PETROLIA

Q2 2013

PETROLIA SE (PDR) second quarter 2013 preliminary result

Summary of main events

- The continuous focus on the OilService division has resulted in turning losses over several years to profitability.
- Total comprehensive income was USD 0.7 million in Q2 2013 compared to USD - 11.3 million in 2012.
- Total comprehensive income was USD 2.2 million for the first six months of 2013 compared to USD -11.1 million in 2012.
- Earnings per share was USD 0.29 for the first six months of 2013 compared to USD -0.26 in 2012.
- EBITDA excluding exploration costs was, USD 9.9 million in Q2 2013 and USD 16.4 million for the first six months of 2013 compared to USD 4.1 million in Q2 2012 and USD 10.5 million for the first six months of 2012.
- Revenue was USD 29.8 million in Q2 2013 and USD 55.5 million for the first six months of 2013.
- Shareholder's Equity per 30 June 2013 was USD 3.41 per share.
- 24 April: IO&R Ltd, a subsidiary of Petrolia SE, sold a work-over rig for USD 5.5 million and at the same time hired it back under a 3 year bareboat agreement.
- 28 June: The Annual General Meeting elected a new Board of Directors.
- The OilService division is performing well and generated revenues of USD 54.7 million and EBITDA of USD 22.4 million over the first 6 months of 2013.
- The Oil & Gas division remains optimistic about the Stord basin (south west of Bergen). Even though the well did not encounter hydrocarbons due to absence of reservoir rocks, the results give encouraging indications which could open new exploration possibilities in the area.
- The Bond Loan has been restructured and balances are now:
    - "Old Bonds" (ISIN NO 0010440258): USD 9.3 million.
    - "New Bonds" (ISIN NO 0010683592): USD 48.1 million, of which Petrolia owns USD 22.8 million.

Financial information

Profit and loss for the first half year of 2013 compared to the first half year of 2012

Total revenue was USD 55.5 million compared to USD 44.3 million in 2012.

Operating expenses was USD 39.2 million compared to USD 33.8 million in 2012.

EBITDA excluding exploration was USD 16.4 million compared to USD 10.5 million in 2012.

Exploration cost was USD 20.3 million compared to USD 1.0 million in 2012.

EBITDA was USD -3.9 million compared to USD 9.5 million in 2012.

Depreciation was USD 8.1 million compared to 16.7 million in 2012. From 2013, the estimated economic life for tubulars has been extended to 7 years compared to 5 years in the past..

Operating loss was USD 12.0 million compared to USD 7.2 million in 2012.

Result from associated company was USD 0.1 million compared to USD -0.7 million in 2012.

Net financial result was USD -2.8 million compared to USD 5.8 million in 2012.

The net result after tax was USD 7.8 million compared to USD -10.5 million in 2012.

Total comprehensive income was USD 2.2 million compared to USD -11.1 in 2012.

Book value of the rental drilling equipment as of 30 June 2013 was USD 60.6 million compared to USD 70.1 million in 2012.

The USD/NOK exchange rate has changed from 5.98 as of 30 June 2012 to 6.03 as of 30 June 2013.

Profit and loss for the second quarter of 2013 compared to the second quarter of 2012

Total revenue was USD 29.8 million compared to USD 24.7 million in 2012.

Operating expenses was USD 19.9 million compared to USD 20.6 million in 2012.

EBITDA, excluding exploration, was USD 9.9 million compared to USD 4.1 million in 2012.

Exploration cost was USD 18.0 million compared to USD 0.9 million in 2012.

EBITDA was USD -8.2 million compared to USD 3.2 million in 2012.

Depreciation was USD 4.1 million compared to USD 8.2 million in 2012.

Operating loss was USD 12.3 million compared to USD 5.0 million in 2012.

Result from associated company was USD 0.0 million compared to USD -0.1 million in 2012.

Net financial result was USD -1.0 million compared to USD -13.0 million in 2012.

The net result after tax was USD 0.8 million compared to USD -13.4 in 2012.

Total comprehensive income was USD 0.7 million compared to USD -11.3 in 2012

Cash flow

Cash flow from operations was USD -6.4 million in 2013 compared to USD 7.8 million in 2012. Cash flow from investments in 2013 was USD 1.0 million compared to USD -10.2 million in 2012. Cash flow from financing activities in 2013 was USD 4.0 million compared to USD -7.4 million in 2012.

Free cash as of 30 June 2013 was USD 14.1 million compared to USD 7.8 million as of 30 June 2012.

Statement of financial position

As at 30 June 2013, total assets amounted to USD 216.4 million. Investment in drilling equipment had a book value of USD 60.6 million, investment in land rigs had a book value of USD 13.4 million, investment in listed shares had a book value of USD 7.1 million and total cash was USD 21.4 million. Total tax receivable was USD 27.9 million and relates to exploration expenses on the Norwegian Continental Shelf.

As at 30 June 2013, net interest bearing bond loans amounted to USD 34.4 million, of which USD 3.8 million is recognised as a short term liability as it is due for payment in June 2014. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 22.7 million (so total bond loan is USD 57.2 million). In addition there are financial leasing facilities for rental equipment in the amount of USD 5.7 million and for one work-over rig in the amount of USD 5.3 million (total USD 11.0 million).

Total equity was USD 92.7 million as at 30 June 2013, including a minority interest of USD 3.8 million. Book value of equity per share was USD 3.41 as at 30 June 2013, including minority interest of USD 0.14 per share.

Share information

As at 30 June 2013, the total number of shares outstanding in Petrolia SE equalled 27,235,867, each with a par value of USD 1.00. The company has no outstanding or authorized stock options, warrants or convertible debt. As of 30 June 2013, the company held 47,274 (0.17 per cent) treasury shares.

The market and outlook

Within the Oil & Gas division, Petrolia Norway actively looks to improve the licence portfolio. The company has established a cost efficient, robust and scalable business model, with the current drilling program fully funded. Petrolia Norway will actively pursue farm-in opportunities and participate in the upcoming APA rounds. Petrolia Norway is targeting a portfolio of 6-10 licences in 2015.

The OilService division has established its position as a well-known service and rental equipment company. Leveraging on modern equipment, solid craftsmanship, in addition to global scale and reach, the division serves some of the industry´s global leaders. The division has been restructured over the recent years and experiences a continuous positive margin and equipment utilization development. The improvement in the operating performance has resulted in solid revenue and EBITDA growth, and the division can still see further upside potential following the implementation of several business improvement measures and the opportunity for growth investments.

Some of the key market drivers for the OilService division are the oil companies´ E&P Investments and global rig activity, which is expected to continue to develop strongly, supported by strong oil prices. Based on the strong market and the division's present performance, the Board of Directors expects an increased activity level for the OilService division going forward.

The Drilling and Well Technology division currently has one drilling rig on contract in Romania. The contract expires at the end of 2013. The 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 will be mobilized once an LOI is signed.

Related party transactions

The work-over rig has been sold to TOT Drilling Ltd for a total of USD 5.5 million. At the same time the rig was hired back on bareboat. This company is controlled by the chairman of the Board of Directors.

A liquidity loan of USD 6.0 million has been obtained from Larsen Oil & Gas AS. This company is a 23 per cent shareholder of the Company and the chairman of the Board of Directors is chairman of Larsen Oil & Gas AS.

Both transactions were done to provide financing to Petrolia and the terms are on the same level as the Bond Loans.

About the company

Oil & Gas division:

Petrolia Norway AS maximizes field potential through innovative exploration and increased oil recovery technology from mature areas on the Norwegian Continental Shelf, leveraging on the extensive industry experience of the Petrolia Norway team. Petrolia Norway AS is qualified as a licensee for the Norwegian Continental Shelf. The company currently holds 50 per cent of the PL674 license and 30 per cent of PL 506S, PL 506BS, PL 506CS and PL 506DS. The company is wholly owned by Petrolia SE and has offices in Bergen, Stavanger and Oslo. Petrolia Norway has purchased 10 per cent (pending governmental approval) of license PL 628 from Statoil Petroleum AS against granting an option on 10 percent of the PL 506 licenses to Statoil.

Through Petroresources Ltd (47.08 per cent owned) the division has economic interests in licenses in Africa and the Middle East and through the announced possible merger with the oil division of Independent Oilfield Rentals Ltd the portfolio of exploration licenses would increase.

OilService division:

The company´s involvement in oilfield services began through the acquisition of Independent Oil Tools AS in 2007 and over the following years, total investment in equipment exceeded USD 200 million. The investments were largely financed by Petrolia and in addition financial leases of more than USD 40 million was obtained. Since 2011, the division has developed into a leading international equipment rental group with a global presence. This division owns drill pipes, test strings & tubing, handling & auxiliary tools and other equipment. In addition, the division provides associated services like tubular running services through Premium Casing Services Pty Ltd in Australia and New Zealand.

Through Catch Fishing, 85 per cent owned with head office located in Holland, the OilService division provides down-hole fishing services and other activities worldwide.

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:

In 2012, a subsidiary of Petrolia SE acquired two land rigs which presently are located in Romania. The drilling rig has completed 14 wells since it commenced a one and a half year contract in Romania. The contract is with a large oil company and is to be completed by the end of this year. The rig has proven to be efficient in line with expectations for the drilling activities as well as fast and efficient mobilisation and demobilisations between wells. The rig is currently being marketed to a certain number of potential customers within Europe and other commercially attractive areas.

The work-over land rig is being marketed and will be mobilised once a LOI is signed. Both rigs are managed by TM Drill, a Romanian land drilling contractor, in which Petrolia has a 19.66% interest. The division has started to build in-house competence within land drilling activities and has employed a number of skilled employees to be able to expand within this segment.

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. Petrolia dismisses the claim. On 19 March 2013 Oslo District Court ruled in favour of the PetroMena ASA estate for USD 14 million. Oil Tools Supplier AS has filed an appeal.

Oil Tools Supplier AS has filed a claim of USD 8.5 million against the Estate of PetroMENA ASA. There is an uncertainty regarding any dividends so no dividend is included in the accounts.

The board of PetroMENA has filed a claim of USD 1.2 billion against a bank for various breaches of law and governance.

Petrolia SE received on 2 November 2011, the decision from the Office of the City Recorder in Oslo in the case where Petrojack ASA, its bankruptcy estate claimed up to USD 5.5 million related to Oil Tools Supplier AS' (Petrolia SE's 100% owned subsidiary) purchase of certain drilling equipment from Petrojack ASA on 13 November 2008. The bankruptcy estate asserted to have a claw back claim related to the transferred equipment. Petrolia SE dismissed the reasons for the claim, ref Stock Exchange notice dated 10 March 2011. The Office of the City Recorder in Oslo has ruled in favour of Petrojack ASA, its bankruptcy estate for USD 3 million, approximately half of their claim. Petrolia SE has appealed and the case is expected to continue in Q4 2013.

Corporate

Following the completion of the cross-country merger on 26 October 2012, the company is now a European Public Limited Liability company (Societas Europaea or SE) with headquarters in Limassol, Republic of Cyprus.

At the Annual General Meeting in Limassol 28 June 2013 the following board of Directors was elected: Judith Parry, Berge Gerdt Larsen, Sjur Storaas and Erwin Joseph Pierre Godec.

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 2013 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, 28 August 2013

Berge Gerdt Larsen	Judith Parry	Sjur Storaas
Chairman of the Board	Board member	Board member

Erwin Joseph Pierre Godec

Board member / Managing Director

Financial report second quarter and half year 2013 – preliminary

Consolidated Statement of Comprehensive Income

All figures in USD (1000)

	Q2 2013	YTD 2013	Q2 2012	YTD 2012
Operating revenues	29 817	55 536	24 724	44 295
Operating expenses	19 929	39 185	20 624	33 761
EBITDA (exl exploration)	**9 889**	**16 350**	**4 100**	**10 534**
Exploration expenses	18 038	20 288	925	996
Operating profit before depreciation (EBITDA)	-8 150	-3 937	3 175	9 538
Depreciation	4 102	8 059	8 211	16 719
Impairment	0	0	0	0
Operating profit (loss-)	-12 252	-11 997	-5 036	-7 181
Result from associated companies	-16	98	-133	-717
Net financial income/expenses(-)	-997	-2 828	-12 963	-5 790
Profit before income tax	-13 266	-14 726	-18 133	-13 689
Tax on result	14 089	22 521	4 701	3 234
Profit for the year	**823**	**7 795**	**-13 431**	**-10 454**
Other comprehensive income				
Currency translation differences	**-108**	**-5 628**	**2 179**	**-615**
Total other comprehensive income	**-108**	**-5 628**	**2 179**	**-615**
Total comprehensive income for the year	**715**	**2 166**	**-11 252**	**-11 069**
Number of shares	27 235 867	27 235 867	27 235 867	27 235 867
Earnings per share, basic	**0.03**	**0.29**	**-0.49**	**-0.26**

Condensed Consolidated Statement of Financial Position		
All figures in USD (1000)		
Assets	**30.06.2013**	**Audited 31.12.2012**
Goodwill	1 947	1 947
Deferred tax assets	17 579	15 727
Exploration costs and licences	0	3 741
Land rigs	13 406	13 360
OilService and other equipment	60 587	62 881
Land and buildings	2 045	2 117
Investments in associates	4 344	4 246
Other financial fixed assets	5 314	5 410
Restricted cash	7 063	14 671
Total non-current assets	112 286	124 100
Inventory	1 826	1 271
Tax receivables	27 907	13 199
Accounts receivable	37 670	38 968
Other current assets	15 735	29 726
Financial asset at fair value through P&L	7 002	12 455
Free cash	14 109	7 827
Restricted cash	261	396
Total current assets	104 149	103 842
Total assets	**216 435**	**227 942**
Equity and liabilities	**30.06.2013**	**31.12.2012**
Share capital	27 236	27 236
Treasury shares	-47	-47
Other equity	61 713	60 258
Majority interest	88 901	87 447
Minority interest	3 843	3 131
Total equity	92 744	90 578
Bond loan	30 628	53 625
Retirement benefit obligations	304	328
Deferred tax liability	15 727	15 727
Other long-term liabilities	7 567	4 827
Total non-current liabilities	54 226	74 507
Short-term portion of non-current liabilities	7 702	10 820
Accounts payable	22 273	22 132
Provisions	11 848	11 848
Bank loan	3 534	3 827
Other current liabilities	24 109	14 230
Total current liabilities	69 464	62 857
Total liabilities	123 690	137 364
Total equity and liabilities	**216 434**	**227 942**
Book equity per share (end of period shares)	3.41	3.33
Equity ratio	41 %	38 %

Total cash is USD 21.4 million. Restricted cash includes USD 1.5 million on a Bond Loan interest security account, USD 2.2 million in escrow connected to sale of disputed equipment and USD 3.3 million as security for the Petrojack claw-back case.

Condensed Consolidated Statement of changes in Equity		
All figures in USD (1000)		
	YTD 2013	YTD 2012
Equity period start 01.01	90 578	84 098
Total equity from shareholders in the period	0	13 041
Total comprehensive income/loss (-) for the period	2 166	-11 069
Total change of equity in the period	2 166	1 972
Equity at period end 30.06	**92 744**	**86 070**

Condensed Consolidated Cash Flow Statement				
All figures in USD (1000)				
	Q2 2013	YTD 2013	Q2 2012	YTD 2012
Net cash flow from operating activities	- 8485	-6 394	6 107	7 847
Net cash flow from investing activities	960	961	-3 671	-10 196
Net cash flow from financing activities	5 107	3 971	-4 967	-7 379
Net change in cash and cash equivalents	-2 418	-1 462	-2 531	-9 728
Cash and cash equivalents at beginning of period	23 850	22 894	25 637	32 834
Exchange gain/loss (-)on cash and cash equivalents				
Cash and cash equivalents at period end	**21 432**	**21 432**	**23 106**	**23 106**

Investment activities in Q1 2013 are: equipment investments of USD 2.7 million and divestment in other shares of USD 2.7 million. Financing activities in Q1 2013 are interests received of USD 1.3 million and lease payments of USD 2.5 million.

Investment activities in Q2 2013 are: equipment investments of USD 2.4 million and divestment in other shares of USD 3.4 million. Financing activities in Q2 2013 are Bond interests paid of USD 3.4 million, Bond interests received of USD 1.0 million, lease payments of USD 1.7 million, net Bond purchase of USD 2.2 million, liquidity loan of USD 5.8 million and sale/bareboat of work-over rig of USD 5.6 million.

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 28 August 2013 at 17:00 hours.

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 (2012). 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 (2012) have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2012 available on the Company's website 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 2013:

All figures in USD (1000)	Drilling- and other equipment	Land rigs	Exploration cost & licences	Goodwill	Land and buildings	Total
Balance at 1 Jan 2013	62 881	13 360	3 741	1 947	2 117	84 046
Acquisition cost:						
Acquisition cost at 1 Jan 2013	276 186	13 745	3 741	1 947	2 989	298 608
Purchased tangibles in 2013	4 321	146	719	0	0	5 186
Disposal in 2013	-1 010	0	-4 460	0	0	-5 470
Acquisition cost at 30 June 2013	279 497	13 891	0	1 947	2 989	298 323
Depreciation/impairment:						
Balance depreciation at 1 January 2013	202 529	385	0	0	872	203 786
Balance impairment at 1 January 2013	10 776	0	0	0	0	10 776
Depreciation in 2013	7 641	391	0	0	27	8 059
Impairment in 2013	0	0	0	0	0	0
Disposal of depreciation in 2013	-686	0	0	0	0	-686
Disposal of impairment in 2013	0	0	0	0	0	0
Balance at 30 June 2013	220 260	776	0	0	899	221 935
Translation differences	1 350	291	0	0	-45	1 596
Carrying amount: **Balance at 30 June 2013** **Residual value**	60 587	13 406	0	1 947	2 045	77 986

Note 3 Investments in associates

All figures in USD (1000) **Investments in associates**	**Petroresources Ltd**
Shareholding	47.08%
Business address	Limassol,Cyprus
Balance 1 January 2012	4 246
Investments	0
Share of result	98
Balance at 30 June 2013	**4 344**

Note 4 Segment Information

All figures in USD (1000)	**Oil & Gas**	**Drilling & Well Technology**	**OilService**	**Other**	**Total**
Revenue	0	790	54 746	0	55 536
EBITDA (exl exploration)	- 3 533	-243	22 444	-2 317	16 351
EBITDA	-23 821	-243	22 444	-2 317	-3 937
Tax revenue	17 888	0	4 632	0	22 520
Result	-7 964	-1 023	18 394	-1 612	7 795
Rental equipment, land rigs, licences	0	13 406	60 587	0	73 993
Property	0	0	2 045	0	2 045

Oil & Gas

Petrolia Norway was awarded the promising PL 674 license, close to the Johan Sverdrup field, in the 2012 Awards in Predefined Areas (APA) announced in January 2013. The Storbarden well in PL 506 was dry. Petrolia Norway has purchased 10 per cent (pending governmental approval) of license PL 628 from Statoil Petroleum AS against granting an option on 10 percent of the PL 506 licenses to Statoil.

Petrolia SE has since the end of 2011 negotiated to purchase and carried out due diligence on producing assets and exploration licences in North Africa and the Middle East, refer to stock exchange notice dated 3 October 2011. Due to the increased abandonment and termination costs of producing assets in Yemen at the end of the licence period, Petrolia is only interested in exploration blocks in Tunisia and Egypt. The negotiation is expected to be concluded in 2013.

OilService

The division is maintaining a strong performance and the outlook for the next few years is good.

Drilling & Well Technology

The new land drilling rig is on a one year contract and has proven to be efficient in line with expectations. The work-over land rig is being marketed and will be mobilised once a LOI is signed. Both rigs are managed by TM Drill, a Romanian Drilling contractor, in which Petrolia has a 19.66 % interest.

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. Petrolia dismisses the claim. On 19 March 2013 Oslo District Court ruled in favour of the PetroMena ASA estate for USD 14 million. Oil Tools Supplier AS has filed an appeal.

Oil Tools Supplier AS has filed a claim of USD 8.5 million against the Estate of PetroMENA ASA.

The board of PetroMENA ASA has filed a claim of NOK 7.4 billion against a bank for various breaches of law and governance.

Petrolia SE received on 2 November 2011, the decision from the Office of the City Recorder in Oslo in the case where Petrojack ASA, its bankruptcy estate claimed up to NOK 32.9 million related to Oil Tools Supplier AS' (Petrolia SE's 100% owned subsidiary) purchase of certain drilling equipment from Petrojack ASA on 13 November 2008. The bankruptcy estate asserted to have a claw back claim related to the transferred equipment. Petrolia SE dismissed the reasons for the claim, refer to Stock Exchange notice dated 10 March 2011. The Office of the City Recorder in Oslo has ruled in favour of Petrojack ASA, its bankruptcy estate for USD 3 million, approximately half of their claim. Petrolia SE has appealed and the case is expected to continue in Q4 2013.

Note 6 Events after the balance sheet date

7 July: With reference to the voluntary bond exchange offer (stock notice 13 June) the new bond (ISIN NO 001 068359.2) was listed on the Nordic ABN. Holders of NOK 288 500 002 accepted the offer and received the same amount in the new bond while the old bond is now reduced by the same amount.