



**PETROLIA**

**Q3 2014**

## PETROLIA SE ('the Company') third quarter results 2014:

### Financial results

- Total comprehensive income of USD -4.8 million in Q3 2014 compared to USD 15.5 million in Q3 2013. The 2014 results include USD -4.0 million in non-recurring items and USD 2.1 million in unrealised loss on listed shares.
- EBITDAX (EBITDA excluding exploration costs) of USD 6.7 million in Q3 2014 compared to USD 11.2 million in Q3 2013.
- Revenue was USD 29.8 million in Q3 2014 compared to the strong Q3 2013 figures of USD 34.6 million.
- Shareholders' equity as at 30 September 2014 was USD 3.86 per share. Share price was NOK 8.80, or USD 1.36 at an exchange rate of USD/NOK 6.45.
- Earnings per share was USD -0.03 per share compared to USD 0.28 per share in Q3 2013.

### Oil and Gas

- Petrolia Norway transferred 15% of its interest in licence PL 674 to Lundin Norway AS.
- Multiple farm-in opportunities evaluated.

### OilService

- OilService division continues to return good operational results and satisfactory financial performance.

### Well and Drilling Technology

- Drilling rig re-certified and is now being marketed.

### Key figures

All figures in USD (million)	Q3 2014	Q3 2013	YTD 2014	YTD 2013
Operating revenues	29.8	34.6	85.8	90.1
EBITDAX	6.7	11.2	23.6	27.5
EBITDA	6.4	7.5	21.5	3.5
Total comprehensive income for the year	-4.8	15.5	2.5	17.6
Earnings per share in USD	-0.03	0.28	0.22	0.57
Equity per share in USD	3.86	3.97	3.86	3.97

### Financial information

#### Profit and loss for the first nine months of 2014 compared to the first nine months of 2013

Total revenue was USD 85.8 million compared to the strong Q3 figures of USD 90.1 million in 2013. Operating expenses were USD 62.3 million compared to USD 62.6 million in 2013. EBITDAX was USD 23.6 million compared to USD 27.5 million in 2013. Exploration cost was USD 2.1 million compared to USD 24.0 million in 2013. EBITDA was USD 21.5 million compared to USD 3.5 million in 2013.

Depreciation was USD 13.1 million compared to USD 12.1 million in 2013. Operating profit was USD 7.4 million compared to a loss of USD 8.6 million in 2013. Result from associated company was a loss of USD 0.2 million compared to profit of USD 0.1 million in 2013. Net financial cost was USD 8.2 million compared to USD 3.4 million in 2013.

The net result after tax was USD 5.9 million compared to USD 15.5 million in 2013. Total comprehensive income was USD 2.5 million compared to USD 17.6 million in 2013.

### Profit and loss for the third quarter of 2014 compared to the third quarter of 2013

Total revenue was USD 29.8 million compared to USD 34.6 million in 2013. Operating expenses were USD 23.2 million compared to USD 23.4 million in 2013. EBITDAX was USD 6.7 million compared to USD 11.2 million in 2013. Exploration expenses were USD 0.3 million compared to USD 3.7 million in 2013. EBITDA was USD 6.4 million compared to USD 7.5 million in 2013.

Depreciation was USD 5.0 million compared to USD 4.1 million in 2013. Operating profit was USD 0.3 million compared to USD 3.4 million in 2013. Result from associated company was USD -0.03 million compared to USD -0.03 million in 2013. Net financial cost was USD 4.7 million compared to USD 0.5 million in 2013.

The net result after tax was USD -0.7 million compared to USD 7.7 in 2013. Total comprehensive income was USD -4.8 million compared to USD 15.5 in 2013.

### Cash flow for the first nine months of 2014 compared to the first nine months of 2013

Cash flow from operations was USD 13.9 million in 2014 compared to USD 0.3 million in 2013. Cash flow from investments in 2014 was USD -11.8 million compared to USD -1.4 million in 2013. Cash flow from financing activities in 2014 was USD -1.0 million compared to USD 1.9 million in 2013.

Free cash as at 30 September 2014 was USD 17.4 million compared to USD 8.6 million as at 30 September 2013.

### Statement of financial position

As at 30 September 2014, total assets amounted to USD 200.8 million. Investment in OilService equipment had a book value of USD 58.2 million, investment in land rigs had a book value of USD 12.5 million, investment in listed shares had a book value of USD 9.4 million and total cash was USD 26.7 million. Total tax receivable was USD 25.3 million and relates to exploration expenses on the Norwegian Continental Shelf.

As at 30 September 2014, net interest bearing bond loans amounted to USD 30.4 million, of which USD 5.1 million is recognised as a short term liability as it is due for payment in June 2015. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 23.0 million (total bond loan is USD 53.4 million). In addition there are financial leasing facilities for OilService equipment of USD 3.3 million and for one work-over rig for USD 3.8 million (total USD 7.1 million).

Total equity was USD 105.0 million as at 30 September 2014, including a minority interest of USD 4.3 million. Book value of equity per share was USD 3.86 as at 30 September 2014, including minority interests of USD 0.16 per share.

### Share information

As at 30 September 2014, 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 2014, 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 the 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. Petrolia Norway is targeting 20 – 30 MMbbl reserves within the four next years, with net annual capital expenditure after tax of USD 5 – 8 million.

12 August 2014: Petrolia Norway AS entered into an agreement to transfer 15% in PL 674 to Lundin Norway AS. After the transaction Petrolia Norway AS holds 35% in PL 674.

## OilService division

The OilService division delivered good operational performance and satisfactory financial results during the third quarter 2014, demonstrating the robustness of the business model in a challenging oil and gas environment. The OilService division continues to benefit from its position as a well-known and respected service and rental equipment company. Based on modern equipment and craftsmanship, in addition to global scale and reach, the division serves some of the industry's global leaders. During the quarter, the on-going business improvement programme continued with emphasis on optimising margins, equipment utilisation and lifetime.

Despite the recent decline in the oil price, it is anticipated that the growth of the exploration and production sector will continue as it will be driven by the global increase in demand for hydrocarbons. This demand is expected to continue to rise in both the short and long term due to the projected growth in consumption from emerging economies. A reduction in capital expenditure by oil companies is anticipated as a result of the lower oil price, however this is being viewed by the Company as an opportunity for the rental market. In this environment equipment is more likely to be rented rather than purchased. Renting equipment is also a more feasible option for new oil companies entering the market. The global reach and logistical strength of the OilService division make it well placed to respond to this changing environment. As a result of these factors, the Board is cautiously optimistic about the future market environment for the OilService division.

## Drilling and Well Technology

The Drilling and Well Technology division currently has one drilling and one work-over rig idle in Romania. The drilling rig has demonstrated excellent operational performance and is being marketed in other regions where the day rates are expected to be higher. A contract is currently under negotiation for the drilling rig and the work-over rig is currently being marketed and will be mobilised once a Letter of Intent ('LOI') is signed.

The rigs and the drilling competence of this division may also be used for drilling in licences in the Company's Oil & Gas division where appropriate.

## Related party transactions

There have been no new related party transactions in the quarter.

## About the Company

### Oil & Gas division:

Petrolia Norway seeks to maximise field potential through innovative exploration in mature areas on the Norwegian Continental Shelf, leveraging on the extensive industry experience of its management team. Petrolia Norway currently holds 20 per cent of the PL 739S licence, 35 per cent of the PL 674 licence, 30 per cent of PL 506S, PL 506BS, PL 506CS, PL 506DS, 10 per cent of PL 628, 10 per cent of PL 546 and 10% of PL 558. Petrolia Norway has offices in Oslo, Bergen and Stavanger and is wholly owned by Petrolia SE.

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 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 through Premium Casing Services Pty Ltd in Australia and New Zealand.

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.



#### Drilling and Well Technology division:

IO&R Ltd, a subsidiary of Petrolia SE, owns two land rigs which are presently located in Romania. The drilling rig has completed 21 wells since it commenced a one and a half year contract in Romania. The rig has proven to be efficient in line with expectations for the drilling activities, including fast and efficient mobilisation and demobilisation between wells. The rig is currently being marketed to a number of potential customers within Eastern Europe, Middle East and other commercially attractive areas.

The work-over land rig is being marketed and will be mobilised once a LOI is signed.

#### **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 Estate of PetroMENA ASA (51 % owned by Petrolia) is, through a writ of summons ("stevning"), seeking to invalidate an equipment purchase on 13 November 2008 whereby Oil Tools Supplier AS (formerly Petrolia Services AS) purchased drilling equipment for USD 34.7 million from PetroMENA ASA. Oil Tools Supplier AS is a subsidiary of Petrolia Drilling II AS which is owned by Petrolia SE. On 19 March 2013 Oslo District Court ruled in favour of the PetroMena ASA estate for USD 14 million. Oil Tools Supplier AS filed an appeal, and the appeal case was conducted during October and November 2014 in Borgarting appellate court. A decision is expected in December 2014.

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.

#### **Board of Directors, Petrolia SE, 28 November 2014**



## Financial report third quarter 2014 – preliminary

Consolidated Statement of Comprehensive Income				
All figures in USD (1000)				
	Q3 2014	YTD 2014	Q3 2013	YTD 2013
Operating revenues	29 844	85 830	34 559	90 095
Operating expenses	23 194	62 250	23 405	62 591
<b>EBITDAX</b>	<b>6 650</b>	<b>23 580</b>	<b>11 154</b>	<b>27 504</b>
Exploration expenses	265	2 089	3 690	23 978
<b>EBITDA</b>	<b>6 385</b>	<b>21 491</b>	<b>7 464</b>	<b>3 526</b>
Depreciation	5 039	13 130	4 063	12 123
Impairment	1 003	1 003	0	0
<b>Operating profit (loss-)</b>	<b>343</b>	<b>7 358</b>	<b>3 401</b>	<b>-8 597</b>
Result from associated companies	-31	-199	-29	69
Interest income	39	122	0	114
Other financial income	0	68	64	116
Fair value through P&L	-2 153	-2 138	1 401	2 100
Interest cost	-1 406	-4 054	-1 505	-4 354
Other financial cost	177	-299	-648	-849
Currency loss	-1 379	-1 945	155	-488
<b>Profit before income tax</b>	<b>-4 410</b>	<b>-1 087</b>	<b>2 839</b>	<b>-11 889</b>
Tax on result	-3 669	-6 972	-4 825	-27 346
<b>Profit for the year</b>	<b>-741</b>	<b>5 885</b>	<b>7 664</b>	<b>15 457</b>
<b>Other comprehensive income</b>				
Currency translation differences	-4 080	-3 350	7 801	2 173
<b>Total other comprehensive income</b>	<b>-4 080</b>	<b>-3 350</b>	<b>7 801</b>	<b>2 173</b>
<b>Total comprehensive income for the year</b>	<b>-4 821</b>	<b>2 535</b>	<b>15 465</b>	<b>17 630</b>
Number of shares	27 235 867	27 235 867	27 235 867	27 235 867
<b>Earnings per share, basic</b>	<b>-0.03</b>	<b>0.22</b>	<b>0.28</b>	<b>0.57</b>



# Condensed Consolidated Statement of Financial Position

All figures in USD (1000)

<b>Assets</b>	<b>30.09.2014</b>	<b>Audited 31.12.2013</b>
Goodwill	249	1 947
Deferred tax assets	11 988	9 214
Exploration costs and licences	264	0
Land rigs	12 455	13 048
OilService and other equipment	58 184	54 715
Land and buildings	2 416	2 674
Investments in associates	2 385	2 334
Other financial fixed assets	3 681	4 023
Restricted cash	3 749	3 664
<b>Total non-current assets</b>	<b>95 371</b>	<b>91 619</b>
Inventory	1 766	1 741
Tax receivables	25 342	21 436
Accounts receivable	40 160	39 016
Other current assets	5 849	6 736
Financial asset at fair value through P&L	9 407	15 296
Free cash	17 399	15 814
Restricted cash	5 559	760
<b>Total current assets</b>	<b>105 482</b>	<b>100 799</b>
<b>Total assets</b>	<b>200 853</b>	<b>192 418</b>
<b>Equity and liabilities</b>	<b>30.09.2014</b>	<b>31.12.2013</b>
Share capital	27 236	27 236
Treasury shares	0	-47
Other equity	73 502	71 159
Majority interest	100 738	98 348
Minority interest	4 264	4 119
<b>Total equity</b>	<b>105 002</b>	<b>102 467</b>
Bond loan	25 246	30 063
Deferred tax liability	8 835	6 725
Other long-term liabilities	5 690	6 629
<b>Total non-current liabilities</b>	<b>39 771</b>	<b>43 417</b>
Short-term portion of non-current liabilities	7 473	6 715
Accounts payable	14 083	12 184
Provisions	13 048	13 048
Bank loan	4 649	3 503
Other current liabilities	16 827	11 084
<b>Total current liabilities</b>	<b>56 080</b>	<b>46 534</b>
<b>Total liabilities</b>	<b>98 851</b>	<b>89 951</b>
<b>Total equity and liabilities</b>	<b>200 853</b>	<b>192 418</b>
Book equity per share (end of period shares)	3.86	3.76
Equity (majority) ratio	50%	49 %



**Condensed Consolidated Statement of changes in Equity**

All figures in USD (1000)

	YTD 2014	YTD 2013
Equity period start 01.01	102 467	90 578
Total equity from shareholders in the period	0	0
Total comprehensive income/loss (-) for the period	2 535	17 630
<b>Total change of equity in the period</b>	<b>2 535</b>	<b>17 630</b>
<b>Equity at period end</b>	<b>105 002</b>	<b>108 208</b>

**Condensed Consolidated Cash Flow Statement[TBU]**

All figures in USD (1000)

	Q3 2014	YTD 2014	Q3 2013	YTD 2013
Net cash flow from operating activities	9 138	13 925	-980	370
Net cash flow from investing activities	-7 253	-11 764	-2 400	-1 439
Net cash flow from financing activities	-11 242	-1 018	-2 100	1 871
<b>Net change in cash and cash equivalents</b>	<b>-9 357</b>	<b>1 143</b>	<b>-5 480</b>	<b>802</b>
Free cash and cash equivalents at beginning of period	26 314	15 814	14 109	7 827
Exchange gain/loss (-) on cash and cash equivalents	442	442		
<b>Free cash and cash equivalents at period end</b>	<b>17 399</b>	<b>17 399</b>	<b>8 629</b>	<b>8 629</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 28 November 2014 at 09:45 hours.

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 (2013). 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 (2013), have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2013 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 2014:

All figures in USD (1000)	Drilling- and other equipment	Land rigs	Exploration cost & licences	Goodwill	Land and buildings	Total
<b>Balance at 1 Jan 2014</b>	54 715	13 048	0	1 947	2 674	72 384
Acquisition cost:						
Acquisition cost at 1 Jan 2014	285 516	14 234	0	1 947	3 438	305 135
Purchased tangibles in 2014	17 511	8	264	0	22	17 805
Disposal in 2014	-2 012	0	0	0	0	-2 012
Translation differences	-240	1	0	-25	-234	-498
<b>Acquisition cost at 30 September 2014</b>	300 775	14 243	264	1 922	3 226	320 430
Depreciation/impairment:						
Balance depreciation at 1 January 2014	216 529	1 186	0	0	764	218 479
Balance impairment at 1 January 2014	14 272	0	0	0	0	14 272
Depreciation in 2014	12 468	602	0	14	46	13 130
Impairment in 2014	1 002	0	0	1 659	0	2 661
Disposal of depreciation in 2014	-1 677	0	0	0	0	-1 677
Disposal of impairment in 2014	-3	0	0	0	0	-3
<b>Depreciation/impairment as at 30 September 2014</b>	242 591	1 788	0	1 673	810	246 862
Carrying amount:						
<b>Balance at 30 September 2014</b>	58 184	12 455	264	249	2 416	73 568
<b>Residual value</b>						

## Note 3 Investments in associates

All figures in USD (1000)	Petroresources Ltd
<b>Investments in associates</b>	
Shareholding	47.39%
Business address	Limassol, Cyprus
<b>Balance 1 January 2014</b>	2 334
Investments	250
Share of result	-199
<b>Balance at 30 September 2014</b>	2 385

## Note 4 Segment Information

All figures in USD (1000)	Oil & Gas	Drilling & Well Technology	OilService	Other	Total
Revenue	0	435	85 416	-21	85 830
EBITDAX	-4 901	-1 879	36 593	-6 233	23 580
EBITDA	-6 990	-1 879	36 593	-6 233	21 491
Rental equipment, land rigs, licences	478	15 096	55 312	17	70 903
Property	0	0	2 416	0	2 416

### Oil & Gas

Petrolia Norway AS has transferred 15% of its interest in PL 674 to Lundin Norway AS. After the transaction Petrolia Norway AS holds 35% in PL 674.

### OilService

The OilService division has during 2014 continued the on-going business improvement programme with emphasis on margin expansion, equipment utilisation and equipment lifetime optimisation.

### Drilling & Well Technology

The Drilling and Well Technology division currently has one drilling and one work-over rig idle in Romania. The drilling rig has demonstrated a solid operational performance and is being marketed in other regions where the day rates are expected to be higher. The work-over rig is currently being marketed and will be mobilised once a LOI is signed.

## Note 5 Legal disputes

The Estate of PetroMENA ASA (51 % owned by Petrolia) is, through a writ of summons ("stevning"), seeking to invalidate an equipment purchase on 13 November 2008 whereby Oil Tools Supplier AS (formerly Petrolia Services AS) purchased drilling equipment for USD 34.7 million from PetroMENA ASA. Oil Tools Supplier AS is a subsidiary of Petrolia Drilling II AS which is owned by Petrolia SE. On 19 March 2013 Oslo District Court ruled in favour of the PetroMENA ASA estate for USD 14 million. Oil Tools Supplier AS filed an appeal, and the appeal case was conducted during October and November 2014 in Borgarting appellate court. A decision is expected in December 2014..

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

There have been no significant events after the balance sheet date.

## 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