PETROLIA

Q2 2012

PETROLIA ASA (PDR) second quarter and half year 2012 preliminary result

Summary of main events per 30 June 2012

- Revenue was USD 24.7 million in Q2 and USD 44.3 million the first six months of 2012.
- EBITDA was USD 3.2 million in Q2 and USD 9.5 million the first six months of 2012.
- Total Shareholder's Equity per 30.06.2012 was USD 86.1 million (USD 0.28 per share).
- Petrolia Norway AS was approved as a licence holder in February 2012. The company has engaged a very competent and experienced team of subsurface specialists to find new oil reservoirs and participate actively in increased oil recovery (IOR) projects as an active partner in the licences. Petrolia Norway AS is engaged in mapping the increased oil potential in producing oilfields.
- 18 May 2012 Petrolia Norway AS purchased 30% of four licenses in the Stord basin south west of Bergen (PL 506S, PL 506BS, PL 506CS and PL 506DS) from Front Exploration AS. This transaction is pending governmental approval which is expected to be obtained in the next quarter.
- 7 June 2012 the Bondholder meeting resolved to extend the maturity of the Bond Loan by 3 years to 19 June 2015.
- The new semi-automatic land drilling rig is now on an 18 well contract for a Romanian state Oil Company. The land rigs are state of the art units with the benefit of being compact, quick mob/de-mob and having pushing capability.
- The OilService market which we serve through our IOT Group is increasing.

Financial information

<u>Profit and loss for the first half year 2012 compared to first half year of 2011</u>

Total revenue was USD 44.3 million compared to USD 43.3 million in 2011. Revenues are primarily from the OilService segment.

EBITDA was USD 9.5 million compared to USD 14.7 million in 2011. The OilServices segment had an EBITDA of USD 16.0 milion, the Oil and Gas segment had an EBITDA of USD -3.9 million.

Operating expenses was USD 34.8 million compared to USD 28.6 in 2011.

Operating loss was USD 7.2 million including USD 16.7 million in depreciation. Operating loss in 2011 was USD 9.4 million including USD 20.0 million in depreciation and USD 4.1 million in impairment. Depreciation of rental equipment is linearly over 5 years although actual economic life is 7-12 years.

Net financial result was USD -5.8 million compared to USD -13.9 million in 2011. The net result after-tax was USD -10.5 million compared to USD 8.2 in 2011.

Result after tax was USD -10.5 million compared to USD 8.2 million in 2011. The Oil and gas segment had a loss of 1.3 million and the OilService segment had a loss of 2.9 million.

The USD/NOK exchange rate has changed from 5.39 as of 30 June 2011 to 5.98 as of 30 June 2012.

<u>Profit and loss for the second quarter of 2012 compared to the second quarter of 2011</u>

Total revenue was USD 24.7 million compared to USD 22.6 million in 2011.

EBITDA was USD 3.2 million compared to USD 6.5 million in 2011.

Operating expenses was USD 21.6 million compared to USD 16.1 in 2011.

Operating loss was USD 5.0 million including USD 8.2 million in depreciation. Operating loss in 2011 was USD 3.8 million including USD 10.2 million in depreciation.

Net financial result was USD -13.0 million compared to USD -5.9 million in 2011. The net result after-tax was USD -13.4 million compared to USD -9.7 in 2011.

Cash flow

Cash flow from operations was USD 7.8 million in 2012 compared to USD 0.2 million in 2011. Cash flow from investments in 2012 was USD -10.2 million compared to USD 93.9 million in 2011. Cash flow from financing activities in 2012 was USD -7.4 million compared to USD -35.4 million in 2011.

Free cash as of 30 June 2012 was USD 8.9 million compared to USD 68.6 million as of 30 June 2011.

Statement of financial position

As of 30 June 2012, total assets amounted to USD 219.1 million. Investment in rental equipment had a book value of USD 70.1 million, investment in land rigs had a book value of USD 12.9 million, investment in listed shares had a book value of USD 13.3 million and total cash was USD 23.1 million.

Rental equipment is depreciated over five years and a significant part of the equipment is fully depreciated. Acquisition cost is USD 270.2 million compared to book value of USD 70.1 million.

As per 30 June 2012, net interest bearing bond loans amounted to USD 57.6 million. In addition there is a financial leasing facility for rental equipment in the amount of USD 11.9 million.

Total equity was USD 86.1 million as per 30 June 2012, including a minority interest of USD 2.5 million. Book value of equity per share was USD 0.28 as per 30 June 2012, including minority interest of USD 0.01 per share.

Share information

As of 30 June 2012, the total number of shares outstanding in Petrolia ASA equalled 302 078 463, each with a par value of NOK 0.04. The company has no outstanding or authorized stock options, warrants or convertible debt. As of 30 June 2012, the company held 525 003 (0.17 per cent) treasury shares.

An Extraordinary General Meeting 30 December 2011 resolved a Rig Merger whereby 135 000 000 new shares would be issued. The transaction was completed 30 March 2012 when the new share capital was recorded at www.brreg.no.

The same Extraordinary General Meeting also resolved a Cyprus Merger whereby the company becomes a Cypriot company. This transaction is expected to be completed in the third quarter of 2012.

The market and outlook

Petrolia Norway AS has since the incorporation in June 2011 acquired a 10 % interest in PL 356 and a 30% interest in PL506S, PL506BS, PL506CS and PL506DS and actively supports IOR initiatives. The company was approved as a NCS license holder in February 2012 and spudded its first well after the closing of the second quarter. Leveraging on the sound geological and engineering expertise of the Petrolia Norway team, the company will actively participate in upcoming APA (awards in predefined area) rounds and pursue farm-in opportunities.

The current board and management of Petrolia ASA has over the latest year performed a complete turnaround of the company, with focus on strengthening the balance, improve the operations of the IOT Group and to create a new E&P company, Petrolia Norway, with focus on the Norwegian Continental Shelf (NCS).

With the successful amendment of the NOK 344,5 million bond, including the maturity extension to 19 June 2015, the company is on track to secure a solid financing for the future growth strategy.

The restructuring of the IOT Group is continuing to deliver improved operations, growth and a positive EBITDA contribution. Supported by the current high oil price level, the oil companies are increasing their E&P investments, with a record number of rigs coming into the market in 2012 and beyond. Consequently, the Board of Directors expects an increased activity level for the OilService division going forward. In the IOT Group the revenues for 2012 are expected at USD 80 – 90 million with an EBITDA of USD 30 – 40 million.

Related party transactions

Petrolia ASA entered on 22 September 2011 into a letter of intent to acquire (i) two land rigs with associated equipment and (ii) an equipment package from Independent Oil & Resources ASA, the main shareholder in Petrolia ASA, for NOK 74 million. The transaction was completed on 30 March 2012 by issuing 135 million new shares in Petrolia ASA to Independent Oil & Resources ASA at NOK 0.55 per share.

About the company

Oil & Gas division:

Petrolia Norway AS has been incorporated as an oil company focusing on the Norwegian Continental Shelf (NCS). The company became prequalified as licence owner in the NCS on 6 February 2012. The transaction for 10% of licence PL 356, purchased from Det norske oljeselskap was approved by the authorities 24 March 2012.

18 May 2012 30% of four new licenses (PL 506S, PL 506BS, PL 506CS and PL 506DS) was purchased from Front Exploration AS. This transaction is pending approval.

Though Petroresources Ltd 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 will increase and also include production.

Petrolia is now a fully vertically integrated oil company with competence and assets to develop own projects.

OilService division:

The IOT Group provides world-wide drilling rental equipment and associated services including fishing.

Drilling and Well Technology division:

The drilling land rig is on contract. 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, 19.66% owned by Petrolia.

Key risks and uncertainty

The activities and assets of the group are primarily in USD. There is thus 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 Petrolia Services AS purchased drilling equipment for USD 34.7 million from PetroMENA ASA. Petrolia dismisses the claim. The court case is postponed until end 2012. Petrolia Services 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 NOK 7.4 billion against a bank for various breaches of law and governance.

Petrolia ASA received on 2 November 2011, the decision from the Office of the City Recorder in Oslo (Oslo Byfogdembete) in the case where Petrojack ASA, its bankruptcy estate claimed up to NOK 32.9 million related to Petrolia Services AS' (Petrolia ASA's 100% owned subsidiary) purchase of certain drilling equipment from Petrojack ASA in 2009. The bankruptcy estate asserted to have a claw back claim related to the transferred equipment. Petrolia ASA 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 NOK 18 million, approximately half of their claim. Petrolia has appealed and the case is expected to continue in Q4 2013.

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 2012 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 ASA, 23 August 2012

Berge Gerdt Larsen	Unni F. Tefre	Erik Johan Frydenbø
Chairman of the Board	Board member	Board member
Sjur Storaas		Kjetil Forland
Board member		Managing director

Financial report second quarter and half year 2012 – preliminary

Consolidated Statement of Comprehensive Income

All figures in USD (1000)

	Q2 2012	YTD 2012	Q2 2011	YTD 2011
Operating revenues	24 724	44 295	22 592	43 260
Operating expenses	21 549	34 757	16 101	28 561
Operating profit before depreciation (EBITDA)	3 175	9 538	6 491	14 699
Depreciation	8 211	16 719	10 249	19 998
Impairment	0	0	0	4 115
Operating profit (loss-)	-5 036	-7 181	-3 759	-9 415
Result from joint venture	0	0	0	10 106
Result from associated companies	-133	-717	-4	-5
Net financial income/expenses(-)	-12 963	5 790	-5 897	-13 864
Profit before income tax	-18 133	-13 689	-9 660	-13 178
Tax	-4 701	-3 234	0	-21 379
Profit for the year	**-13 431**	**-10 454**	**-9 660**	**8 201**
Other comprehensive income				
Currency translation differences	**2 179**	**-615**	**-8 144**	**-8 942**
Total other comprehensive income	**2 179**	**-615**	**-8 144**	**-8 942**
Total comprehensive income for the year	**-11 252**	**-11 069**	**-17 804**	**-741**
Number of shares	302 078 463	302 078 463	101 259 675	101 259 265
Earnings per share, basic	**-0.04**	**-0.03**	**-0.10**	**0.08**

Condensed Consolidated Statement of Financial Position		
All figures in USD (1000)		
Assets	**30.06.2012**	**Audited 31.12.2011**
Deferred tax assets	20 297	20 297
Exploration costs and licences	413	0
Land rigs	12 866	0
Drilling equipment and other equipment	70 122	79 388
Land and buildings	2 017	2 281
Investments in associates	5 509	5 727
Other financial fixed assets	2 001	1 202
Restricted cash	13 912	8 517
Total non-current assets	127 137	117 412
Inventory	2 070	987
Tax receivables	5 041	1 830
Accounts receivable	31 387	27 251
Other current assets	30 956	11 619
Financial asset at fair value through P&L	13 265	15 779
Other liquid assets	15	15
Free cash	8 921	18 920
Restricted cash	273	5 397
Total current assets	91 927	81 797
Total assets	**219 064**	**199 209**
Equity and liabilities	**30.06.2012**	**31.12.2011**
Share capital	2 175	1 226
Treasury shares	- 2 153	-2 153
Share premium fund	12 093	0
Other equity	71 436	82 410
Majority interest	83 551	81 483
Minority interest	2 519	2 615
Total equity	86 070	84 098
Bond loan	57 577	0
Retirement benefit obligations	250	267
Deferred tax liability	20 297	20 297
Other long-term liabilities	3 992	7 485
Total non-current liabilities	82 116	28 049
Short-term portion of non-current liabilities	7 900	43 208
Accounts payable	22 283	24 099
Provisions	3 948	3 948
Other current liabilities	16 747	15 807
Total current liabilities	50 878	87 062
Total liabilities	132 994	115 111
Total equity and liabilities	**219 064**	**199 209**
Book equity per share (end of period shares)	0.28	0.83
Equity ratio	38 %	41 %

The Rig Merger was completed effective from 30 March 2012 when the change was recorded at www.brreg.no. A total of 135 million shares were issued at a price of NOK 0.55 pr share (0.04 in capital and 0.51 in premium). The total of NOK 74.25 million was consideration for two land rigs and some drilling equipment. Details are available from the documentation issued for the EGM 30 December 2012, http://petrolia.no/?page=4&show=85

Total cash is USD 23.1 million. Restricted cash includes USD 5.4 million on a Bond Loan interest security account, USD 3.0 million in escrow connected to the sale of the shares of Deepwater Driller Ltd, 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 2012	YTD 2011
Equity period start 01.01	84 098	95 248
Total equity from shareholders in the period	13 041	0
Total comprehensive income/loss (-) for the period	-11 069	-741
Total change of equity in the period	1 972	-741
Equity at period end 30.06	**86 070**	**94 507**

Condensed Consolidated Cash Flow Statement

All figures in USD (1000)

	Q2 2012	YTD 2012	Q2 2011	YTD 2011
Net cash flow from operating activities	6 107	7 847	3 217	193
Net cash flow from investing activities	-3 671	-10 196	-22 273	93 878
Net cash flow from financing activities	-4 967	-7 379	-30 409	-35 447
Net change in cash and cash equivalents	-2 531	-9 728	-49 465	58 624
Cash and cash equivalents at beginning of period	25 637	32 834	153 838	45 749
Exchange gain/loss (-)on cash and cash equivalents				
Cash and cash equivalents at period end	**23 106**	**23 106**	**104 373**	**104 373**

Investment activities in Q1 2012 are: equipment investments of USD 5.1 million, investment in Catch Fishing Services BV of USD 3.1 million and divestment in other shares of USD 1.7 million. Financing activities in Q1 2012 are leasing payments of USD 2.4 million

Investment activities in Q2 2012 are: equipment investments of USD 3.0 million and net investments in shares of USD 0.7 million. Financing activities in Q2 2012 are payment of bond interests and fee of USD 4.0 million, leasing payments of USD 2.3 million and proceeds from bond sale of USD 1.4 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 23 August 2012 at 18:00 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 (2011). 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 (2011) have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2011 available at the Company's homepage www.petrolia.no.

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 2012:

All figures in USD (1000)	Drilling- and other equipment	Land rigs	Land and buildings	Exploration costs and licences	Total
Balance at 1 Jan 2012	79 388	0	2 281	0	81 669
Acquisition cost:					
Acquisition cost at 1 Jan 2012	262 356	0	2 979	0	265 335
Purchased tangibles in 2012	6 119	1 842	0	413	8 375
Rigs merger	1 993	11 024	0	0	13 017
Disposal in 2012	-309	0	0	0	-309
Acquisition cost at 30 June 2012	270 159	12 866	2 979	413	286 417
Depreciation/impairment:					
Balance depreciation at 1 January 2012	170 692	0	697	0	171 389
Balance impairment at 1 January 2012	12 276	0	0	0	12 276
Depreciation in 2012	16 390	0	26	0	16 416
Impairment in 2012	0	0	0	0	0
Disposal of depreciation in 2012	217	0	0	0	217
Disposal of impairment in 2012	0	0	0	0	0
Balance at 30 June 2012	199 575	0	723	0	200 298
Translation differences	-463	0	-238	0	-701
Carrying amount: **Balance at 30 June 2012** **Residual value**	70 121	12 866	2 017	413	85 418

Note 3 Investments in associates

All figures in USD (1000) **Investments in associates**	**Petroresources Ltd**	**TM Drill**	**Sum**
Shareholding	46.68%	19.66%	
Business address	Limassol,Cyprus	Ernei, Romania	
Balance 1 January 2011	1 785	3 941	5 727
Investments	499	0	499
Share of result	-9	-709	-717
Balance at 30 June 2012	**2 276**	**3 233**	**5 509**

Note 4 Segment Information

All figures in USD (1000)	**Oil & Gas**	**Drilling & Well Technology**	**OilService**	**Other**	**Total**
Revenue	238		44 057		44 295
EBITDA	-3 939		16 046	-2 568	9 539
Tax	3 234				3 234
Result	- 1 309	-121	-2 909	-6 116	-10 455
Rental equipment, land rigs, licences	413	12 866	70 121		83 400
Property			2 017		2 017

Petrolia Norway AS became prequalified for the Norwegian Continental Shelf on 6 February 2012. On 16 August 2011 10% of the license PL 356 Ulvetanna was purchased from Det norske oljeselskap ASA (Detnor). This transaction was approved by the authorities 24 March 2012. 18 May 2012 30% of four new licenses (PL 506S, PL 506BS, PL 506CS and PL 506DS) was purchased from Front Exploration AS. This transaction is pending approval.

Petrolia ASA announced on 3 October a possible merger of the oil department of Independent Oilfield Rentals Ltd (IOR). IOR has production and exploration license interests both in the Middle East and in North Africa (MENA). It is expected that the agreement will be completed in second half of 2012 after the Registered Head Office of Petrolia is moved to Cyprus.

Rig merger has been completed. The drilling rig is on contract. The work-over rig is being marketed and will be completed once a job is secured.

Note 5 Legal disputes

The claw-back claims from the estates of PetroMENA ASA remain open and the court case is postponed to the end of 2012.

Petrolia ASA received on 2 November 2011, the decision from the Office of the City Recorder in Oslo (Oslo Byfogdembete) in the case where Petrojack ASA, its bankruptcy estate claimed up to NOK 32.9 million related to Petrolia Services AS' purchase of certain drilling equipment from Petrojack ASA in 2009. Petrolia ASA 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 NOK 18 million, approximately half of their claim. Petrolia has appealed and the case is expected to continue in Q4 2013.

Total contingent liability is NOK 278 million and Petrolia reject the claims.

Note 6 Business combination

8 February 2012 85% of Catch Fishing Services BV was acquired. The transaction also included a loan. Total consideration was USD 3.1 million and did not result in any goodwill. The company strengthen the services offered in the OilService division.

Catch had revenues of USD 0.7 million and EBITDA of USD 0.2 million in H1 2012. Total assets was USD 1.4 million and total equity was USD - 2.3 million.

Note 7 Events after the balance sheet date

13 August 2012 it became clear that the exploration well in the Ulvetanna prospect was dry. However, there are several prospects with considerable potential in this license. The PL 356 partnership will now evaluate the Ulvetanna results and thereafter decide on future exploration within the license.