



**PETROLIA**

**Q2 2015**

## PETROLIA SE ('the Company') second quarter results 2015:

### Financial results

- Total comprehensive income of USD -10.9 million in Q2 2015 compared to USD 2.3 million in Q2 2014.
- EBITDAX (EBITDA excluding exploration costs) of USD -5.2 million in Q2 2015 compared to USD 7.0 million in Q2 2014.
- Revenue was USD 15.8 million in Q2 2015 compared to the solid Q2 2014 figures of USD 28.3 million.
- Shareholders' equity as at 30 June 2015 was USD 3.01 per share. Share price was NOK 6.10, or USD 0.78 at an exchange rate of USD/NOK 0.1273.
- Earnings per share was USD -0.40 per share in Q2 2015 compared to USD 0.07 per share in Q2 2014.
- Bond financial covenant amended to 40% equity ratio.

### Oil and Gas

- Initiated process to become pre-qualified as an operator at the Norwegian Continental Shelf.
- No new licenses acquired in the second quarter.
- High focus on capital discipline and cost saving initiatives.

### OilService

- Continued challenging market conditions impacting on activity levels in the OilService division.
- High focus on cost saving initiatives.

### Drilling and Well Technology

- Drilling and work-over rigs continue to be marketed in Eastern Europe and parts of the Middle East region.

### Key figures

All figures in USD (million)	Q2 2015	Q2 2014	YTD 2015	YTD 2014
Operating revenues	15.8	28.3	32.5	56.0
EBITDAX	-5.2	7.0	-4.5	16.9
EBITDA	-6.5	6.4	-16.9	15.1
Total comprehensive income for the year	-10.9	2.3	-19.7	7.1
Earnings per share in USD	-0.40	0.07	-0.65	0.24
Equity per share in USD	3.01	4.03	3.01	4.03

### Financial information

#### Profit and loss for the second quarter of 2015 compared to the second quarter of 2014

Total revenue was USD 15.8 million compared to USD 28.3 million in the second quarter of 2014. Operating expenses were USD 20.9 million, including impairment of current assets by USD 4.4 million, compared to USD 21.3 million, including impairment of current assets by USD 0.03 million, in 2014. EBITDAX was USD -5.2 million compared to USD 7.0 million in the second quarter of 2014. Exploration cost was USD 1.3 million compared to USD 0.6 million in 2014. EBITDA was USD -6.5 million compared to USD 6.4 million in 2014.

Depreciation was USD 3.9 million in the second quarter of 2015 compared to USD 4.1 million in the corresponding quarter in 2014. Operating loss was USD 10.4 million compared to a profit of USD 2.3 million in 2014. Result from associated company was a loss of USD 0.04 million compared to a loss of USD 0.02 million in 2014. Net financial cost was USD 0.4 million compared to USD 1.7 million in 2014.

The net result after tax was USD -10.9 million compared to USD 1.9 million in 2014. Total comprehensive income was USD -10.9 million compared to USD 2.3 million in 2014.

#### Profit and loss for the first half year of 2015 compared to the first half year of 2014

Total revenue was USD 32.5 million compared to USD 56.0 million in 2014. Operating expenses were USD 37.0 million, including impairment of current assets by USD 4.4 million, compared to USD 39.1 million, including impairment of current assets by USD 0.03 million, in 2014. EBITDAX was USD -4.5 million compared to USD 16.9 million in the first half year of 2014. Exploration cost was USD 12.4 million compared to USD 1.8 million in 2014. EBITDA was USD -16.9 million compared to USD 15.1 million in 2014.

Depreciation was USD 7.9 million in the first half year of 2015 compared to USD 8.1 million in the corresponding period in 2014. Operating loss was USD 24.8 million compared to a profit of USD 7.0 million in 2014. Result from associated company was a loss of USD 0.06 million compared to a loss of USD 0.17 million in 2014. Net financial cost was USD 1.6 million compared to USD 3.5 million in 2014.

The net result after tax was USD -17.8 million compared to USD 6.6 million in 2014. Total comprehensive income was USD -19.7 million compared to USD 7.1 million in 2014.

#### Cash flow for the first half year of 2015 compared to the first half year of 2014

Cash flow from operations was USD -8.7 million in the first half year of 2015, compared to USD 4.8 million in 2014. Cash flow from investments in 2015 was USD 2.6 million compared to USD -4.5 million in 2014. Cash flow from financing activities in the first half year of 2015 was USD -13.4 million compared to USD 10.2 million in the corresponding period in 2014.

Free cash as at 30 June 2015 was USD 9.6 million compared to USD 26.3 million as at 30 June 2014.

#### Statement of financial position

As at 30 June 2015, total assets amounted to USD 131.2 million. Investment in OilService equipment had a book value of USD 50.6 million, investment in land rigs had a book value of USD 8.0 million, investment in listed shares had a book value of USD 0.5 million and total cash was USD 10.7 million. Total tax receivable was USD 20.5 million and primarily relates to exploration expenses on the Norwegian Continental Shelf.

As at 30 June 2015, net interest bearing bond loans amounted to USD 17.0 million. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 19.7 million (total bond loan is USD 36.7 million). In addition there are financial leasing facilities for OilService equipment of USD 5.4 million and for one work-over rig for USD 2.8 million (total USD 8.2 million).

Total equity was USD 81.9 million as at 30 June 2015, including a minority interest of USD 4.4 million. Total equity is 59% of total assets compared to the 40% requirement in the financial covenant of the Bond loan. Book value of equity per share was USD 3.01 as at 30 June 2015, including minority interests of USD 0.16 per share.

#### Share information

As at 30 June 2015, 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 June 2015, the company held no treasury shares.

## Operational development, market and outlook

### Oil & Gas division

Within the Oil & Gas division, Petrolia Norway AS ('Petrolia Norway') 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 Norway will actively pursue farm-in opportunities and participate in upcoming APA rounds, but has not acquired any licenses during the second quarter of 2015. Petrolia Norway will continue to focus on capital discipline through an on-going cost saving programme which is expected to yield positive financial benefits throughout 2015.



In July, following a strategic review, Petrolia Norway announced that it had commenced the preparation process to become pre-qualified as an operator on the Norwegian Continental Shelf. In parallel, Petrolia Norway 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 Norway 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 Norway AS 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 18 August 2015. Following the share issue, Petrolia SE owns 49.9% of the shares of Petrolia Norway AS and it will be accounted for as an associated company.

### OilService division

The continued low oil price levels in the second quarter 2015 resulted in a challenging environment for the oil and gas industry. Over the last year, 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 impacted on the activity levels and profit margins of this division. The OilService division has excellent customer relationships and is a well-known and respected service and rental equipment company. Consequently, it is well positioned to retain and expand its customer base in this increasingly competitive environment. Precautionary cost cutting measures and business improvement programmes have been implemented in this division, which will continue during the second half of 2015.

Overall, the Board expects a reduction in revenue for this division during 2015 as activity is reduced and margins are under increased downward pressure.

### Drilling and Well Technology

The Drilling and Well Technology division has one drilling rig and one work-over rig in Romania. The drilling rig is currently on a short term "call out" contract. Both rigs are being marketed in both Eastern Europe and in parts of the Middle East region where the day rates are expected to be higher. The Drilling and Well Technology division will be reported as part of the OilService division from 1 August 2015.

### Related party transactions

During the quarter a liquidity loan of NOK 4 million was obtained from Increased Oil Recovery AS. The loan was repaid during the quarter.

During the quarter a liquidity loan of NOK 12 million was obtained from Independent Oil & Resources Plc. The loan was repaid by NOK 6 million during the quarter. As at 30 June 2015 the balance was NOK 6 million.

### About the Company

#### Oil & Gas division:

Petrolia Norway 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 Norway AS currently holds 13 licences on the NCS. During the period the company was wholly owned by Petrolia SE, which has its head office in Limassol, Cyprus, and regional offices in Oslo and Bergen.

Through Petroresources Ltd (47.39 per cent owned) the division has economic interests in licences in Africa.

#### 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 275 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 & 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 Bond Loan is in NOK. There is therefore a currency risk regarding the USD/NOK exchange rate.

The board of PetroMENA ASA (51% owned by Petrolia SE), under bankruptcy proceedings, has filed a claim of USD 1.2 billion against Deutsche Bank for various breaches of law and governance.

### Responsibility statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2015 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the company's and group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

### Board of Directors, Petrolia SE

Limassol, Cyprus 31 August 2015



## Financial report second quarter 2015 – preliminary

Consolidated Statement of Comprehensive Income				
All figures in USD (1,000)				
	Q2 2015	YTD 2015	Q2 2014	YTD 2014
Operating revenues	15,776	32,457	28,348	55,986
Impairment current assets	4,378	4,378	30	30
Operating expenses	16,557	32,607	21,297	39,026
<b>EBITDAX</b>	<b>-5,159</b>	<b>-4,528</b>	<b>7,021</b>	<b>16,930</b>
Exploration expenses	1,292	12,363	624	1,824
<b>EBITDA</b>	<b>-6,451</b>	<b>-16,891</b>	<b>6,397</b>	<b>15,106</b>
Depreciation	3,901	7,899	4,140	8,091
Impairment	0	0	0	0
<b>Operating profit (loss-)</b>	<b>-10,352</b>	<b>-24,790</b>	<b>2,257</b>	<b>7,015</b>
Result from associated companies	-39	-60	-22	-168
Impairment other financial fixed assets	-2,050	-2,050	0	0
Interest income	20	39	41	83
Other financial income	-30	1,749	68	68
Fair value through P&L	30	-137	302	15
Interest cost	-733	-1,653	-1,315	-2,648
Other financial cost	-86	-102	-225	-476
Currency gain/loss	362	-1,498	-440	-566
<b>Profit / (loss-) before income tax</b>	<b>-12,878</b>	<b>-28,502</b>	<b>666</b>	<b>3,323</b>
Tax on result	-1,994	-10,703	-1,265	-3,303
<b>Profit / (loss-) for the year</b>	<b>-10,884</b>	<b>-17,799</b>	<b>1,932</b>	<b>6,626</b>
<b>Other comprehensive income</b>				
Currency translation differences	-20	-1,873	365	509
<b>Total other comprehensive income / (loss-)</b>	<b>-20</b>	<b>-1,873</b>	<b>365</b>	<b>509</b>
<b>Total comprehensive income / (loss-) for the year/period</b>	<b>-10,904</b>	<b>-19,672</b>	<b>2,297</b>	<b>7,135</b>
Number of shares	27 235 867	27 235 867	27 235 867	27 235 867
Earnings per share, basic	-0.40	-0.65	0.07	0.24



# Condensed Consolidated Statement of Financial Position

All figures in USD (1,000)

<b>Assets</b>	<b>30.06.2015</b>	<b>Audited 31.12.2014</b>
Deferred tax assets	11,401	10,545
Exploration costs and licences	0	983
Land rigs	8,041	8,400
OilService and other equipment	50,644	54,221
Land and buildings	3,433	3,563
Investments in associates	308	344
Other financial fixed assets	230	4,173
Restricted cash	193	352
<b>Total non-current assets</b>	<b>74,250</b>	<b>82,581</b>
Inventory	953	927
Tax receivables	20,545	9,639
Accounts receivable	21,740	32,047
Other current assets	2,654	5,792
Financial asset at fair value through P&L	549	6,516
Free cash	9,646	29,975
Restricted cash	841	3,990
<b>Total current assets</b>	<b>56,928</b>	<b>88,886</b>
<b>Total assets</b>	<b>131,178</b>	<b>171,467</b>
<b>Equity and liabilities</b>	<b>30.06.2015</b>	<b>31.12.2014</b>
Share capital	27,236	27,236
Treasury shares	0	0
Other equity	50,188	70,081
Majority interest	77,424	97,317
Minority interest	4,448	4,227
<b>Total equity</b>	<b>81,872</b>	<b>101,544</b>
Bond loan	17,042	0
Deferred tax liability	5,660	5,425
Other long-term liabilities	5,435	5,422
<b>Total non-current liabilities</b>	<b>28,137</b>	<b>10,847</b>
Short-term portion of non-current liabilities	3,076	29,225
Accounts payable	13,692	16,684
Provisions	0	0
Bank loan	15	4,390
Other current liabilities	4,386	8,777
<b>Total current liabilities</b>	<b>21,169</b>	<b>59,076</b>
<b>Total liabilities</b>	<b>49,306</b>	<b>69,923</b>
<b>Total equity and liabilities</b>	<b>131,178</b>	<b>171,467</b>
Book equity per share (end of period shares)	3.01	3.73
Equity (majority) ratio	59%	57%



### Condensed Consolidated Statement of changes in Equity

All figures in USD (1,000)

	YTD 2015	YTD 2014
Equity period start 01.01	101,544	102,467
Total equity from shareholders in the period	0	0
Total comprehensive income/loss (-) for the period	-19,672	7,356
<b>Total change of equity in the period</b>	<b>-19,672</b>	<b>7,356</b>
<b>Equity at period end</b>	<b>81,872</b>	<b>109,823</b>

### Condensed Consolidated Cash Flow Statement

All figures in USD (1,000)

	Q2 2015	YTD 2015	Q2 2014	YTD 2014
Net cash flow from operating activities	-1,812	-8,660	1,442	4,787
Net cash flow from investing activities	-1,327	2,610	-6,027	-4,511
Net cash flow from financing activities	-3,497	-13,358	14,514	10,224
<b>Net change in cash and cash equivalents</b>	<b>-6,636</b>	<b>-19,408</b>	<b>9,929</b>	<b>10,500</b>
Free cash and cash equivalents at beginning of period	16,282	29,975	16,539	15,813
Exchange gain/loss (-) on cash and cash equivalents	0	-921	-155	0
<b>Free cash and cash equivalents at period end</b>	<b>9,646</b>	<b>9,646</b>	<b>26,313</b>	<b>26,313</b>

## Notes to the unaudited condensed consolidated figures:

### Note 1 Applied accounting principles

This second 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 31 August 2015.

This second 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 (2014). 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 (2014), have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2014 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 June 2015:

All figures in USD (1,000)	Drilling- and other equipment	Land rigs	Exploration cost & licences	Land and buildings	Total
<b>Balance at 1 Jan 2015</b>	54,221	8,400	983	3,563	67,167
Acquisition cost:					
Acquisition cost at 1 Jan 2015	304,019	14,243	983	3,632	322,877
Purchased tangibles in 2015	5,491	0	0	-112	5,379
Disposal in 2015	-362	0	-983	0	-1,345
Translation differences	-1,450	0	0	9	-1,441
<b>Acquisition cost at 30 June 2015</b>	307,698	14,243	0	3,529	325,470
Depreciation/impairment:					
Balance depreciation at 1 January 2015	231,049	1,991	0	69	233,109
Balance impairment at 1 January 2015	18,749	3,852	0	0	22,601
Depreciation in 2015	7,513	359	0	27	7,899
Impairment in 2015	0	0	0	0	0
Disposal of depreciation in 2015	-257	0	0	0	-257
Disposal of impairment in 2015	0	0	0	0	0
<b>Depreciation/impairment as at 30 June 2015</b>	257,054	6,202	0	96	263,352
Carrying amount:					
<b>Balance at 30 June 2015</b>	50,644	8,041	0	3,433	62,118
<b>Residual value</b>					

## Note 3 Investments in associates

All figures in USD (1,000)	Petroresources Ltd
<b>Investments in associates</b>	
Shareholding	47.39%
Business address	Limassol, Cyprus
<b>Balance 1 January 2015</b>	344
Investments	24
Share of result	-60
<b>Balance at 30 June 2015</b>	308

## Note 4 Segment Information

All figures in USD (1,000)	Oil & Gas	OilService	Other	Total
Revenue	0	31,890	567	32,457
EBITDAX	-2,243	-762	-1,523	-4,528
EBITDA	-14,606	-762	-1,523	-16,891
Rental equipment, land rigs, licences	134	58,551	0	58,685
Property	0	3,433	0	3,433

### Oil & Gas

In July, Petrolia Norway announced the preparation process of becoming pre-qualified as an operator at the Norwegian Continental Shelf. In parallel, the company raised NOK 50 million in new equity through a share issue offered to the 20 largest shareholders in Petrolia SE.

Petrolia SE wished to let other investors take direct ownership in Petrolia Norway and did not subscribe for new shares in this issue. There is no plan to list the shares. With a larger investor base, Petrolia Norway AS will be better positioned to pursue attractive opportunities expected to emerge in the present market of lower oil price.

The transaction was completed 18 August 2015. Following the share issue, Petrolia SE owns 49.9% of the shares of Petrolia Norway AS.

### OilService

In the second quarter of 2015, the OilService division has continued the ongoing business improvement programme with emphasis on cost savings, equipment utilisation and equipment lifetime optimisation.

### Drilling & Well Technology

The Drilling and Well Technology division will be reported as part of the OilService as of 1 August 2015. The division currently has one drilling and one work-over rig in Romania. The drilling rig is currently on a short term contract on a call out basis.

## 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.

## Note 6 Events after the balance sheet date

18 August 2015, Petrolia Norway AS announced that the share issue raising NOK 50 million in new equity had been completed. Following the share issue, Petrolia SE owns 49.9% of the shares of Petrolia Norway AS.

## 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