explorations costs
EPS	Earnings per share
Exploration	A general term referring to all efforts made in the search for new deposits of oil and gas
Exploration well	A well drilled in the initial phase in petroleum exploration
Farm out	A contractual agreement with an owner who holds a working interest in an area to assign all or parts of that interest to other parties
MMbbl	Million barrels (oil reserves)
LOI	Letter of intent
NOK	Norwegian crowns
Oil field	An accumulation of hydrocarbons in the subsurface
Prospect	An area of exploration in which hydrocarbons have been predicted to exist
Spud	To start drilling a well
USD	United States Dollars