

# PETROLIA DRILLING ASA



## 3<sup>rd</sup> QUARTER 2008

*Petrolia Drilling owns, charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Petrolia Drilling intends to continue expanding its rig exposure by acquiring or investing in offshore drilling rigs and drillships deployed on fixed-rate, long-term contracts.*

## PETROLIA DRILLING ASA 3<sup>rd</sup> quarter 2008 preliminary result

### Summary:

#### *Building values*

*Petrolia Drilling continues to strengthen its exposure to the drilling market through the investments in PetroMena (51.5%), Venture Drilling (50%), Petrojack (39.9 %), Larsen Rig (30%), and PetroProd (16.9 % indirectly through Petrojack). The market value of the company's deepwater floaters under construction has increased during 2008. Construction of similar rigs is more expensive and financing is both more expensive and more difficult to obtain. The current situation in the financial markets will impact the industry and available funding going forward.*

- Petrolia Drilling has with effect from 1 January 2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes. As a consequence of this, the Company has booked an unrealised currency gain of mUSD 61.7 for the first nine months of 2008 on bond loans nominated in NOK. Total net result after tax was mUSD 31.6 for the third quarter 2008 and -13.2 YTD 2008.
- PetroMena's PetroRig I, II and III have an average contract price of mUSD 490 per unit, excluding project- and financing costs. Contract prices for recent contracts for similar units are approximately mUSD 680, excluding project- and financing costs. The construction programs in PetroMena are running according to schedule and on budget. On 3 February 2008, SS Petrolia started operations under the contract with Pemex. Operating result before depreciation for the subsidiary PetroMena was mUSD 11.5 YTD 2008 and net result was mUSD 29.4. The result was positively impacted by an unrealised USD/NOK currency gain on PetroMena's debt nominated in NOK of mUSD 50.8.
- Petrojack took delivery of Petrojack II on 28 March 2008 and entered into an agreement with Saipem for hire of the jack-up rig. The hire under the time charter is USD 100,000 per day. The agreement includes a put/call option at a price of mUSD 199.1, with expiration 12 months after the beginning of the contract. The construction program for the remaining jack-up rig is developing according to schedule. Operating profit before depreciation for Petrojack was mUSD 5.8 for the first nine months of 2008 and the net result was mUSD -103.5 including impairment of Petrojack's shareholdings in Petrolia Drilling ASA and PetroProd Ltd of mUSD 81.3 and 24.2 respectively.
- In order to fully finance the last instalment on Petrojack IV, payable upon delivery in January 2009, Petrojack estimates that they need mUSD 30.8 of additional cash. Petrojack has therefore asked its bondholders for certain amendments to the loan agreements, freeing up cash from the possible sale of Petrojack II that may be used to finance the last instalment on Petrojack IV. The bondholders meeting will take place on 19 November 2008.
- Operating profit before depreciation for Venture Drilling was mUSD 62.8 for the first nine months of 2008. Net result after tax was mUSD 40.6.
- Revenues and operating profit before depreciation for Petrolia Services for the first nine months of 2008 totalled mUSD 64.9 and mUSD 26.1 respectively. Drilling equipment is depreciated over five years. Depreciation amounts to mUSD 22.3 for the first nine months of 2008. Book value of drilling equipment as of 30 September 2008 is mUSD 108.6. Market value is expected to be higher.
- Petrolia Drilling has invested mUSD 42.0 in Larsen Rig and thereby controls 30% of the company, which is building a new deepwater semisubmersible drilling rig at Jurong Shipyard in Singapore, identical to the PetroMena rigs. The rig is planned to be delivered in the second quarter 2011.

## **Financial information**

The financial data have been prepared in accordance with the International Financial Reporting Standards (IFRS).

### Impairment of investment in associate

The market price of the shares in Petrojack ASA has declined during the third quarter.

Due to the current financial turmoil and general market uncertainty the Board of Directors of Petrolia Drilling has impaired its Petrojack investments with mUSD 39.3 in the third quarter based on a fair value assessment.

### Profit and loss in the first nine months 2008

Total revenues were mUSD 116.6 in the first nine months of 2008, whereof mUSD 51.4 came from SS Petrolia and mUSD 64.9 came from Petrolia Services. Total revenues in the first nine months of 2007 equalled mUSD 103.1.

Operating profit before depreciation was mUSD 28.6 in the first nine months of 2008 compared to mUSD 56.8 in 2007.

Total operating expenses equalled mUSD 88.0 in the first nine months of 2008 whereof mUSD 19.8 is operating expenses for SS Petrolia and mUSD 38.8 relates to Petrolia Services. The rest of the operating expenses relates to management services under the contracts with LOG and various other operative and administrative expenses.

Operating profit equalled mUSD 4.2 in the first nine months of 2008, including mUSD 24.3 in depreciation of equipment mainly related to Petrolia Services. Operating profit equalled mUSD 37.9 in the first nine months of 2007, including mUSD 18.8 in depreciations.

The net, after-tax result was mUSD -13.2 in the first nine months of 2008. This includes negative result from investments in associates of mUSD 11.2 and impairment of the Petrojack shares of mUSD 39.3. Venture Drilling contributes with a positive result of mUSD 20.5 after tax. Net financial items of 12.4 include the effect of PetroMena's change of functional currency from NOK to USD. The USD has appreciated during 2008 resulting in an unrealised currency gain of mUSD 49.8 for the group as a total. The USD has appreciated against NOK from 5.41 as of 1 January 2008 to 5.83 as of 30 September 2008. The net, after-tax result was mUSD 10.9 during the first nine months of 2007, due to lower deprecation and no impairment of shares.

### Profit and loss for the 3<sup>rd</sup> quarter 2008

Total revenues in the third quarter 2008 were mUSD 45.7, whereof mUSD 16.4 came from SS Petrolia and mUSD 29.3 came from Petrolia Services. In the third quarter 2007, total revenues equalled mUSD 47.8.

Operating profit before depreciation for the third quarter 2008 was mUSD 6.1 compared to mUSD 27.7 for the third quarter 2007. SS Petrolia has had 25 days of downtime/repair in the third quarter 2008.

Total operating expenses equalled mUSD 39.6 in the third quarter 2008 whereof mUSD 8.9 is operating expenses for SS Petrolia and mUSD 19.1 relates Petrolia Services. The rest of the operating expenses relates to management services under the contracts with LOG and various other operative and administrative expenses.

Operating loss for the third quarter 2008 equalled mUSD 2.1, including mUSD 8.2 in depreciation of equipment mainly related to Petrolia Services. Operating profit for the third quarter 2007 equalled mUSD 20.6, including mUSD 7.1 in depreciations.

The net, after-tax result for the third quarter 2008 was mUSD 31.6. This includes positive result from investment in associates of mUSD 1.8 and impairment of the Petrojack shares of mUSD 39.3. Result from Venture Drilling in the third quarter was mUSD 7.0 after tax. The net result also includes net financial items of mUSD 64.4 mainly related to PetroMena's debt nominated in NOK as the USD has appreciated against NOK during the third quarter from 5.08 to 5.83. The third quarter 2007 net, after-tax result was mUSD 10.9.

## Cash flow

Cash flow from operations equalled mUSD -89.9 in the nine month period ending September 30, 2008 compared to mUSD 63.9 during the same period in 2007. Cash flow from investments was mUSD -387.8 during the nine months ending September 30, 2008 related to instalments paid to Jurong, interest on bond loans and investment in Petroresources and Larsen Rig Ltd. Total YTD 2007 cash flow from investments amounted to mUSD -36.7. Cash flow from financing activities for the first nine months of 2008 equalled mUSD -57.9, while YTD 2007 cash flow from financing activities equalled mUSD 21.8.

## Balance sheet

As of 30 September 2008, total assets amounted to mUSD 1,673.9. The drilling rig SS Petrolia has a book value of mUSD 28.9, which reflects historic cost, including upgrades, adjusted for depreciation. Recent market value of the rig is estimated to mUSD 225. Total assets also include three rigs under construction, PetroRig I, II and III which on average have a contract price of mUSD 490 each, excluding financing costs. Contract prices from recent fixtures for similar units are approximately mUSD 680, excluding financing costs.

Due to the current financial turmoil and general market uncertainty the Board of Directors of Petrolia Drilling has impaired its Petrojack investments with mUSD 39.3 in the third quarter based on a fair value assessment.

Total equity equalled mUSD 559.0 as per 30 September 2008, including a minority interest of mUSD 214.0. Year end 2007, the total equity equalled mUSD 554.2. Book value of equity per share equalled USD 0.55 as per 30 September 2008, including minority interest of USD 0.21 per share. Book equity per share equalled USD 0.55 per year end 2007, including a minority interest of 0.20.

## Share information

As of 30 September 2008, 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 30 September 2008, Petrolia Drilling held 5,250,024 (0.52 percent) own shares. The associated company Petrojack (39.9 % of shares held by Petrolia Drilling) holds approximately 24.98 percent of the shares in Petrolia Drilling.

## **Events after the balance sheet date**

Larsen Oil & Gas Pte Ltd, as drilling contractor, has on behalf of Petrojack IV Pte Ltd, a wholly owned subsidiary of Petrojack ASA, signed a drilling contract with PTT Exploration & Production Public Company Limited. Length of contract is 5 years at a rate of USD 151,000 per day. PetroJack IV will mobilize immediately following delivery from Jurong Shipyard.

## **The market and outlook**

The market for semi submersible drilling rigs is firm, with near 100% utilization. As a result of the tight demand for deepwater rigs, day rates have increased. The demand for deepwater rigs is expected to remain strong as oil companies have a significant back-log of drilling projects (both exploration and development projects) due to falling replacement ratios and decline in oil production. Available yard capacity at relevant yards and drilling equipment is limited. Average lead time for delivery of a new floater has currently increased from 2.5 years to 3.5 years. The current credit crunch has also made it difficult to secure funding of newbuilding programs. Altogether the market going forward for deepwater rigs seems strong.

The average age of the global jack-up fleet is close to 23 years. There are currently approximately 60 jack-up rigs under construction, including options, corresponding to 15 % of the global jack-up fleet. The jack-up market has softened somewhat recently.

The Board of Directors expects favourable rig market in the next few years, especially for floating units. However the current situation in the financial markets will impact the industry and available funding going forward.

## **Other**

Petrolia Drilling controls 51.5% of PetroMena. PetroMena is building three modern, semi submersible drilling rigs (PetroRig I, II and III) at the Jurong Shipyard in Singapore. The rigs are harsh environment 6<sup>th</sup> generation units designed for drilling in ultra deep waters in areas such as Brazil, the Gulf of Mexico and West Africa. PetroRig I and II have entered into 5 years contracts with Petrobras, for operations in the Gulf of Mexico and offshore Brazil, with gross values of mUSD 700 and mUSD 645 respectively. PetroRig III has entered into a 5 years contract with Pemex with a gross value of mUSD 942. PetroMena also owns SS Petrolia which on 3 February 2008 commenced on a 913 days contract with Pemex in the Gulf of Mexico. Gross contract value of the Pemex contract is mUSD 269.

Petrolia Drilling also has exposure to the jack-up segment through its 39.9 % shares in Petrojack. Petrojack has one jack-up rig under construction at Jurong and one jack-up rig on contract with Saipem. The jack-up rigs have an operating water depth capacity of 375 feet and drilling dept capacity of approximately 30,000 feet. The contract with Saipem has duration of 4 years with a daily hire of USD 100,000 per day. In addition, Petrojack controls 24.98 % of Petrolia Drilling and 42.3% of PetroProd. PetroProd's main asset is an enhanced CJ70 jack-up rig under construction at Jurong. The CJ70 Jack-up rig is a large, harsh environment drilling rig also capable of hosting production equipment enabling combined and simultaneous drilling and production operations. The unit will comply with Norwegian sector regulations and will be the largest jack-up rig ever constructed.

In addition, 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 is in the mUSD 200-220 range. The contract was recently extended, and DS Deep Venture will be engaged for Maersk Oil Angola until 25 July 2009, at a day rate of USD 425,000, after withholding of tax. Venture Drilling AS has agreed to a further 18 months contract with Maersk Oil Angola starting from the 25<sup>th</sup> of July 2009 at a dayrate of USD 495,000 after withholding tax.

Petrolia Services AS, a 100% owned subsidiary of Petrolia Drilling, is an international oilfield services company with presence in Norway, Australia, New Zealand and Singapore, serving nearby clients. Petrolia Services main product categories include tubing, drill pipe, casing and handling equipment as well as oilfield services.

**Board of Directors, Petrolia Drilling ASA, 17<sup>th</sup> November 2008**

## Financial report 3rd quarter 2008

<b>Condensed Consolidated Income Statement Unaudited</b>				
<i>All figures in USD (1000)</i>				
	<b>3Q 2008</b>	<b>YTD 2008</b>	<b>3Q 2007</b>	<b>YTD 2007</b>
Operating revenues	45 738	116 557	47 818	103 134
Operating expenses	39 622	88 007	20 103	46 383
<b>Operating profit before depreciation</b>	6 116	28 550	27 715	56 751
Depreciation	8 230	24 328	7 075	18 820
<b>Operating profit (loss-)</b>	-2 114	4 222	20 640	37 931
Result from joint venture	7 002	20 470	1 843	5 549
Result from associated companies	-37 503	-50 572	-4 993	-9 871
Net financial income/expenses(-)	64 440	12 399	-7 128	-16 752
<b>Net result before taxes</b>	31 824	-13 481	10 362	16 858
Tax	180	-296	-575	-575
<b>Net result</b>	<b>31 644</b>	<b>-13 185</b>	<b>10 937</b>	<b>17 433</b>
Earnings per share (average shares)	0,03	-0,01	0,01	0,02
Earnings per share (total shares)	0,03	-0,01	0,01	0,02

## Condensed Consolidated Balance Sheet Unaudited

All figures in USD (1000)

Assets	30.09.2008	31.12.2007
Intangible fixed assets	10 394	5 160
Deferred tax assets	11 099	11 223
Goodwill	18 243	17 929
Drilling unit	28 953	28 615
Drilling Rigs	1 025 420	733 933
Drilling equipment, land and other equipment	111 612	108 187
Investments in associates	97 853	100 425
Other financial fixed assets	742	0
Investments in joint venture	82 901	62 431
<b>Total non-current assets</b>	<b>1 387 217</b>	<b>1 067 903</b>
Other debtor	89 423	53 968
Other financial investments	3 483	3 483
Other liquid assets	117 132	101
Bank deposits	76 641	612 275
<b>Total current assets</b>	<b>286 679</b>	<b>669 827</b>
<b>Total assets</b>	<b>1 673 896</b>	<b>1 737 730</b>
Equity and liabilities	30.09.2008	31.12.2007
Share capital	93 568	93 568
Share premium fund	283 552	283 552
Own shares	-486	-319
Minority interest	214 025	202 146
Other equity	-31 706	-24 753
<b>Total equity</b>	<b>558 953</b>	<b>554 194</b>
Retirement benefit obligations	527	485
Bonds	949 921	1 039 463
Other long-term liabilities	18 929	10 084
<b>Total non-current liabilities</b>	<b>969 377</b>	<b>1 050 032</b>
Short term portion of long term liabilities	60 486	32 533
Accounts payable	27 103	15 405
Payable tax	-1 886	76
Other current liabilities	59 862	85 489
<b>Total current liabilities</b>	<b>145 565</b>	<b>133 504</b>
<b>Total liabilities</b>	<b>1 114 942</b>	<b>1 183 535</b>
<b>Total equity and liabilities</b>	<b>1 673 896</b>	<b>1 737 730</b>
<b>Book equity per share</b>	<b>0,55</b>	<b>0,55</b>
<b>Equity ratio</b>	<b>33 %</b>	<b>32 %</b>

<b>Condensed Consolidated Statement of changes in Equity</b>		
<i>All figures in USD (1000)</i>		
	<b>YTD 2008</b>	<b>YTD 2007</b>
<b>Equity period start</b>	554 195	223 705
Profit for the period	-13 185	17 433
Currency translation differences	-1 597	39 440
Other gains and losses charged directly to equity		-168
Step by step acquisition		
Minority share	-2 171	
<b>Total gains and losses charged directly to equity</b>	<b>-3 768</b>	<b>39 272</b>
Total recognised income for the period	-16 953	56 705
New equity by contributions in kind	21 711	91 650
Expenses related to share issues (net of tax)		-558
<b>Total equity from shareholders in the period</b>	<b>21 711</b>	<b>91 092</b>
Total change of equity in the period	4 758	147 797
<b>Equity at period end</b>	<b>558 953</b>	<b>371 502</b>

<b>Condensed Consolidated Cash Flow Statement</b>		
<i>All figures in USD (1000)</i>		
	<b>YTD 2008</b>	<b>YTD 2007</b>
<b>Net cash flow from operating</b>	<b>-89 910</b>	<b>63 937</b>
<b>Net cash flow from investing</b>	<b>-387 796</b>	<b>-36 722</b>
<b>Net cash flow from financing</b>	<b>-57 928</b>	<b>21 772</b>
<b>Net change in cash and cash equivalents</b>	<b>-535 634</b>	<b>48 987</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>612 275</b>	<b>18 524</b>
<b>Cash and cash equivalents at period end</b>	<b>76 641</b>	<b>67 511</b>
Spesification of cash and cash equivalents at period end Bank deposits	76 641	67 511



## Notes to the unaudited condensed consolidated figures:

### Note 1 Applied accounting principles

This half year 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.

The 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 (2007). 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 (2007) have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in the annual report for 2007.

Petrolia Drilling has with effect from 1 January 2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes.

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 in the first nine months of 2008:

<i>All figures in USD (1000)</i>	<b>Drilling- and other equipment</b>	<b>Rigs</b>	<b>Rigs under construction</b>	<b>Land and Buildings</b>	<b>Total</b>
<b>Balance at 1 Jan 2008</b>	<b>105 071</b>	<b>28 615</b>	<b>733 933</b>	<b>3 116</b>	<b>870 735</b>
<b>Acquisition cost:</b>					
Acquisition cost at 1 Jan 2008	127 348	90 771	733 933	3 143	955 195
Purchased tangibles as of 3Q 2008	33 384	2 357	291 487	0	327 228
Disposals as of 3Q 2008	-1 594	0	0	0	-1 594
<b>Acquisition cost at 30 September 2008</b>	<b>159 138</b>	<b>93 128</b>	<b>1 025 420</b>	<b>3 143</b>	<b>1 280 829</b>
<b>Depreciation:</b>					
Balance at 1 January 2008	22 278	62 156	0	27	84 461
Depreciation in first nine months of 2008	22 252	2 019	0	57	24 328
<b>Balance at 30 September 2008</b>	<b>44 530</b>	<b>64 175</b>	<b>0</b>	<b>84</b>	<b>108 789</b>
Translation differences	-5 761			-295	-6 056
<b>Carrying amount:</b>					
<b>Balance at 30 September 2008</b>	<b>108 848</b>	<b>28 953</b>	<b>1 025 420</b>	<b>2 764</b>	<b>1 165 985</b>
<b>Residual value</b>		<b>10 800</b>			

Effective from 1 January 2008 the depreciation period for SS Petrolia has been changed from 5 years to 15 years in the group's accounts based on new estimates of remaining useful life. Residual value has also been recalculated causing a further reduction in depreciation. The net effect on the profit and loss statement for the first nine months of 2008 is mUSD 3.0.

## Note 3 Segment Information

### Segment information

All figures in USD (1000)

Petrolia Drilling ASA's primary format for reporting segment information business segments.

	Drilling		Offshore Services		Total		Drilling		Offshore services		Total	
	3Q 08	3Q 07	3Q 08	3Q 07	3Q 08	3Q 07	YTD 08	YTD 07	YTD 08	YTD 07	YTD 08	YTD 07
Operating income	16 420	33 014	29 318	14 804	45 738	47 818	51 637	73 531	64 920	29 603	116 557	103 134
Operating profit before depreciation	-4 108	21 647	10 225	6 068	6 117	27 715	2 449	42 114	26 102	14 638	28 551	56 751
Operating profit (loss-)	-4 804	20 055	2 690	586	-2 114	20 641	405	37 823	3 818	108	4 223	37 931
EBITDA %	-25,0 %	65,6 %	34,9 %	41,0 %	13,4 %	58,0 %	4,7 %	57,3 %	40,2 %	49,4 %	24,5 %	55,0 %
EBIT %	-29,3 %	60,7 %	9,2 %	4,0 %	-4,6 %	43,2 %	0,8 %	51,4 %	5,9 %	0,4 %	3,6 %	36,8 %

## Note 4 Investments in associates

All figures in USD (1000)

Associate	Petroresources Ltd	Larsen Rig Ltd	Petrojack ASA
<b>Shareholding</b>	28.57%	30.0%	39.93%
<b>Business address</b>	Limassol, Cyprus	Cayman Island	Oslo, Norway
Balance 01.01.2008	1	0	100 425
Acquisition cost	5 999	42 000	0
Share of result	-78	- 410	-10 456
Write down of shares	0	0	-39 342
Depreciation value added	0	0	-287
Book value 30.09.2008	5 922	41 590	50 340