

The logo consists of a stylized bar chart with vertical bars of varying heights in shades of orange and yellow, positioned to the left of the company name.

# PETROLIA DRILLING



## 1<sup>st</sup> quarter 2010

**Petrolia Drilling ASA (PDR) owns, charters and invests in drilling vessels for offshore, deepwater oil and gas drilling. It is also involved in worldwide international oilfield services related to rental of oilfield equipment, tubular running services and other related services. Through its affiliates, among others Petroresources Ltd on Cyprus, PDR invest in oil, gas and other mineral resources.**

## PETROLIA DRILLING ASA first quarter 2010 preliminary result

### Highlights

- Revenues and operating profit before depreciation for Petrolia Drilling ASA for first quarter 2010 was USD 17.1 million and USD 5.5 million respectively. Result for the first quarter was USD -2.2 million.
- Revenues for the period came from Petrolia Services (100% owned subsidiary). The contribution to profit before depreciation from Petrolia Services was USD 6.5 million. The EBITDA-margin was 38 % compared to 41 % for the first quarter of 2009.
- Book value of drilling equipment used by Petrolia Services was USD 110.6 million year end (depreciated over five years). During the last three years Petrolia Drilling has invested approximately USD 200 million in new equipment.
- Revenues and operating profit before depreciation for Venture Drilling (50% owned) was USD 47.0 million for the first quarter 2010. Net result after tax was USD 19.5 million. Maersk redelivered the vessel in late April 2010 against an early termination fee of USD 64 million, cf note 6.
- Petrolia Drilling ASA controls 30% (from April 16 the controlled per cent age is 20,6%) of Deepwater Driller Ltd which is building a new deepwater semisubmersible drilling rig at Jurong Shipyard. On 16 April 2010 an agreement was signed, whereby Songa Offshore invested USD 50 million in new equity into Deepwater Driller and thereby receive a 31.25% ownership in the company. As part of the agreement, Songa Offshore will assume building supervision and commercial management of the rig, cf note 6.
- As previously notified, PetroMENA ASA has been deconsolidated from the books effective 21 December 2009. Due to the bankruptcy of PetroJack ASA on 8 March 2010, this company has also been deconsolidated from 1st quarter 2010. The result from PetroMENA ASA and PetroJack ASA is presented as profit from discontinued operations. This comprises the total of the post-tax profit (loss) of the discontinued operations. Comparative figures for the result in 2009 have been recalculated and are presented in the financial report.
- Total equity equalled USD 177 million as of 31 March 2010. Book value of equity per share equalled USD 0.17 (NOK 1.04 per share) as of 31 March 2010.

### Financial information

#### Profit and loss for the first quarter 2010

Total revenues were USD 17.1 million for the first quarter 2010. Revenues from the oilfield segment were USD 17.1 million in the first quarter. Total revenues in the first quarter 2009 equalled USD 16.0 million.

Operating profit before depreciation was USD 5.5 million for the first quarter 2010 compared to USD 6.1 million in 2009.

Total operating expenses equalled USD 11.6 million for the first quarter 2010. Operating expenses related to the oilfield services segment was USD 21.7 million in the first quarter 2010 compared to USD 16.9 million for the first quarter of 2009.

Operating result equalled USD -5.7 million for the first quarter 2010, including USD 11.2 million in depreciation of equipment related to Petrolia Services. Operating result equalled USD -1.3 million for the first quarter 2009, including USD 7.5 million in depreciations.

The profit from continuing operations for the first quarter 2010 was USD – 2.2 million. Venture Drilling contributes with a positive result after tax of USD 9.5 million. Result from associated

company is positive with USD 0.3 million. Profit from continuing operations for the first quarter in 2009 was USD 6.6 million.

#### Cash flow

Cash flow from operations equalled USD 1.1 million for the first quarter 2010, compared to USD – 3.6 million for the first quarter 2009. Cash flow from investments was USD - 2.4 million for the first quarter 2010, mainly related to investments in equipment. Cash flow from investments for first quarter 2009 was USD - 5.7 million. Cash flow from financing activities for the first quarter 2010 was USD - 1.6 million related to interest paid on bond loans and payment of instalments on financial leasing. Cash flow from financing activities for the first quarter 2009 was USD -20.8 million. Total cash position 31 March 2010 was USD 46.6 million compared to USD 98.1 million 31 March 2009.

#### Statement of financial position

As of 31 March 2010, total assets amounted to USD 359.0 million. Drilling equipment in Petrolia Services has a book value of USD 110.6 million. The investment in Venture Drilling has a book value of USD 89.5 million. The free cash and tied up cash balance per 31 March 2010 of USD 46.6 million includes security in Handelsbanken for the Pemex contract regarding SS Petrolia with USD 27.0 million. The deposit is held on account on behalf of Petromena Ltd and is the property of Petromena Ltd. This account will be sought discontinued and transferred to Petromena Ltd.

Total equity equalled USD 177.0 million as per 31 March 2010, including a minority interest of USD 2.1 million. As of year end 2009, the total equity equalled USD 179.0 million. Book value of equity per share equalled USD 0.17 (NOK 1.02 per share) as of 31 March 2010. Book equity per share equalled USD 0.18 (NOK 1.08 per share) as of year end 2009.

As of 31 March 2010, total liabilities amounted to USD 182.0 million. Non current liabilities mainly consist of bond loan of USD 82.3 million and financial lease of USD 23.2 million.

Other current liabilities of USD 47.8 million include debt to Petromena Ltd of USD 27.0 million as referred to under cash balance, cf above regarding assets.

#### Share information

As of 31 March 2009, the total number of shares outstanding in Petrolia Drilling equalled 1,012,596,745, each with a par value of NOK 0.50. Petrolia Drilling has no outstanding or authorized stock options, warrants or convertible debt. As of 31 March 2010, Petrolia Drilling held 5,250,024 (0.52 percent) own shares.

#### **The market and outlook**

The financial crisis in 2008/2009 resulted in speculative financial engineering and hostile attacks by instructing bondholders and competitors in the rig business. As both PetroMENA ASA and PetroJack ASA had modern rigs under construction, sold or delivered with long term drilling contracts the main losers were not the bondholders but the shareholders of which PDR was the largest (respectively 51.5% (PetroMENA ASA) and 39% (PetroJack ASA).

PDR is evaluating whether claims for compensation for the destruction of values shall be presented. Norsk Tillitsmann ASA (NT) is continuing to refuse to give the names of the bondholders in general and the instructing bondholders in particular, claiming they have the right to be anonymous. PetroMENA ASA had drilling contracts for 3 deepwater rigs with a gross value of more than USD 3 billion.

The uncertainty in the oil price and the large number of drilling rigs still to be delivered in 2011 and 2012 as well as the blow out in the Gulf of Mexico will affect the future market for offshore drillers and oilfield services.

The dispute with the Russian owner of the Deep Venture vessel over the breach of the bareboat agreement is affecting the marketability of the drilling rig. Compensation for damages is being evaluated.

### **About the company**

#### Oilfield Services segment:

Petrolia Services AS, a 100% owned subsidiary of Petrolia Drilling, is a worldwide service company. Petrolia Services main product categories is rental of tubing, drill pipe, casing and handling equipment, tubular running services as well as other oilfield services.

#### Drilling segment:

Petrolia Drilling controls 50% of DS Deep Venture which commenced on an 18 month contract with ExxonMobil ultimo June 2007. The gross value of the contract was in the range USD 200-220 million. DS Deep Venture was engaged by Maersk Oil Angola until July 25 2009, at a day rate of USD 425,000, after withholding of tax. Venture Drilling AS had agreed to a further 18 months contract with Maersk Oil Angola starting from July 25 2009 at a day rate of USD 495,000 after withholding tax. Effective date for new day rate was August 10 2009. In April 2010 a settlement for early termination was reached with Maersk Oil Angola. Maersk Oil Angola paid Venture Drilling AS an early termination fee of USD 64 million. The rig is now being marketed worldwide and is being kept hot stacked in Ghana.

Venture Drilling AS has a Bareboat agreement with the Russian stated owned company Arktikmorneftegazrazvedka, for use of the drillship Deep Venture. The agreement is according to Russian courts invalid. The decision is appealed and the hearing were scheduled to take place 9 March 2010, but has been postponed to June 2010. An early redelivery against compensation is under discussion with the vessel's Russian owners. The bareboat agreement with the Russian owners is governed by Norwegian law and arbitration in Norway is initiated.

Larsen Oil and Gas Ltd, the drilling management contractor, has withheld cash flow from operation to have security of funding to be provided under the management agreement by Venture Drilling. Venture Drilling has started court proceedings in Scotland against Larsen Oil and Gas Ltd. claiming release of the actual amounts.

Petrolia Drilling ASA owned 30 % of the associated company Deepwater Driller Ltd (former Larsen Rig Ltd) which has entered into a construction contract with Jurong Shipyard Pte Ltd for construction of a semi-submersible drilling rig. On 16 April 2010 an agreement was reached, whereby Songa Offshore invested USD 50 million in new equity into Deepwater Driller and thereby receive a 31.25% ownership in the company. As part of the agreement, Songa Offshore will assume building supervision and commercial management of the rig. As a result of the agreement Petrolia Drilling owns 20.6% of the company.

### **Board of Directors, Petrolia Drilling ASA, 28 May 2010**

## Financial report first quarter 2010

<b>Condensed Consolidated Income Statement</b>				
All figures in USD (1000)				
	<b>1Q 2010</b>	<b>YTD 2010</b>	<b>1Q 2009*</b>	<b>YTD 2009*</b>
Operating revenues	17 087	17 087	16 027	16 027
Operating expenses	11 594	11 594	9 861	9 861
<b>Operating profit before depreciation</b>	<b>5 493</b>	<b>5 493</b>	<b>6 166</b>	<b>6 166</b>
Depreciation	11 201	11 201	7 478	7 478
<b>Operating profit (loss-)</b>	<b>-5 708</b>	<b>-5 708</b>	<b>-1 312</b>	<b>-1 312</b>
Result from joint venture	9 522	9 522	8 804	8 804
Result from associated companies	256	256	-47	-47
Net financial income/expenses(-)	-6 210	-6 210	-843	-843
<b>Profit before income tax</b>	<b>-2 140</b>	<b>-2 140</b>	<b>6 602</b>	<b>6 602</b>
Tax	68	68	-32	-32
<b>Profit for the year from continuing operations</b>	<b>-2 208</b>	<b>-2 208</b>	<b>6 634</b>	<b>6 634</b>
<b>Discontinued operations</b>				
Profit for the year from discontinued operations	0	0	-48 639	-48 639
<b>Profit for the year</b>	<b>-2 208</b>	<b>-2 208</b>	<b>-42 005</b>	<b>-42 005</b>
<b>Other comprehensive income</b>				
Other gains/losses charged directly to equity	0	0	0	0
Currency translation differences	158	158	-2 124	-2 124
<b>Total other comprehensive income</b>	<b>158</b>	<b>158</b>	<b>-2 124</b>	<b>-2 124</b>
<b>Total comprehensive income for the year</b>	<b>-2 050</b>	<b>-2 050</b>	<b>-44 129</b>	<b>-44 129</b>

\*) PetroMENA ASA was deconsolidated in 2009 and presented as discontinued operations in the financial statements for 2009. The above figures for 1st quarter 2009 have been changed to reflect the deconsolidation of PetroMENA ASA. Net profit from PetroMENA ASA is presented as discontinued operations. Petrojack ASA is presented as discontinued operations from 1st quarter 2010. The above figures for 1st quarter 2009 have been changed to reflect PetroJack under discontinued operations.

## Condensed Consolidated Statement of Financial Position

All figures in USD (1000)

<b>Assets</b>	<b>31.03.2010</b>	<b>31.12.2009</b>
Goodwill	20 416	20 395
Drilling equipment	110 593	121 969
Buildings and other equipment	2 291	2 305
Investments in joint venture	89 503	86 955
Investments in associates	41 316	41 060
Other financial fixed assets	7 050	450
<b>Total non-current assets</b>	<b>271 169</b>	<b>273 133</b>
Inventory	641	1 478
Trade- and other current receivables	40 586	42 288
Financial asset at fair value through p/l	0	620
Other liquid assets	15	15
Bank deposits	46 608	49 616
<b>Total current assets</b>	<b>87 850</b>	<b>94 017</b>
<b>Total assets</b>	<b>359 019</b>	<b>367 150</b>
<b>Equity and liabilities</b>	<b>31.03.2010</b>	<b>31.12.2009</b>
Share capital	93 568	93 568
Own shares	-2 153	-2 153
Share premium fund	95 352	95 352
Other equity	-11 903	-10 232
	<b>174 864</b>	<b>176 536</b>
Minority interest	2 126	2 504
<b>Total equity</b>	<b>176 990</b>	<b>179 040</b>
Bond loan	82 347	85 143
Retirement benefit obligations	542	562
Other long-term liabilities	23 169	25 992
<b>Total non-current liabilities</b>	<b>106 058</b>	<b>111 697</b>
Short-term portion of non-current liabilities	13 613	11 106
Accounts payable	14 810	11 958
Payable tax	-275	120
Other current liabilities	47 823	53 230
<b>Total current liabilities</b>	<b>75 971</b>	<b>76 413</b>
<b>Total liabilities</b>	<b>182 029</b>	<b>188 111</b>
<b>Total equity and liabilities</b>	<b>359 019</b>	<b>367 150</b>
Book equity per share (end of period shares)	0,17	0,18
Equity ratio	49 %	49 %

## Condensed Consolidated Statement of changes in Equity

All figures in USD (1000)

	YTD 2010	YTD 2009
Equity period start 01.01	179 040	58 654
Total comprehensive income/loss (-) for the period	-2 050	-44 129
Total gains and losses charged directly to equity	0	0
Total recognised income for the period	-2 050	-44 129
Purchase of own shares	0	0
Total equity from shareholders in the period	0	0
<b>Total change of equity in the period</b>	<b>-2 050</b>	<b>-44 129</b>
<b>Equity at period end 31.03</b>	<b>176 990</b>	<b>14 524</b>

## Condensed Consolidated Cash Flow Statement

All figures in USD (1000)

	YTD 2010	YTD 2009
Net cash flow from operating activities	1 070	-3 639
Net cash flow from investing activities	-2 407	-5 672
Net cash flow from financing activities	-1 553	-20 771
<b>Net change in cash and cash equivalents</b>	<b>-2 890</b>	<b>-30 082</b>
Cash and cash equivalents at beginning of period	49 616	127 812
Exchange gain/loss (-) on cash and cash equivalents	-118	425
<b>Cash and cash equivalents at period end</b>	<b>46 608</b>	<b>98 156</b>

PetroMENA ASA has been deconsolidated in 2009 and is presented as discontinued operations in the accounts. The cash flow from 2009 has not been recalculated and thus includes PetroMENA's cash flows and cash deposits. The table below outlines the impact the PetroMENA had on the group accounts in 2009.

Cash flows discontinued operations	YTD 2010	YTD 2009
Operating cash flows	0	1 934
Investing cash flows	0	647
Financing cash flows	0	-23 092
<b>Total cash flows</b>	<b>0</b>	<b>-20 511</b>

## Notes to the unaudited condensed consolidated figures:

### Note 1 Applied accounting principles

This quarterly 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.

This quarterly 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 (2009). 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 (2009) have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2009. The annual report for 2009 is available at the company's homepage, [www.petrolia.no](http://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 Discontinued operations

PetroMENA ASA has been deconsolidated in 2009. PetroJack ASA is deconsolidated from 1st quarter 2010. The result from PetroMENA ASA and PetroJack ASA is presented as profit from discontinued operations. This comprises the total of the post-tax profit (loss) of the discontinued operations.

<b>Analysis of the result of discontinued operations</b>	<b>1Q 2009</b>	<b>YTD 2009</b>
Operating revenue	21 267	21 267
Operating expenses	30 246	30 246
Operating profit	-8 979	-8 979
Result from associated companies	-3 988	-3 988
Net financial income/expenses (-)	-35 672	-35 672
Profit from discontinued operations	-48 639	-48 639
Pre-tax gain/(loss) recognised on discontinued operations	0	0
Tax	0	0
After tax gain/(loss) recognised on discontinued operations	0	0
<b>Profit for the year from discontinued operations</b>	<b>-48 639</b>	<b>-48 639</b>



## Note 3 Tangible fixed assets

The table below outlines the development of tangible fixed assets as of 31 March 2010:

	Drilling- and other equipment	Land and buildings	Total
All figures in USD (1000)			
<b>Balance at 1 Jan 2010</b>	121 969	2 305	124 274
Acquisition cost:			
Acquisition cost at 1 Jan 2010	213 711	2 464	216 175
Purchased tangibles as of 1Q 2010	3 346	0	3 346
Disposal as of 1Q 2010	-32	0	-32
Transferred to asset held for sale	0	0	0
Discontinued operations	0	0	0
<b>Acquisition cost at 31 March 2009</b>	217 025	2 464	219 489
<b>Depreciation:</b>			
Balance at 1 January 2010	91 742	159	91 901
Depreciation as of 1Q 2010	11 185	15	11 200
Discontinued operations	0	0	0
<b>Balance at 31 March 2010</b>	102 927	174	103 101
Translation differences	-3 505	1	-3 504
<b>Carrying amount:</b>			
<b>Balance at 31 March 2010</b>	110 593	2 291	112 884
<b>Residual value</b>			

## Note 4 Segment Information

All figures in USD (1000) Segment information	Drilling		Offshore services		Total	
	1Q 2010	1Q 2009	1Q 2010	1Q 2009	1Q 2010	1Q 2009
	Operating income	-	-	17 087	16 027	17 087
EBITDA	-	-	6 562	6 606	6 562	6 606
EBIT	-	-	-4 639	-872	-4 639	-872
Discontinued operations	-	-44 651	-	-	-	-44 651
EBITDA %			38 %	41 %	38 %	41 %
EBIT %			-27 %	-5 %	-27 %	-5 %

Reconciliation from segment operational EBIT to Profit before income tax:

Segment EBIT	-4 639	-872
Unallocated operating expenses	-1 069	-440
Net financial expenses	-6 210	-843
Share of result from joint venture	9 522	8 804
Share of result from associates	256	-47
<b>Profit before income tax</b>	<b>-2 140</b>	<b>6 602</b>

## Note 5 Investments in associates

All figures in USD (1000) Investments in associates	Petroresources Ltd	Larsen Rig Ltd	Total
Shareholding Business address	28.57% Limassol, Cyprus	30.0% Cayman Island	
Balance 1 January 2010	2 760	38 300	41 060
Share of result	-29	285	256
<b>Balance at 31 March 2010</b>	<b>2 731</b>	<b>38 585</b>	<b>41 316</b>

## Note 6 Events after the balance sheet date

### Petrolia Drilling ASA:

#### PETROLIA DRILLING ASA - TERMINATION OF MANAGEMENT AGREEMENT

Petrolia Drilling ASA ("Petrolia") has terminated the business administration agreement entered into with Larsen Oil & Gas AS ("LOG") in 1996. Under the business administration agreement LOG has provided the following main business administration services:

- Administration, including to place at disposal to Petrolia a CEO and secretary services to the Board of Directors
- Accounting and budgeting services
- Services related to the Company's external reporting and information obligation, including such obligations toward the Oslo Stock Exchange
- Maintenance of Petrolia's shareholders' register

The business administration agreement may be terminated by either party by six months notice. The business administration agreement expires July 2010.

LOG AS is entitled to business administration fee payable pursuant to the agreement during the six months term of notice. Settlement for disputed outstanding costs is expected to take place in connection with final termination settlement by the parties. In 2000 the annual business administration fee was agreed to NOK 3 million per year and it has since not been adjusted for increase in costs.

Petrolia is in the process of establishing its own staff, operational from when the agreement is completed.

#### EXTRAORDINARY GENERAL MEETING IN PETROLIA DRILLING ASA

The EGM in Petrolia Drilling ASA was held the 8th of March 2010 at the request of shareholder Independent Oil & Resources ASA (owner of 19.5%) to convene for election of a new Board of Directors. The proposal did not get majority and control the composition is unchanged after the arranged meeting.

On 19 April an EGM of Petrolia Drilling ASA was held at the request of a shareholder Independent Oil & Resources ASA (26.56% stake). A new board was elected according to the proposal from Independent Oil & Resources ASA.

## **WAGES AND REMUNERATION**

Independent Oil & Resources ASA will support a proposal for the upcoming General meeting to limit the annual fees to the Board of Directors to NOK 200 000 each. The Board of Directors will also support a cost control related to wages and remuneration. As part of the new Board of Directors' strategic work, it will be conducting a historic and legal due diligence of the 2009 and first quarter of 2010 accounts as well as communication in the period, including wages and remuneration to the previous Board of Directors and CEO.

### **Venture Drilling AS:**

#### **STATUS DEEP VENTURE**

In order to secure the funding of the accrued tax liabilities, unforeseen costs, potential accidents, pollution and other liabilities Deep Venture's drilling management contractor, Larsen Oil & Gas Ltd, has withheld funds from operations of Deep Venture. Venture Drilling AS has started court proceedings in Scotland claiming release of the actual amounts. As the vessel now currently is stacked, thus without operational risk requiring money to be withheld by the drilling manager, an amicable solution should be within reach for the dispute.

Venture Drilling AS and Maersk reached an agreement whereupon Maersk redelivered the vessel 1 May 2010 against an early termination fee of USD 64 million. The rig is now being kept "hot stacked" in Ghana and is marketed for new assignments.

As part of the Russian legal process, Venture Drilling AS has submitted the case to the Court of Cassation in St.Petersburg. These proceedings are indicated to continue in June 2010 by the Russian court.

Venture Drilling AS has a valid long term Bareboat Agreement under Norwegian law, venue for court proceedings will be Oslo.

### **Deepwater Driller Ltd:**

#### **DEEPWATER DRILLER LTD:**

The Board of Directors of Deepwater Driller Ltd has terminated the Project Management and Yard Supervision Agreement between Deepwater Driller Ltd and Larsen Oil and Gas Pte Ltd (Singapore), and the Management Agreement between Deepwater Driller Ltd and Larsen Oil and Gas Ltd (Aberdeen, UK) in February 2010. The company have changed the name from Larsen Rig Ltd to Songa Eclipse. The Project Management and Yard Supervision Agreement as well as the Management Agreement will be taken over by Songa Offshore within the end of June 2010.

Petrolia Invest AS, a 100% owned subsidiary of Petrolia Drilling ASA, Friday 16 April 2010 (3 days before the EGM) entered into an agreement together with the shareholders of Deepwater Driller Ltd and Songa Offshore, whereby Songa Offshore will invest USD 50 million in new equity into Deepwater Driller and thereby receive a 31.25% ownership in the company. As part of the agreement, Songa Offshore will assume building supervision and commercial management of the rig. The stock notice from Songa Offshore was far more extensive than PDR's previous board's notice and includes among others information regarding certain put/call options etc.

Petrolia Invest AS's ownership in Deepwater Drilling Ltd is now 20.6%.