PETROLIA ASA
A public limited liability company organised under the laws of Norway

Rights Issue of up to 50 629 837 New Shares
with Subscription Rights for Existing Shareholders as of the end of 27 June 2011

Subscription Price:
NOK 0.50 per New Share

Subscription Period:

From and including 9 August 2011 to 23 August 2011 at 17:30 hours CET

Trading in Subscription Rights:
From and including 9 August 2011 to 18 August 2011 at 17:30 hours CET

The Existing Shareholders will receive Subscription Rights to subscribe for the New Shares based on their shareholding in the Company as of the end of 27 June 2011. Existing Shareholders will be granted Subscription Rights giving a preferential right to subscribe for and be allocated New Shares in the Rights Issue. Each Existing Shareholder will be granted one Subscription Right for each two Shares registered as held by such Existing Shareholder in the Norwegian Central Securities Depository ("Verdipapirsentralen" or "VPS") as of 27 June, 2011 (the "Record Date"). The holders of Subscription Rights will be entitled to subscribe for and be allocated one New Share for every Subscription Right held. The Subscription Rights will be registered on each Existing Shareholder's account in the VPS. Over-subscription and subscription without Subscription Rights is permitted. The New Shares will be registered in the VPS in book entry form and will carry full voting rights. All the Company's shares (the "Shares") rank in parity with one another and carry one vote per Share.

Investing in the Company involves risks. See section 2 "Risk Factors".
It is expected that payment for the New Shares will be made on or about 30 August 2011. Delivery of the New Shares is expected to take place on or about 2 September 2011. The New Shares will be delivered through the facilities of the VPS. Trading in the New Shares on Oslo Børs is expected to commence on or about 5 September 2011.

SUBSCRIPTION RIGHTS NOT USED TO SUBSCRIBE FOR NEW SHARES BEFORE THE END OF THE SUBSCRIPTION PERIOD OR NOT SOLD BEFORE 18 AUGUST 2011 AT 17:30 HOURS (CET) WILL LAPSE WITHOUT COMPENSATION AND CONSEQUENTLY BE OF NO VALUE.

Manager:

FIRST SECURITIES

2 August 2011

IMPORTANT INFORMATION

Please refer to Section 15 for definitions, which also apply to the preceding pages.

This prospectus (the "Prospectus") has been prepared in connection with capital increase through a rights issue of new shares.

This Prospectus has been prepared to comply with the Norwegian Securities Trading Act and the Norwegian Regulation on Contents of Prospectuses, which implements the Prospectus Directive (EC/2003/71), including the Commission Regulation EC/809/2004, in Norwegian law. The Prospectus has been prepared solely in the English language. The Prospectus has been reviewed and approved by Finanstilsynet in accordance with sections 7-7 and 7-8 cf. section 7-2 of the Norwegian Securities Trading Act.

THE PROSPECTUS CONTAINS IMPORTANT INFORMATION THAT SHOULD BE READ IN FULL

All enquiries related to this Prospectus should be directed to the Company or the Manager. No person has been authorised to give any information about, or make any representation on behalf of Petrolia ASA in connection with the issue of new shares and, if given or made, such other information or representation must not be relied upon as having been authorised by Petrolia ASA or provided or made by, or on behalf of, Petrolia ASA or the Manager.

The publication or distribution of this Prospectus shall not under any circumstances create any implication that there has been no change in the affairs of Petrolia ASA since the date hereof or that the information in this Prospectus or in the documents referred to herein is correct as of any date subsequent to the dates hereof or thereof. In accordance with the Norwegian Securities Trading Act section 7-15, any new factor, significant error or inaccuracy that might have an effect on the assessment of the financial instruments contemplated hereby and emerges between the time of approval of the Prospectus and the rights issue, will be included in a supplement to the Prospectus. Such supplement must be approved by Finanstilsynet.

In the ordinary course of their respective businesses, the Manager and certain of its affiliates have engaged, and may in the future engage, in investment banking and commercial banking transactions with the Company.

Any dispute arising out of, or in connection with, this Prospectus shall be governed by Norwegian law and shall be subject to the exclusive jurisdiction of the Norwegian courts with Oslo City Court as due legal venue.

SELLING RESTRICTIONS

The Company is not taking any action to permit a public offering of the Shares in any jurisdiction outside of Norway. The Shares have not been and will not be registered under the United States Securities Act of 1933 (the "US Securities Act"), or any securities laws of any state in the United States. Accordingly, the Shares may not be offered or sold within the United States, except in transactions exempt from registration under the US Securities Act, or in any other jurisdiction in which it would not be permissible to offer the shares. All offers and sales outside the United States will be made in reliance on Regulation S under the US Securities Act. This Prospectus may not be used for the purpose of, and does not constitute, an offer to sell or issue, or an invitation to buy or subscribe for, any securities in or into Australia, Canada, Japan, the United States or any other jurisdiction in which it would not be permissible to do so.

Section 13 contains a cautionary note regarding forward-looking statements.

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1. SUMMARY

The following summary should be read as an introduction to this Prospectus, and is qualified in its entirety, by the more detailed information and the Appendices appearing elsewhere in this Prospectus. Any decision to invest in the Shares should be based on a consideration of the Prospectus as a whole by the investor.

The Prospectus has been prepared in the English language only.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under Norwegian legislation, have to bear the cost of translating the Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

For definitions and terms used throughout this Prospectus, please refer to Section 15 "Definitions and Glossary of Terms".

1.1 DESCRIPTION OF PETROLIA ASA

1.1.1 Incorporation, registered office and registration number.

Petrolia ASA is a public limited liability company incorporated and operating under the laws of Norway, and in accordance with the Norwegian Public Limited Liability Companies act, with company registration number 977 321 484 and registered address at Haakon VII's gate 1, 0116 Oslo, Norway, telephone: +47 55 22 47 10, fax: +47 55 22 47 01. The Company's mail address is Hopnes-veien 127, 5232 Paradis, telephone: +47 55 22 47 10, fax: +47 55 22 47 01. The web page is: www.petrolia.no. Petrolia ASA employs 7 persons at the date of this Prospectus. The Group employs 246 persons as per this date.

Petrolia ASA is traded on OSE in Norway with ticker code PDR. Cf. Section 5.1 of this Prospectus.

The board of the Company has decided to initiate a process to relocate its head office to Cyprus, cf. Section 5.4.1 for further details.

1.1.2 History and development of Petrolia ASA

17 March 1997	The Company was incorporated
May 1997	The Company purchased SS "Petrolia".
12 May 1997	The Company was listed on Oslo Stock Exchange
September 1997	The Company entered a 10 year bareboat charter for DS "Valentin Shashin".
March-November 2005	DS "Valentin Shashin" was redelivered and a new bareboat charter made with a new party. The Company entered into a joint venture, Venture Drilling AS, with Sinvest ASA.
December 2005	Investments into shares in PetroMENA ASA started. By June 2008, the Company owned 51.5 % of its shares.
December 2005	Investments into shares in Petrojack ASA started. By February 2007, the Company owned 39.9 % of its shares.
January 15 2007	Independent Oil Tools AS (IOT) purchase completed. IOT group included Independent Tool Pool AS, Independent Oil Tools BV, Premium Casing Services Australia and Premium Casing Services New Zealand.
October 2007	The SS "Petrolia" was sold to PetroMENA Ltd.
15 November 2007	PetroMENA ASA became a subsidiary
June 2008	Investment in Deepwater Driller Ltd. (initially named Larsen Rig Ltd.).
21 December 2009	PetroMENA ASA bankrupt
8 March 2010	Petrojack ASA bankrupt
April 2010-March 2011	DS Valentin Shashin off-hire due to invalid bareboat charter. Negotiations with owners. Full settlement reached 24 February 2011 and the vessel is now redelivered to its owners. Petrolia ASA owns 100 % of Venture Drilling AS from 28 March 2011.

24 January 2011	Shares in Deepwater Driller Ltd sold for USD 34.5 million.
April-present 2011	Negotiations with COR regarding the phasing out of COR as rental manager (oilfield services), incorporation of two new subsidiaries Independent Oil Tools Ltd (Dubai) and Independent Oil Tools LLC (Dubai), ongoing acquisition of shares in COR Singapore Pte Ltd and COR Rentals Malaysia SDN. BHD.
9 August 2011	The Company launched the Offering contemplated by this Prospectus.

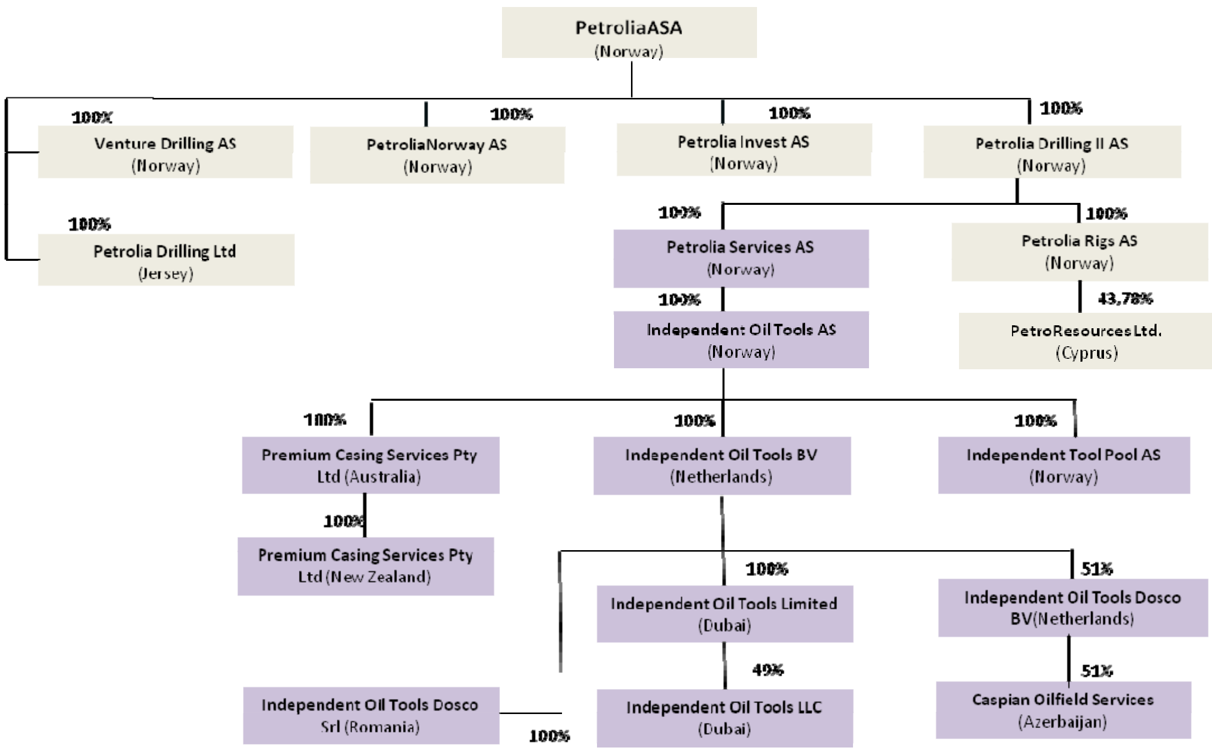
Cf. Section 5.2 of this Prospectus.

1.2 BUSINESS DESCRIPTION

1.2.1 Legal structure

The Company is part of a group and operates in many countries, cf. Section 5.3. The Group consists of the Norwegian parent company Petrolia ASA and the wholly owned subsidiaries listed and described in Section 5.4 of this Prospectus.

The following chart depicts the Group's legal corporate structure and includes the companies in the Group and the ownership as of the date of the Prospectus (lilac are oilfield services, others are holding companies or companies within drilling & well or oil & gas), as well as Group's ownership share in the Group companies. The Group's voting power in the each of the Group companies corresponds to its respective ownership share.



The Group has furthermore entered into agreements with COR to purchase its 100 % of the shares in COR Singapore Pte Ltd and 30 % of the shares of COR Rentals Malaysia SDN. BHD. Local formalities regarding i.a. local ownership and completion and registration of the transaction are still outstanding as per the day of this Prospectus, and the companies have therefore not been included in the above Group chart. Cf. Section 5.6.5 for further details.

PetroMENA ASA and Petrojack ASA, where the Company holds 51 % and 40 % of the shares respectively, are not included in the chart as they are undergoing bankruptcy proceedings. The Company has no control over these proceedings, the information from the estates is limited and the investments are lost. For the sake of clarity however, the two companies are mentioned under "Organisation" in Section 5.4.

1.2.2 Organisation

Section 5.4 gives a further description of the companies in the Group including associated companies.

1.2.3 Operations

While Petrolia has been involved in drilling & well since its incorporation in 1997, oilfield services activities started in 2007, and in 2010 the business objectives were expanded to also include oil & gas. Sections 5.6 to 5.8 give an account of activities under each segment with focus on the period covered by the historical financial information, i.e. since 1 January 2008. As follows, there are currently activities in the oilfield services segment only (Section 5.6), while activities in drilling & well have currently ceased (Section 5.7). Oil & gas activities are so far limited to one financial investment position (Section 5.8).

1.2.4 Contracts

Please refer to Section 5.14 for information regarding the Company's material contracts.

1.2.5 Borrowing – The Bond Loan

The Company has entered into a bond financing with Norsk Tillitsmann ASA, as trustee for the bondholders, through one bond loan agreement dated 13 June 2008 with ISIN number 001 044025.8 (the "Bond Loan"). Please refer to Section 8.14 for information about the Bond Loan.

1.2.6 Patents and licenses, research and development

The Company has not had an active policy or strategy on research and development. To the extent the Group's business has been dependent upon intellectual property rights, such as the design of rigs or equipment, such rights have remained with the seller of the relevant asset. Other than the right to use the asset as designed, the Group has not acquired any formal intellectual rights in this connection. There are no material research and development activities within any companies in the Group, and there are no plans for such activities either.

1.3 PURPOSE AND BACKGROUND OF THE RIGHTS ISSUE

The Offering is intended to strengthen the Company's equity and capital base for general corporate purposes including equipment investments and strengthening of the working capital relating to the financial position of the Company and the maturity of the bond loan where NOK 374.5 million is payable on 20 June 2012. The Company has no specific plans for the use of proceeds.

1.4 BOARD, SENIOR MANAGEMENT AND EMPLOYEES

1.4.1 Board of directors

The Company's board of directors consist of 5 members: Berge Gerdt Larsen (Chair), Erik Johan Frydenbø (Director), Unni Fossberg Tefre (Director), Marit K. Instanes (Director) and Sjur Storaas (Director). For more information, please refer to Section 7.

1.4.2 Senior management

The Company's executive management comprises: Kjetil Forland, Managing Director and Sølve Nilsen, Finance Manager. For more information, please refer to Section 7.

1.4.3 Employees

As of the date of this Prospectus, Petrolia ASA and its subsidiaries employ 246 people.

For more information, please refer to Section 7.9.

1.5 ADVISORS AND AUDITORS

1.5.1 Managers

The coordinator and book runner for the Rights Issue is First Securities AS, Filipstad Brygge 1, P.O. Box 1411 Vika, 0115 Oslo, Norway.

1.5.2 Independent Auditor

The Company's independent auditor is Ernst & Young AS. For further information, please refer to Section 8.16.

1.6 SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR PETROLIA ASA

The selected financial information set forth in this Prospectus Section 8 should be read in conjunction with the Company's historical financial statements and the notes to those statements set out in Appendix 2, 3, 4 and 5 in this Prospectus. The financial information is prepared in accordance with IFRS as adopted by EU.

1.6.1 Income statement

Below are the condensed consolidated income statements for the Company for the accounting years 2010, 2009 and 2008 as well as the unaudited consolidated income statement for the three months ended 31March 2011 and 31 March 2010. Cf. Section 8.4.1.

Summary of Historical consolidated income statement

(USD 1000)	**Q1 2011** *Unaudited*	**Q1 2010** *Unaudited*	**2010** *Audited*	**2009** Audited	**2008** *Audited*
Revenue	**20 668**	**17 087**	**75 541**	**70 746**	**81 831**
Operating expenses	12 460	11 594	109 575	46 123	53 539
Operation profit before depreciation	**8 208**	**5 493**	**-34 034**	**24 623**	**28 292**
Depreciation	9 749	11 201	42 081	40 371	29 197
Impairment of fixed assets	4 115	0	4 796	8 468	0
Operating result*	**-5 656**	**-5 708**	**-80 911**	**-24 307**	**-905**
Result from investment in joint venture**	10 106	9 522	16 089	30 954	28 451
Result from associated companies**	-1	256	-10 946	304	-113 669
Net financial income/expenses (-)	-7 967	-6 210	-11 568	-12 869	-24 327
Result before income taxes	**-3 518**	**-2 140**	**-87 336**	**-5 919**	**-110 451**
Tax on result	-21 379	68	0	4 653	641
Result from the period from continuing operations	**17 861**	**-2 208**	**-87 336**	**-10 572**	**-111 091**
Discontinued operations					
Profit for the year from discontinued operations***	0	0	0	118 413	-395 278
Result for the period	**17 861**	**-87 336**	**-87 336**	**107 841**	**-506 370**
Attributable to:					
Shareholders	17 877	-2 208	-87 605	148 460	-327 044
Minority interests	-16	0	269	-40 619	-179 326
Consolidated statement of comprehensive income:					
Result for the period	**17 861**	**-2 208**	**-87 336**	**107 841**	**-506 370**
Other comprehensive income:					
Currency translation differences	**-798**	**158**	**3 545**	12 545	-12 115
Total comprehensive income for the year	**17 063**	**-2 050**	**-83 791**	**120 386**	**-518 485**
Attributable to:					
Owners of the parent	17 063	-2 050	84,141	160 949	-339 137
Minority interests	0	0	350	-40 563	-179 348
Total comprehensive income for the year	**17 063**	**-2 050**	**-83 791**	**120 386**	**-518 485**

**Revenues and items down to and including Operating results are from the oilfield services segment*
***Includes Drilling & Well (Venture Drilling AS and Petrojack ASA) with exception of 2008 which also included USD 3 million in impairment of Petroresources (Oil & Gas).*
**** PetroMENA ASA was deconsolidated in 2009 and presented as discontinued operations in the financial statements for 2009. Amounts for 2008 were also changed to be comparable.*

1.6.2 Consolidated balance sheet

Below are the condensed consolidated balance sheet for the Company for the accounting years 2010, 2009 and 2008 as well as the unaudited consolidated income statement for the three months ended 31March 2011.

Summary of Consolidated Balance sheet

(USD 1000)

	Q1 2011 *Unaudited*	**2010** *Audited*	**2009** *Audited*	**2008** *Audited*
Assets				
Non-current assets				
Intangible assets	0	0	20 395	17 344
Deferred income tax assets			0	3 694
Drilling units			0	28 262
Construction contracts Semi-Rigs			0	541 118
Drilling equipment and other equipment	82 993	86 761	121 969	119 509
Land and buildings	2 135	2 245	2 305	2 705
Investments in joint venture	0	65 658	86 955	76 827
Investments in associated companies	3 281	2 674	41 060	34 756
Non-current assets held for sale	0	34 500	0	0
Other financial fixed assets	1000	6	450	0
Total non-current assets	**89 409**	**191 844**	**273 133**	**824 213**
Current assets				
Inventory		1 121	1 478	327
Trade-and other current receivables	1 955	22 949	42 288	73 795
Other debtors	46 521			
Financial assets at fair value through profit and loss		0	620	871
Other liquid assets	3 011			
Investment in money market fund	15	16	15	83
Bank deposits	153 838	45 749	49 616	127 812
Total current assets	**205 340**	**69 835**	**94 017**	**202 888**
Total assets	**294 749**	**261 679**	**367 150**	**1 027 102**
Equity and liabilities				
Equity				
Share capital	749	93 568	93 568	93 568
Own shares	-4	-2 153	-2 153	-2 153
Share premium fund	45 232	45 232	95 352	123 119
Other equity	63 496	-44 253	-10 232	-198 948
Majority interests	**109 473**	**92 394**	**176 536**	**15 587**
Minority interests	**2 838**	**2 854**	**2 504**	**43 067**
Total equity	**112 311**	**95 248**	**179 040**	**58 654**
Liabilities				
Non-current liabilities				
Bond loans	72 549	68 391	85 143	418 400
Pension liability	286	307	562	433
Other non-current liabilities	12 022	15 582	25 992	27 282
Total non-current liabilities	**84 857**	**84 280**	**111 697**	**446 115**
Current liabilities				
Short term portion of non-current liabilities	28 954	27 915	11 106	438 261
Trade payables	15 964	16 545	11 958	22 964
Payable tax	11 884	-293	120	173
Other current liabilities	40 779	37 984	53 230	60 936
Total current liabilities	**97 581**	**82 151**	**76 413**	**522 334**
Total liabilities	**182 438**	**166 431**	**188 111**	**968 448**
TOTL EQUITY AND LIABILITIES	**294 749**	**261 679**	**367 150**	**1 027 102**

Cf. Section 8.4.2 in this Prospectus.

1.6.3 Significant changes in the Group's financial or trading position

On 20 June 2011 an instalment of NOK 100 million and NOK 30 million in interest was paid to the bondholders in accordance with the payment schedule of the Bond Loan agreement. An additional NOK 25.5 million was repaid on 23 June 2011 after the Company offered to purchase own bonds at 85% of par value.

No other significant changes in the financial or trading position of the Group have occurred since the last published interim financial information have been published.
See Section 8.6.

1.7 TREND INFORMATION

The development in the exchange rates between USD and NOK are of significant importance to the Group. The same applies to fluctuations in the oil price. Further details can be found in section 5.13 in this Prospectus

1.8 SUMMARY OF CAPITALISATION AND INDEBTEDNESS

The table below gives an overview of the Company's capitalization and indebtedness as per 31 March 2011, as well as adjusted numbers close to the date of the Prospectus. Please note that in Q1 2011 the Bond Loan had a non-current part of NOK 400 million (USD 72.5 million) and a current part of NOK 100 million (USD 18.1 million). At the time of the Prospectus the NOK 100 million has been repaid and the remaining balance is now also current. Additionally, an extraordinary repayment of NOK 25.5 million (USD 4.5 million) has also been done after Q1 2011.

(USD 1,000)	31 March 2011	Change	Adjusted (23 June 2011)	Note
Total current debt	**97 581**	**33 017**	**130 598**	
Guaranteed	0	0	0	
Secured	10 817	0	10 817	1
Unguaranteed/unsecured	86 764	33 017	119 781	2 & 6
Total Non-current debt (excluding current portion of long term debt)	**84 857**	**-72 549**	**12 308**	
Guaranteed	0	0	0	
Secured	12 022	0	12 022	1
Unguaranteed/ unsecured	72 835	-72 549	286	3
Shareholder's equity	**112 311**	**0**	**112 311**	
a Share Capital	749	0	749	
b Legal reserves	45 232	0	45 232	
c Other reserves	66 330	0	66 330	
Total	**294 749**	**-39 532**	**255 217**	**5**

Financial assets and indebtedness				
A. Cash	118 029	-50 528	67 501	5
B. Cash equivalents (detail)	0	0	0	
C. Trading securities	3 011	0	3 011	
D. Liquidity (A+B+C)	**121 040**	**-50 528**	**70 512**	
E. Current financial receivables	**0**	**0**	**0**	
F. Current bank debt	0	0	0	
G. Current portion of non-current debt	28 954	50 314	79 268	4 & 6
H. Other current financial debt				
I. Current financial debt (F+G+H)	**28 954**	**50 314**	**79 268**	
J. Net current financial indebtedness (I-E-D)	**-92 086**	**100 842**	**8 756**	
K. Non-current bank loans	0	0	0	
L. Bond issues	72 549	-72 549	0	3 & 6
M. Other non-current loans	12 022	0	12 022	1
N. Non-current financial debt (K+L+M)	**84 571**	**-72 549**	**12 022**	
O. Net financial indebtedness (J+N)	**-7 515**	**28 293**	**20 778**	

The table above regards to Total current and total non current debt and shareholders equity reconciles directly against the balance sheet. The rest of the table does not due to the fact that only financial indebtedness is included. Petrolia only has the bond loan and leasing as financial indebtedness Other liabilities such as accounts payable, payable tax, other current liabilities are thus not included in the table above.

Notes (primarily commenting the Q1 amounts, but also the key adjustments made to make an estimate of situation at the time of the Prospectus):

1) Financial leasing is listed as a secured debt (since the leasing company is the legal owner of the equipment). The current part is USD 10.8 million and the non-current part is USD 12.0 million. Book value of the leased equipment is USD 28 million. The leasing company owns the equipment and Petrolia has provided a guarantee of maximum USD 65.50 million.

2) Unsecured current debt per 1Q 2011 include among other:

* USD 18.1 million (NOK 100 million) bond repayment)
USD 16.0 million trade payables
** USD 11.9 million payable taxes
USD 21.2 million to be released to Petromena Ltd once Pemex guarantee is terminated (ref also same amount in restricted cash)
* USD 2.7 million in accrued interests
USD 1.5 million in public duties (social security etc.)

* this has been paid in Q2 2011 and total became USD 24.1 compared to USD 20.8 per Q1 2011.
** of which USD 8.5 million has been paid in Q2 2011.
In addition, current debt at the time of the Prospectus has increased due to the reclassification of the Bond Loan. Total adjustment of current debt of USD 33 million thus consists of: + USD 68 (Bond Loan reclassified) – USD 35 (liabilities paid)

3) Non-current part of bond loan is USD 72.8 million (NOK 400 million) pr Q1 and zero at the time of the prospectus (since entire remaining balance now is current).
In Q2 2011 the Company purchased NOK 25.5 million own bonds.

4) Per Q1 2011 current portion of non-current debt is USD 18.1 million regarding the Bond Loan and USD 10.8 million regarding leasing. The current part of the Bond Loan (NOK 100 million / USD 18.1 million) was repaid in Q2 2011. At the time of the Prospectus, the entire balance of the Bond Loan (NOK 374.5 million / USD 68.4 million) is current since less than 12 months remain before it must be paid.

5) Only free cash is included, in addition there is restricted cash of USD 35.8 million.
The adjustment includes paid liabilities of USD 35.4 million, equipment investments of USD 3.7 million, shares in Petroresources Ltd USD 2.8 million, other shares USD 4.5 million and purchase of own bonds USD 4.1 million. Restricted cash consists of (i) USD 21.2 million regarding Pemex guarantee, (ii) USD 8.9 million regarding the Bond Loan, (ii) USD 5.2 million regarding asset sales and (iii) USD 0.2 million regarding with-held employee tax.

6) At the time of the Prospectus, the Bond Loan is in its entirety current debt.

Regarding the writs of summons cf. Section 12, there is a contingent liability of NOK 245 million in case the PetroMENA ASA estate wins their claim and there is a contingent liability of NOK 33 million in case the Petrojack ASA estate wins their claim.

There have not been material changes to the above information since 23 June 2011 and to the date of this Prospectus.

1.9 SHARE CAPITAL AND MAJOR SHAREHOLDERS

1.9.1 Major shareholders

The following table sets out the 20 largest shareholders in the Company as per 28 July 2011. At this date the Company had in total 5112 shareholders.

	Name of shareholder	**Number of Shares**	**Percentage (%)**
1	INDEPENDENT OIL & RESOURCES ASA	27 049 744	26,71%
2	Ø. H. HOLDING AS	13 823 200	13,65%
3	LARSEN OIL & GAS AS	5 800 000	5,73%
4	NET AS	5 644 296	5,57%
5	DNO INVEST AS	1 679 074	1,66%
6	SILVERCOIN INDUSTRIES AS	1 651 964	1,63%
7	WILLUMSEN, THOR INGE	940 000	0,93%
8	TROMMESTAD, OLE	813 839	0,80%
9	CITIBANK N.A. NEW YORK BRANCH	707 748	0,70%
10	SIX-SEVEN AS	705 000	0,70%
11	DANSKE BANK A/S	619 734	0,61%
12	ASKELADDEN INVEST AS	530 030	0,52%
13	PETROLIA ASA	525 003	0,52%
14	SÆTER, HAAKON MORTEN	524 000	0,52%
15	PEDERSEN TORE	450 000	0,44%
16	INCREASED OIL RECOVERY AS	435 000	0,43%
17	EKRESAR, TRYGVE	410 000	0,40%
18	SIX SIS AG ACCOUNT 2	408 254	0,40%
19	HEDEN HOLDING AS	405 930	0,40%
20	MØLLER, ULRICH	400 000	0,40%
	Total 20 largest shareholders	**63 522 616**	**62,72%**
	Others	**37 737 004**	**37,28 %**
	Total	**101 259 675**	**100,00%**

The major shareholders of the Company are defined as shareholders holding more than 10 % of the share capital in the Company. The major shareholders are Independent Oil & Resources ASA and Ø.H. Holding AS. For more information see Section 9.7.

1.9.2 Share capital and shareholder information

The Company's registered share capital prior to the Offering is NOK 4,050,387 consisting of 101,259,675 Shares each with a nominal value of NOK 0.04 fully paid and issued in accordance with Norwegian law.

All issued Shares are vested with equal shareholder rights in all respects. There is only one class of shares and all Shares are freely transferable. See Section 9 for a further description of the Company's share capital.

The Shares are registered with VPS under the International Securities Identification Number (ISIN) NO 000307530. The registrar for the Shares is Nordea Bank Norge ASA, Custody services/Issuer services, 0107 Oslo, Norway.

1.10 RELATED PARTY TRANSACTIONS

A number of agreements have been entered into with related parties, including with Larsen Oil & Gas AS, Kver AS, Erik Frydenbø. Cf. Section 7.11 for details.

1.11 THE RIGHTS ISSUE - SUMMARY

The Rights Issue	Rights issue of 50,629,837 New Shares with Subscription Rights for Existing Shareholders
Record Date	27 June 2011. Shareholders as of this date will receive Subscription Rights.
Subscription Rights	The Company will issue one Subscription Right per two Shares in the Company registered as held by such Existing Shareholder as of the Record Date, each with a right to subscribe for and be allocated one New Share in the Company.
Subscription Period	From and including 9 August 2011 until 23 August 2011 at 17:30 hours (CET).
Trading in Subscription Rights	From and including 9 August 2011 until 18 August 2011 at 17:30 hours (CET).
Subscription Price	NOK 0,50
Manager	First Securities AS
Voting Rights	Each Share gives the holder the right to cast 1 vote at general meetings of shareholders. See Section 9.9.5
Reason for the Rights Issue and use of Proceeds	The Offering is intended to strengthen the Company's equity and capital base for general corporate purposes and strengthening of the working capital relating to the financial position of the Company and the maturity of the Company's Bond Loan where NOK 374.5 million is payable on 20 June 2012, cf. Section 8.14. The Company has no specific plans for the use of proceeds.
Shares Outstanding before the Rights Issue	101,259,675 Shares
Shares Outstanding after the Rights Issue	151,889,512 assuming full subscription
Payment and Delivery	Payment is expected to take place on and no later than 30 August 2011 following which the New Shares are expected to be delivered to the Subscribers' VPS accounts on or about 2 September 2011.
Trading of the New Shares	It is expected that trading in the New Shares will commence on or about 5 September 2011
ISIN	The Shares and the New Shares will have ISIN NO 0003075301
Ticker	PDR

Dilution	The Rights Issue will result in an immediate dilution of 33,33% assuming full subscription of the Offering
Proceeds and expenses	The total fees and expenses related to the Rights Issue are estimated to amount approximately NOK 3 million. Total net proceeds in the Rights Issue are estimated to amount to approximately NOK 22 million

For more information regarding the Rights Issue please see Section 4 of this Prospectus.

1.12 SUMMARY OF RISK FACTORS

A number of risk factors may adversely affect the Company. A summary of the most relevant risk factors are described in Section 2 of this Prospectus. Please note that the risks described herein are not the only risks that may affect the Group's business or the value of the Shares. Additional risks not presently known to the Board or considered immaterial may also impair its business operations and prospects.

The most important risks are the following, the list is not exhausted. The Group's activities expose it to a variety of financial risk, market risk, credit risk and liquidity risk. The actual results of the Group could differ materially from those anticipated as a consequence of many factors, including the following summary of risk factors.

1.12.1 Risk related to the company and the industry in which it operates

The Group is exposed to the risk of market fluctuations, and there is a general risk of damage or loss of equipment, although exposure in the latter case is limited.

Another key risk/challenge is to uphold the employment rate of the equipment over time as low utilization will result in a longer repayment period on the investment and thereby have a negative effect of the Company's performance.

Furthermore, there is a risk related to the Group's receivables on COR, and all receivables (USD 30 million) were impaired in the accounts for 2010. There is also a risk that the Group's repossession of equipment worth up to USD 7 million which has been in the possession of COR will not succeed.

There is also a key risk of loss of the Group's investments in shares in PetroMENA ASA and Petrojack ASA, which are currently undergoing bankruptcy proceedings. There is an important risk that these investments are lost, and no value has been attributed to these investments in the accounts for 2010.

1.12.2 Financial risk

The Group's activities expose it to a variety of financial risks: liquidity risk, interest rate risk, currency risk and credit risk.

1.12.3 Risk factors relating to the Shares

The trading price of the Shares could fluctuate significantly in response to a number of factors beyond the Company's control and independent of the operating performance of the Company.

In connection with equity raises, private placements may be performed with a minimum subscription amount, and the general meeting may in that connection decide to waive the shareholder's pre-emptive subscription rights. In such cases, smaller shareholders may be diluted at the expense of larger shareholders. Any offering by the Company could also have a material adverse effect on the market price of the Shares.

Investors may not be able to exercise their voting rights for Shares registered in a nominee account.

Furthermore, investors in the United States may have difficulty enforcing any judgment obtained in the United States against the Company or its directors or executive officers in Norway. Also, the transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions.

Shareholders outside of Norway are also subject to exchange rate risk.

1.12.4 Political, regulatory and market risks

In many of the areas where Petrolia has potential business partners and operates units, there is political instability, which could result in a substantial loss of revenue.

Changes to the relevant legal and regulatory systems could have a material adverse effect on the Company's business, results of operations and financial position.

There is also a general risk of war, other armed conflicts and terrorist attacks, and this may cause disruption to financial and commercial markets and contribute to even higher levels of volatility in prices.

Petrolia is exposed to changes in the oil price. Petrolia’s operations are to a large extent dependent on the level of activity in the offshore oil and gas industry, which in turn is largely dictated by oil price trends. A declined in the oil price with a subsequent decline in activity will directly impact upon the Company’s business and profitability.

The Company is exposed to competition from a number of players regularly tendering for work in competition with the Company.

1.12.5 Operational risks

The Group has exposure to inherent risks associated with offshore operations, such as adverse weather conditions and mechanical failures.

There is some exposure related to possible accidents and subsequent pollution.

The Group has taken out insurance customary for the trade, however, it is not possible to insure against all applicable risks and liabilities, and there may be exposure in that connection

There is a general risk of requisition, arrest etc. by a government of the vessels and rigs on which the Company's equipment is placed. In such case, it may prove challenging to have the Company's equipment released, and this could significantly and adversely affect the earnings under the relevant contract.

There is also a general project and contract risk as contracts will normally contain clauses which give the customer a right of early termination and/or damages in case of delays and/or non-performance.

The Group is exposed to service life and technical risks related to unforeseen operational problems, and this may lead to unexpectedly high operating cost and/or lost earnings.

There is a general risk of the Group becoming involved in legal proceedings and contractual disputes. Current proceedings and disputes are detailed in Section 12.

The Group is dependent on being able to attract key personnel for its operations, and the loss of the services of one or more of these individuals could have a material adverse effect.

Cf. Section 2.2 for more details.

1.13 LEGAL ISSUES/ DISPUTES

The estates of PetroMENA and Petrojack

Petrolia Services AS and Petrolia ASA are involved in two disputes regarding claw back claims presented by the bankruptcy estates of PetroMENA ASA and Petrojack ASA. Both claims are related to drilling equipment acquired from PetroMENA and Petrojack prior to the opening of bankruptcy. Both claims have been rejected. For information regarding this matter please refer to Section 12 of this Prospectus.

Venture Drilling

The Company currently owns 100 % of the shares in Venture Drilling, but prior to 28 March 2011 the Company owned 50 % of the shares, while the remaining shares were owned by Sinvest ASA. When Venture Drilling was created, Sinvest provided the bareboat agreement with the Russian state owned company Arktikmorneftegazrazvedka ("Arktik") for use of the drillship "Deep Venture", and Petrolia provided drilling equipment on the rig.

A dispute materialized with Arktik, and Russian courts concluded that the bareboat agreement with Venture Drilling AS is invalid. As a consequence, the drilling contract with Maersk was terminated early in April 2010. Arbitration has been ongoing between Venture Drilling AS and Arktik regarding early redelivery of the vessel. On 24 February 2011 an amicable settlement was achieved whereby (i) an agreement for early redelivery of the vessel to Artik and (ii) JSC Zarubezhneft, a Russian joint stock company, purchased from Venture Drilling AS (a) equipment and (b) the position against Artik in the arbitration for a total consideration of USD 138 million.

Consequently, Venture Drilling's relations with Arktik as well as with Maersk are terminated, and the disputes have been settled as far as Venture Drilling is concerned. Cf. Section 12.

1.14 ADDITIONAL INFORMATION

1.14.1 Articles of Association

The Company’s Articles of Association are included as Appendix 1 to this Prospectus.

1.14.2 Documents on display

For the life of the Prospectus, the following documents will be available for inspection at the Company’s registered office during normal business hours from Monday to Friday each week (excluding public holidays) for a period of 12 months from the date of this Prospectus:

i. The Memorandum and Articles of Association of the Company;

ii. the historical financial information of the Company and its subsidiary undertakings for each of the three financial years preceding the publication of this Prospectus,

iii. stock exchange notices, including quarterly reports, distributed by the Company through Oslo Børs’ information system after the submission of the application for listing.

iv. all reports, letters, and other documents and statements prepared by any expert at Company’s request any part of which is included or referred to in the Prospectus

Cf. Section 14.1.

1.14.3 Third party statements

Information contained in this Prospectus which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

2. RISK FACTORS

2.1 GENERAL

Before investing in the Company, investors should carefully consider all of the information contained in this Prospectus, and in particular the following risk factors, which may affect some or all of the Company's activities, the industry in which it operates and the Company's Shares.

If any of the following risks actually materialise, the Company's business, financial position and operating results could be materially and adversely affected. The risks described below may not be exhaustive as additional risks not presently known to the Company, or which the Company currently deems immaterial, may also impair its business operations and adversely affect its share price. In this connection, investors should take into consideration that the Company is not required to perform, and has not performed, any external due diligence verification of the Group in connection with the preparation of this Prospectus.

An investment in the Shares is recommended only for investors who understand the risks associated with this type of investment and who can afford a loss of all or part of their investment. Such information is presented as at the date hereof and is subject to change, completion or amendment without notice.

2.2 RISK RELATED TO THE COMPANY AND THE INDUSTRY IN WHICH IT OPERATES

2.2.1 Market fluctuations

The Group's operations are currently in the oilfield services segment, cf. Section 5.6. In this segment, activities have been steadily increasing since 2009, but prices are under pressure, use of long term contracts is rare, and competition is significant, cf. Section 2.5.

There is no assurance that the Company will be able to continue to retain new customers and that existing customers will maintain or increase their current level of business. Although the group is not dependent on any single customer, the Group's business, financial condition and results from operations may be adversely affected in the event that customers cease to have business dealings or materially reduce the level of business activities.

Therefore, there is generally a risk that revenues can change significantly from one year to the next.

Equipment values may also change significantly due to market fluctuation.

For long lead items (drill pipes and test tubing, described in Section 5.6.8), investment decisions are made early, and the investment may therefore be exposed if conditions change over time.

2.2.2 Equipment risk – damage and loss

In the oilfield services segment, the risk of damage or theft to equipment in warehouses is considered low as the equipment is generally robust and heavy. During employment with a customer, it will normally be the customer's risk if equipment is damaged or lost, and the customer shall normally insure the equipment during rental.

For clarity on the risk interphase with the customer, equipment is usually delivered EXW or FOB (Ex Works, Free On Board as defined by Incoterms 2010). Service and maintenance on equipment is outsourced and at customers' expense, implying a limited need for employees.

2.2.3 Equipment employment rate risk

Many customer contracts are on short term and involve a number of assets. A key risk/challenge is to uphold the employment rate of the equipment over time as low utilization will result in a longer repayment period on the investment and thereby have a negative effect of the Company's performance.

2.2.4 Risk related to the status of COR

COR has been providing rental management services to Petrolia Services AS and Independent Tool Pool AS, cf. Section 5.6.3. As further outlined in Section 5.6.4, COR has been experiencing severe financial difficulties since 2010, and all receivables on COR were impaired (USD 30 million) in the Group's accounts for 2010, cf. note 8 to the accounts.

In connection with the transfer of COR functions to the Group (cf. Section 5.6.4), the Group has taken possession of most of its equipment which has been under COR control. Equipment over which possession has not been taken as per the day of this Prospectus is valued at not more than USD 7 million. The Group is continuing its efforts to take possession over this equipment, and failure to do so may imply a risk of loss for the Group corresponding to the value of the equipment.

It is the view of the Company that the financial difficulties of COR and the transition of COR functions to the Group does not otherwise represent any material risk to the Group. Further details are given in section 5.6.3 to 5.6.6.

2.2.5 Risk of loss of investments

PetroMENA ASA and Petrojack ASA, where the Company owns 51.5 % and 39.95 % of the shares respectively, are currently undergoing bankruptcy proceedings. There is an important risk that these investments are lost, and no value has been attributed to these investments in the accounts for 2010.

2.3 FINANCIAL RISK

The Group's activities expose it to a variety of financial risks: liquidity risk, interest rate risk, currency risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

2.3.1 Liquidity risk – maturity of the Bond Loan

The Group has fixed rate on the major part of interest bearing liabilities, i.e. the Bond Loan, which limits the liquidity risk. Under the Bond Loan, the outstanding principal is NOK 374.5 million. The next interest payment is due on 20 December 2011 with NOK 22.5 million and remaining principal and interest, totaling NOK 397 million, of which 22.5 million is interst,, is due on 20 June 2012. At the date of the Prospectus the balance on the debt service reserve account is NOK 49 million and consequently covers the interest after June 2011.

As further outlined in Section 8.12, there is, however, a significant risk that the Group's working capital is insufficient to cover repayment of the principal under the Bond Loan in June 2012.

If the Group fails to receive financing in time it may result in need for a large equipment sale. If such sale cannot be made in time and if significant discounts must be given, this could result in large losses and put the Company in default with its Bond Loan. A worst case scenario is where the equity is lost and ultimately the Company has to file for bankruptcy.

2.3.2 Interest rate risk

Petrolia´s interest bearing debt totaled USD 111.9 million as per 31 December 2010. This includes the Bond Loan of NOK 500 million (USD 85.5 million) and financial leases of total USD 26.4 million. Interest on the Bond Loan is fixed at 12 %. Leasing contracts are at normal leasing rates with a number of smaller contracts. These contracts are subject to floating rate of interest, implying that the group is exposed to changes in the interest rate level.

The Group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable levels.

2.3.3 Currency risk

Petrolia has compiled its accounts in USD from 1 January 2008. As Petrolia has USD as its functional currency, currency risks arise when the cash flows and balance sheet items are denominated in a currency other than USD. The Bond Loan is in NOK, and there is also significant Group funding in NOK, implying a key currency risk for the Company.

2.3.4 Credit risk

The Group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments for equipment. The maximum risk exposure is represented by the carrying value of trade receivables and other receivables.

Specifically, receivables on COR were impaired (USD 30 million) in the Group's accounts for 2010, cf. Section 2.2.4 on risks related to COR.

There is also a general credit risk due to the inherent uncertainties in its customers' business environment. These include political, social, legal, economic and foreign exchange risks, as well as those arising from unanticipated events or circumstances. There is no guarantee on the timeliness of the customers' payments and whether they will be able to fulfil their payment obligations. Any inability on the part of the customers to settle promptly such amounts due to the Company for work done and/or services rendered may have a material adverse impact on financial performance and operating cash flow.

2.4 RISK FACTORS RELATING TO THE SHARES

2.4.1 The price of the Shares may fluctuate significantly

The trading price of the Shares could fluctuate significantly in response to a number of factors beyond the Company's control, including quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, significant contracts, acquisitions or strategic relationships, publicity about the Company, its products and services or its competitors, lawsuits against the Company, unforeseen liabilities, changes to the regulatory environment in which it operates or general market conditions. In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in the same industry. Those changes may occur without regard to the operating performance of these companies. The price of the Shares may therefore fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations may materially affect the price of its Shares.

2.4.2 Possibility of waiver of pre-emptive subscription right

In order to raise equity on short notice in the investor market, Petrolia may undertake private placements with a minimum subscription amount, and the general meeting may in that connection decide to waive the shareholder's pre-emptive subscription rights.

2.4.3 Future issuances of Shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Shares

It is possible that the Company may in the future may decide to offer additional Shares or other securities in order to finance new capital-intensive projects, or in connection with unanticipated liabilities or expenses or for any other purposes. Any such additional offering could reduce the proportionate ownership and voting interests of holders of Shares, as well as the earnings per Share and the net asset value per Share of the Company, and any offering by the Company could have a material adverse effect on the market price of the Shares.

2.4.4 Investors may not be able to exercise their voting rights for Shares registered in a nominee account

Beneficial owners of the Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) may not be able to vote for such Shares unless their ownership is re-registered in their names with the Norwegian Central Securities Depositary (the "**VPS**") prior to the Company's General Meetings. The Company cannot guarantee that beneficial owners of the Shares will receive the notice of a general meeting in time to instruct their nominees to either effect a re-registration of their Shares or otherwise vote for their Shares in the manner desired by such beneficial owners.

2.4.5 Investors in the United States may have difficulty enforcing any judgment obtained in the United States against the Company or its directors or executive officers in Norway

The Company is incorporated under the laws of Norway, and all of its current directors and executive officers reside outside the United States. Furthermore, most of the Company's assets and most of the assets of the Company's directors and executive officers are located outside the United States. As a result, investors in the United States may be unable to effect service of process on the Company or its directors and executive officers or enforce judgments obtained in the United States courts against the Company or such persons in the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States. The Company has been advised by its Norwegian legal counsel that the United States and Norway do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters.

2.4.6 The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions

The Shares have not been registered under the Securities Act or any US state securities laws or any other jurisdiction outside of Norway and are not expected to be registered in the future. As such, the Shares may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and applicable securities laws. See "Selling Restrictions" under "Important Information as introductory note in this Prospectus. In addition, there can be no assurances that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings.

2.4.7 Shareholders outside of Norway are subject to exchange rate risk

The Shares are priced in Norwegian kroner ("**NOK**"), the lawful currency of Norway, and any future payments of dividends on the Shares will be denominated in NOK. Accordingly, any investor outside Norway is subject to adverse movements in the NOK against their local currency, as the foreign currency equivalent of any dividends paid on the Shares or price received in connection with any sale of the Shares could be materially adversely affected.

2.5 POLITICAL, REGULATORY AND MARKET RISKS

2.5.1 Political risk

Political risk, including changes in legislative and fiscal framework governing the activities of the Company's customers, involves factors which are relevant when operating globally. In many of the areas where Petrolia has potential business partners and operates units, there is political instability.

Petrolia primarily seeks to secure guarantees and payment in USD to reputable banks in politically stable countries. However, possible internal disturbances in a country could result in a substantial loss of revenue.

2.5.2 Regulations

The Company depends upon its ability to comply with the relevant rules and regulations in the jurisdictions where it operates. Changes to the relevant legal and regulatory systems could have a material adverse effect on its business, results of operations and financial position.

2.5.3 Risk of war, other armed conflicts and terrorist attacks, etc

Various ongoing wars, military tension involving North Korea, the terrorist attacks of 11 September 2001 with subsequent terrorist attacks and unrest and the increased piracy activities in the Gulf of Aden, as well as epidemics, have caused instability in the world's financial and commercial markets. This has in turn significantly increased political and economic instability in some of the geographic areas in which the Company and its customers operate and contributed to high levels of volatility in prices. This continuing instability as well as threats of war or armed conflicts elsewhere may cause further disruption to financial and commercial markets and contribute to even higher levels of volatility in prices.

2.5.4 Oil price risk

Petrolia's operations are dependent on the state of the offshore oil and gas industry, in terms of the level of activities in the exploration, development and production of oil and natural gas. Since it is largely dictated by oil price trends, the level of activity in the oil and gas industry has historically been cyclical. Low oil prices typically lead to a reduction in exploration drilling as oil companies scale down their investment budgets. Any decline in the level of activities in the offshore oil and gas industry may result in a decrease in demand for the Company's production units and services. Such decline will also directly impact upon the Company's business and profitability.

2.5.5 Competitive position

The competitive position, through changes in demand and supply, is the most important factor affecting the Company's result. The oilfield services market is highly competitive with a number of players regularly tendering for work in competition with the Company. Such players include Slumberger/Smith, Odfjell Well Services, Weatherford, KCA Deutag in Norway, Halliburton and Baker Hughes among others.

2.6 OPERATIONAL RISKS

2.6.1 Inherent risks associated with offshore operations

Offshore operations are exposed to inherent risks of offshore activities such as property loss, interruptions of operations caused by adverse weather conditions or mechanical failures. Some of Petrolia's revenues are related to activities in harsh environments. There are several factors that can contribute to an accident including, but not limited to, human errors, weather conditions and faulty constructions.

2.6.2 Accidents and pollution

Offshore operations involve risks of unexpected pressure or temperature conditions that may ultimately lead to blow-outs or fire, cause damage to personnel, equipment or the environment, or lead to operational delays or difficulties. There are also maritime risks during operations, caused by extreme weather conditions or other natural phenomenon.

Exposure for Petrolia is minimal, as standard rental terms oblige customers to insure the equipment while on hire. Damage will quickly result in revenue (lost in hole). The Group only supply personnel as part of casing running. Even if equipment is off-hire due to force majeure, effects would be limited.

2.6.3 Insurance coverage

Operational risks can cause injury to personnel, damage to equipment and accidental discharges/emissions to the natural environment. Avoiding harm to personnel and equipment as well as accidental discharges/emissions is nevertheless a clear target.

In connection with equipment rental, the Company's equipment is normally covered by the customer's insurances once the equipment is taken over by the customer. Such insurance normally does not cover during operations (only transport and storage). Maintenance and repair costs are normally to be covered by customers.

During transport, the equipment is insured in a manner customary to the relevant means of transportation

However, it is not possible to insure against all applicable risks and liabilities. For instance, under some contracts the Company will have unlimited liability for losses caused by its own gross negligence, whereas such liability in general will not be covered by the Company's insurance policies.

The Company cannot assure that it has obtained insurance for all risks, that any future claims will be paid, or that it will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

2.6.4 Requisition, arrest etc. of the vessels and rigs

The vessels and rigs on which the Company's equipment is placed could be requisitioned by a government in the case of war or other emergencies or become subject to arrest. In such case, it may prove challenging to have the Company's equipment released, and this could significantly and adversely affect the earnings under the relevant contract.

2.6.5 Project and contract risk

In line with industry practice, a contract will normally contain clauses which could give the customer a right of early termination under specified conditions. Petrolia may be subject to other risks related to the terms of its contracts, including damages payable to customers as a result of deviations from a contract and liquidated damages for delays or non-performance. This risk may also materialise as a result of, amongst others, weather, equipment failure, fire, cost overruns and force majeure situations.

2.6.6 Service life and technical risks

The service life of the equipment will depend on a series of factors, including market activity and technical state. There will always be some exposure to technical risks, with unforeseen operational problems leading to unexpectedly high operating cost and/or lost earnings, which may have a material adverse effect on the financial position of the Company. Should equipment be subject to periods of unplanned down-time due to reliability or technical issues, the performance and operations of the Company will be adversely affected.

2.6.7 Legal proceedings and contractual disputes

In the course of its activities, the Company may become party to legal proceedings and disputes. Current proceedings and disputes are detailed in Section 12 below. The Company makes provisions in such cases to cover the expected outcome of the proceedings and disputes, to the extent that negative outcomes are likely and reliable estimates can be made. However, the final outcome of legal proceedings and disputes are subject to uncertainties, and resulting liabilities may exceed recorded provisions.

2.6.8 Key personnel for operations and profitability

The Company's ability to continue to attract, retain and motivate such key personnel and other senior members of the management team and experienced personnel will have an impact on the Company's operations. The competition for such employees is intense, and the loss of the services of one or more of these individuals without adequate replacements or the inability to attract new qualified personnel at a reasonable cost could have a material adverse effect.

3. RESPONSIBILITY FOR THE PROSPECTUS

This Prospectus has been prepared by Petrolia ASA in connection with the Rights Issue described herein.

The Board of Directors of Petrolia ASA hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Bergen, 2 August 2011

The Board of Directors of Petrolia ASA

Berge Gerdt Larsen
Chair

Erik Johan Frydenbø Director	Unni Fossberg Tefre Director
Marit K. Instanes Director	Sjur Storaas Director

4. THE OFFERING

4.1 OVERVIEW

The Offering is intended to strengthen the Company's equity and capital base for general corporate purposes and strengthening of the working capital relating to the financial position of the Company and the maturity of the Company's Bond Loan where NOK 374.5 million is payable on 20 June 2012, cf. Section 8.14. The Company has no specific plans for the use of proceeds.

The Company plans to raise capital through a rights issue towards existing shareholders (the "Offering"). The Company will issue 50,629,837 New Shares, each with a par value of NOK 0.04. The amount to be raised will be NOK 25,314,918.50, assuming full subscription

Existing Shareholders will in accordance with Section 10-4 of the Norwegian Public Limited Companies Act be granted tradable Subscription Rights providing a preferential right to subscribe for and be allocated New Shares in the Rights Issue. The Company will issue one Subscription Right per two Shares held in the Company as of 27 June 2011. The number of Subscription Rights issued to each shareholder will be rounded down to the nearest whole number of Subscription Rights. Each Subscription Right grants the owner the right to subscribe for and be allocated one New Share in the Rights Issue. Over-subscription and subscription without Subscription Rights is permitted; however, there can be no assurance that New Shares will be allocated for such subscriptions.

The Subscription Rights are fully tradable and transferable, and will be listed on Oslo Børs with ticker code "PDR T" and registered in VPS with ISIN NO 001 0622723. The Subscription Rights are transferrable in the period from and including 9 August 2011 to 18 August 2011 at 17:30 hours CET.

TIMETABLE

The below timetable sets out certain key dates for the Rights Issue:

Last day of trading in the Shares incl. Subscription Rights	27 June 2011	
Shares trading excl. Subscription Rights	28 June 2011	
Start of Subscription Period	9 August 2011	
First day of trading of Subscription Rights on Oslo Børs	9 August 2011	
End of trading of Subscription Rights on Oslo Børs	18 August 2011	at 17:30 (CET)
End of Subscription Period	23 August 2011	at 17:30 (CET)
Allocation of New Shares	25 August 2011	(expected)
Allocation letters distributed	25 August 2011	(expected)
Payment Date for the New Shares	30 August 2011	
Registration of share capital increase	2 September2011	(expected)
Listing and first day of trading of the New Shares on Oslo Børs	5 September 2011	(expected)
Date of Delivery of the New Shares	5 September 2011	(expected)

The above dates are indicative and subject to change.

No action will be taken to permit a public offering of the Subscription Rights and the New Shares in any jurisdiction outside Norway.

The Shares of the Company are listed on Oslo Børs under ticker code "PDR". The New Shares will be listed on Oslo Børs as soon as the New Shares have been registered with the Norwegian Register of Business Enterprises and the VPS. The Company expects that the New Shares will be listed and admitted to trading on Oslo Børs on or about 5 September 2010.

4.2 THE AUTHORISATION AND DECISION TO ISSUE SHARES

4.2.1 Authorization

Authorization by the general meeting on 28 June 2010, the general meeting of the Company authorized the Board to increase the Company's share capital with a maximum amount of NOK

253,149,185 by issuing up to 50,629,837 new shares with par value of NOK 5 per share. The authorization was to expire on the next annual general meeting or on 30 June 2011.

On 17 December 2010 the Company's general meeting resolved to reduce the share capital by reducing the par value from NOK 5 to NOK 0.04. On that basis, it was resolved to adjust the Board's authorizations, and the maximum share capital increase under the authority was set at NOK 2,025,193.48 by issuance of up to 50,629,837 New Shares at par value NOK 0.04 at market price.

The general meeting made the following resolution:

1. The Board of Directors is granted an Authority to increase the company's share capital once or several times in the total maximum amount of NOK 2,025,193.48 by the issuance of up to 50,629,837 shares each with par value of NOK 0.04 per share at market rate.

2. The Authority expires at the company's Annual General Meeting in 2011, but no later than on 30 June 2011, and replaces previous authorities to the Board of Directors.

3. The shareholders' preferential rights according to the Public Limited Liability Companies Act § 10-4 may be set aside.

4. The Power of Attorney embraces the increase of share capital against non-cash contributions and the right to incur special obligations for the company cf. § 10-2, together with the power to merge.

4.2.2 The Board's decision to issue New Shares

A resolution for the share capital increase was passed by the Board of Directors on 27 June 2011.

4.3 TERMS AND CONDITIONS OF THE OFFERING

4.3.1 Overview

The Offering consists of one tranche; a rights offering, directed towards existing shareholders. The Rights Issue comprises an offering of up to 50,629,837 New Shares. The Board may, at its discretion, decrease the number of New Shares allotted to the Offering, when allocating the New Shares, in order to obtain the best possible result for the Company in light of the subscriptions received.

No minimum or maximum subscription amount applies in the Rights Issue. The terms of the Offering are set out below.

Completion of the Offering on the terms set forth in this Prospectus is conditional on the Company having approved the allocation of the New Shares, cf. Section 4.3.6 below. There can be no assurance that this condition will be satisfied. In the event that the Offering is cancelled, all orders for Shares will be disregarded, any allotments made will be deemed not to have been made, any payments made will be returned without interest or other compensation and all transactions in the New Shares will be cancelled and reversed.

The Shares traded ex rights on 28 June 2011 and shareholders as of 27 June 2011 will receive Subscription Rights. These Rights were registered in the VPS on 30 June 2011.

4.3.2 Subscription Price

In accordance with the authorization from the general meeting, the subscription price per New Share shall be set at "market price".

In order to set the Subscription Price, the Company has taken the following factors into consideration:

1. The Shares have recently been traded at low volumes on the Oslo stock exchange, and the trading prices do not necessarily reflect the price the market is prepared to pay for shares when the offer implies an increase by 50 % of the total number of shares.

2. The price should be set at a level making it attractive for as many shareholders as possible to participate. A discount will therefore be considered, but at the same time taking into consideration the interests of shareholders who will not participate.

On the above basis, the Board decided to instruct the Manager to perform a market evaluation among a representative selection of the Company's shareholders in order to assess and advise at which level the Subscription Price should be set in order to achieve full subscription. Having received the Manager's advice, the Board has decided to set the Subscription Price at NOK 0.50.

4.3.3 Subscription Period

The Subscription Period in the Offering will last from and including 9 August 2011 to and including 23 August 2011. The book will close at 17:30 hours (Oslo time) on 23 August 2011 after which no further orders will be accepted. The Company cannot revoke the Offering or shorten the Subscription Period.

The Subscription Rights are fully tradable and transferable, and will be listed on Oslo Børs with ticker code "PDR T" and registered in VPS with ISIN NO 001 0622723. Trading in the Subscription Rights on Oslo Børs may take place from and including 9 August 2011 and until 18 August at 17:30 (CET). The Subscription Rights will hence only be tradable during part of the Subscription Period. Persons intending to trade in Subscription Rights should be aware that the exercise of Subscription Rights by holders who are located in jurisdictions outside Norway may be restricted or prohibited by applicable securities laws. Please refer to "Selling restrictions" for a description of such restrictions and prohibitions.

The Subscription Period for the Offering may be extended at the Company's own discretion, but not beyond 26 August 2011. Any extension of the Subscription Period will be announced through the Company's website. A decision to extend the Subscription Period will be announced no later than 17.30 (Oslo time) on 23 August 2011. In the event of extension, the allocation date, the first trading date, the payment date and the date of delivery of New Shares will be extended correspondingly.

4.3.4 Subscription procedures

Subscriptions for New Shares must be made by submitting a correctly completed Subscription Form (see form attachment to this Prospectus, Appendix 6) to the Manager during the Subscription Period or, made online as further described below.

Subscription Forms together with this Prospectus can be obtained from the Company or the subscription office set out below.

Orders are irrevocable and cannot be withdrawn, cancelled or modified by the subscriber after having been received by the Manager.

Subscribers who are Norwegian citizens may subscribe for New Shares by following the link on www.first.no, all of which will redirect the subscriber to the VPS online subscription system. In order to use the online subscription system, the subscriber must have, or obtain, a VPS account number. All online subscribers must verify that they are Norwegian citizen by entering their national identity number.

There is no minimum subscription amount for which subscribers in the Offering must be made. Oversubscription (i.e., subscription for more New Shares than the number of Subscription Rights held by the subscriber entitles the subscriber to be allocated) is allowed. Subscription without Subscription Rights is permitted. In each case, however, there can be no assurance that New Shares will be allocated for such subscriptions.

4.3.5 Subscription rights

Existing Shareholders will be granted Subscription Rights giving a preferential right to subscribe for and be allocated New Shares in the Rights Issue. Each Existing Shareholder will be granted one Subscription Right for each two Shares registered as held by such Existing Shareholder on the Record Date. The number of Subscription Rights granted to each Existing Shareholder will be rounded down to the nearest whole Subscription Right. Each Subscription Right will, subject to applicable securities laws, give the right to subscribe for and be allocated one New Share in the Rights Issue. Subscription Rights in this Offering is transferable.

The Subscription Rights must be used to subscribe for New Shares before the end of the Subscription Period (i.e. 23 August 2011 at 17.30 hours (Oslo time)). Subscription Rights which are not exercised before the end of the Subscription Period will have no value and will lapse without compensation to the holder. Holders of Subscription Rights should note that subscriptions for New Shares must be made in accordance with the procedures set out in this Prospectus**.**

Accurately completed Subscription Forms must be received by the Manager by 17:30 hours (Oslo time) on 23 August 2011. Any internet subscriptions must be completed by the same time. Subscription Forms sent by regular mail on 19 August 2011 may arrive after the deadline. Neither the Company nor the Manager may be held responsible for delays in the mail system, busy facsimile lines or for non-receipt of Subscription Forms forwarded by mail or facsimile to the Manager.

Properly completed and signed Subscription Forms may be faxed, mailed or delivered to the Manager at the address set out in Section 4.4.1. The subscriber is responsible for the correctness of the information filled into the Subscription Form. By signing and submitting a Subscription Form, the subscriber confirm and warrant that they have read this Prospectus and are eligible to subscribe for New Shares under the terms set forth herein.

The Board and the Manager may, at their sole discretion, refuse any improperly completed, delivered or executed Subscription Form or any subscription which may be unlawful. A subscription is irrevocable and may not be withdrawn, cancelled or modified once it has been received by the Manager.

Multiple subscriptions are not allowed. In the event a Subscriber submits two or more Subscription Forms, only the first Subscription Form will be registered. The other Subscription Forms will be rejected without further notice.

All questions concerning the timeliness, validity, form and eligibility of any subscription for Shares in the Offering will be determined by the Board in its sole discretion, whose determination will be final and binding. The Board, or the Manager upon being authorised by the Board, may in its or their sole discretion waive any defect or irregularity in the Subscription Forms, permit such defect or irregularity to be corrected within such time as the Board or the Manager may determine, or reject the purported subscription of any New Shares in the Offering. It cannot be expected that Subscription Forms will be deemed to have been received or accepted until all irregularities have been cured or waived within such time as the Board or the Manager shall determine. Neither the Board, the Company nor the Manager will be under any duty to give notification of any defect or irregularity in connection with the submission of a Subscription Form or assume any liability for failure to give such notification.

4.3.6 Allocation

Allocation of the New Shares subscribed for in the Offering is expected to take place on or about 25 August 2011. The allocation of the New Shares will be made according to the following criteria:

Allocation will be made to subscribers on the basis of granted Subscription Rights which have been validly exercised during the Subscription Period. Existing Shareholders will be granted one Subscription Right for each two Shares registered as held by such Existing Shareholder on the Record Date. Each Subscription Right will give the right to subscribe for and be allocated one New Share.

If not all Subscription Rights are validly exercised in the Subscription Period, subscribers having exercised their Subscription Rights and who have over-subscribed will have the right to be allocated remaining New Shares on a pro rata basis based on the number of Subscription Rights exercised by the subscriber. In the event that pro rata allocation is not possible, the Company will determine the allocation by lot drawing.

The Board reserves the right to round off, reject or reduce a subscription for New Shares not covered by Subscription Rights. The Company will not allocate fractional New Shares. Uneven number of Subscription Rights will be rounded down to nearest whole numbers.

All Subscribers being allotted Shares in the Offering will receive a letter confirming the number of New Shares allotted to the Subscriber and the corresponding amount to be paid. These allocation letters are expected to be mailed on or about 25 August 2011.

Subscribers having access to investor services through their VPS account manager will be able to check the number of New Shares allocated to them from on or about 2 September 2011.

4.3.7 Information about the Offering

General information on the number of New Shares allocated in the Offering is expected to be published on or about 23 August in the form of news release on Oslo Børs NewsPoint and on the Company’s web site.

4.3.8 Payment for the New Shares

Payment in respect of the New Shares allocated to Subscribers in the Offering shall be made on and no later than 30 August 2011 by direct debit as described below.

Each Subscriber must provide a one-time authorization to the Manager to debit a specified bank account with a Norwegian bank for the amount (in NOK) payable for the New Shares allotted to such Subscriber in the Offering by signing the Subscription Form when subscribing for New Shares. The Subscriber’s bank account number must be stated on the Subscription Form. The amount will be debited on or about 30 August 2011, and there must be sufficient funds in the stated bank account from and including 29 August 2011. Subscribers not having a Norwegian bank account must ensure that payment for their New Shares allocated in the Offering with cleared funds is made on or before 12:00 (Oslo time) on 30 August 2011 and should contact the Manager in this respect.

If there are insufficient funds on a Subscriber’s bank account or it is impossible to debit a bank account for the amount the Subscriber is obligated to pay, or payment is not received by the Manager according to other instructions, the allotted New Shares will be withheld. Penalty interest will in such event accrue at a rate equal to the prevailing interest rate, pursuant to the Norwegian Act on Interest on Overdue Payment of December 17, 1976 no. 100, which at the date of this Prospectus was 9 % per annum.

The Manager reserves the right to make up to three debits in the period up to 1 September 2011 if there are insufficient funds on the account on the debiting date.

If payment for the allotted Shares is not received when due, the New Shares will not be delivered to the Subscriber. According to 10-12 and 2-13 (3) of the Norwegian Public Limited Liabilities Companies Act the Board will in such a case reserve the right after three days, at the risk and cost of the Subscriber, to cancel the subscription in respect of the New Shares in the Offering. The Board will also reserve the right to sell or otherwise dispose New Shares, and to hold the Subscriber liable for any loss, cost or expenses suffered or incurred in connection therewith.

The original Subscriber remains liable for payment of the entire amount due, including interest, costs, charges and expenses accrued, and the Manager may enforce payment of any such amount outstanding.

4.4 OTHER

4.4.1 Subscription Office

The subscription office for the Offering is:

First Securities AS
Filipstad Brygge 1
P. O. Box 1441 Vika
0115 Oslo
Norway

Facsimile: +47 23 23 80 11
Telephone: +47 23 23 80 00
www.first.no

4.4.2 Publication of information

Publication of information related to any changes in the Offering and the amounts subscribed, will be published on the Company's web site www.petrolia.no on or about 23 August 2011.

4.4.3 Delivery of the New Shares

Assuming that payment from all Subscribers are made when due, the Company expects that the share capital increase will be registered in the Norwegian Register of Business Enterprises on or about 2 September 2011.

Delivery of the New Shares subscribed for and allotted in the Offering is expected to take place on or about 5 September 2011.

4.4.4 Transferability of the New Shares

A Subscriber will not under any circumstances be entitled to sell or transfer its New Shares allocated in the Offering until these Shares have been paid in full by such Subscriber and the new share capital has been registered in the Norwegian Register of Business Enterprises.

4.4.5 Registration with the VPS

The New Shares will be issued electronically and will be registered with the VPS under the International Securities Identification Number (ISIN) NO0003075301.

The registrar for the Shares is Nordea Bank Norge ASA, Securities Services - Issuer Services, Norway. The address to Nordea Bank Norge is: Middeltunsgt.17, 0368 Oslo.

4.4.6 Share Capital following the Offering

The final number of New Shares to be issued in the Offering will depend on the number of subscriptions received and number of shares allocated by the Board. The number of New Shares to be issued is 50,629,837 corresponding to a capital increase of NOK 2,025,193 each with a par value of NOK 0.04. Assuming that the Offering is fully subscribed, the Company's share capital after the completion of the Offering will then be NOK 6,075,580.48 consisting of 151,889,512 Shares, each with a par value of NOK 0.04. The New Shares will be issued in accordance with the Norwegian Public Limited Liability Companies Act pursuant to a resolution by the Board. See Section 9 for a further description of the Company's share capital.

4.4.7 Dilutive effect

The dilutive effect in connection with the Offering will be maximum 33.33 %, assuming full subscription of the Offering.

	Prior to Offering	Subsequent to Offering
Number of Shares	101,259,675	151,889,512
Number of Shares in % of new number of Shares	66,67%	100.0%

4.4.8 Shareholders' rights relating to the New Shares

Subscribers being allocated New Shares in the Offering will have full shareholders' rights in respect of the New Shares once such shares are credited to their VPS account. The New Shares will be in book-entry form and will rank pari passu in all respects with the Company's other outstanding Shares, including the right to dividends and voting rights from the date at which the New Shares are registered in the Norwegian Central Securities Depository. See also Section 9 for a further description of the rights and tradability of the Shares.

The New Shares are shares in the Company's single share class and carry one vote each at the general meetings of the Company. All issued Shares in the Company are vested with equal shareholder rights in all respects. The Company's Articles of Association do not contain any provisions imposing any limitations on the ownership or the tradability of the Shares. The New Shares will be subject to Norwegian law and in particular the Public Limited Companies Act as amended from time to time.

4.4.9 Proceeds and expenses

Costs attributable to the Offering will be borne by the Company. Investors subscribing in the Offering will not incur any brokerage fees or other costs directly related to the Offering.

The total costs of the Offering are expected to amount to approximately NOK 2 million which include cost related to fees to the Manager, distribution of this Prospectus, costs to legal advisors, financial advisors, fees to the Financial Supervisory Authority, the Company's auditor, etc. The net proceeds to the Company from the Offering will be approximately NOK 23 million, assuming full subscription of the Offering.

4.4.10 Mandatory anti-money laundering procedures

The Offering is subject to the Norwegian Money Laundering Act of 6 March 2009 no. 11 with associated regulations (the "Anti-Money Laundering Legislation"). All Subscribers not registered as existing customers with the Manager must verify their identity in accordance with the requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Subscribers that have designated an existing Norwegian bank account and an existing VPS account on the subscription form are exempted, provided the aggregate subscription price is less than NOK 100,000, unless verification of identity is requested by the Manager. The verification of identity must be completed prior to the end of the subscription period. Subscribers that have not completed the required verification of identity may not be allocated New Shares in the Offering. Furthermore, participation in the Offering is conditional upon the Subscriber holding a VPS account. The VPS account number must be stated on the subscription form. VPS accounts can be established with authorized VPS registrars, which can be Norwegian banks, authorized securities brokers in Norway and Norwegian branches of credit institutions established within the EEA. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorized by the Norwegian Financial Services Authority. Establishment of a VPS account requires verification of identity before the VPS registrar in accordance with the Anti-Money Laundering Legislation.

4.5 ADVISORS

The Manager for the Offering is First Securities AS, Filipstad Brygge 1, PO box 1441 Vika, 0115 Oslo, Norway.

The information in this Prospectus regarding Petrolia ASA has been provided by the Company. The Manager makes no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Manager.

First Securities AS holds zero shares, and employees of First Securities hold zero shares in the Company as of the date of the Prospectus.

4.6 INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFER

Through control over Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 6.16 % of the Shares (cf. Section 9.7), Berge Gerdt Larsen, Chair of the board of the Company, is indirectly a shareholder in the Company.

As an indirect shareholder, Larsen may have an interest in the Offer. In connection with the allocation of shares (cf. Section 4.3.6), Larsen may have an interest in being allotted shares in order not to be diluted as a shareholder. If he oversubscribes to the Offer, he may have an interest in being allotted shares in order to increase his total ownership share in the Company. These are, however, interests that apply equally to all shareholders of the Company.

The Manager is the coordinator and book runner for this Rights Issue and will be paid a fixed amount if the placement is completed (cf. section 4.4.9 regarding the Company's expected total expenses in connection herewith). If the placement is not completed, the Manager receives no remuneration. The Manager therefore has an economic interest in the Rights Issue being completed. The Manager has no other interest in this Rights Issue.

Otherwise, the Company is not aware of any natural or legal persons involved in the Offer having any interest that is material to the Offer.

5. PRESENTATION OF THE COMPANY

The purpose of the Company is to operate within the oil and gas industry and to have activities in the business segments oilfield services, drilling & well and oil & gas. Currently, and as further outlined in this section 5, the Group does not have any significant activities within drilling & well and oil & gas, as all activities of importance are within the oilfield services segment.

5.1 INCORPORATION, REGISTERED OFFICE AND REGISTRATION NUMBER

Petrolia ASA is a public limited company (“allmennaksjeselskap”) incorporated and operating under the laws of Norway, and in accordance with the Norwegian Public Limited Liability Companies Act. The Company is registered with the Norwegian Register of Business Enterprises with organization number NO 977 321 484. The Company’s registered office is located in Haakon VII's gate 1, 0116 Oslo, Norway. The mailing address of the Company is Hopsnesveien 127, 5232 Paradis, Norway and the telephone number is +47 55 22 47 10. The web page is: www.petrolia.no.

As further detailed in Section 5.4.1, the Company has decided to initiate a process to relocate its head office to Cyprus.

Petrolia ASA employs 7 persons at the date of this Prospectus. Petrolia Group employs 246 persons as per this date.

Petrolia ASA is traded on OSE in Norway with ticker code PDR.

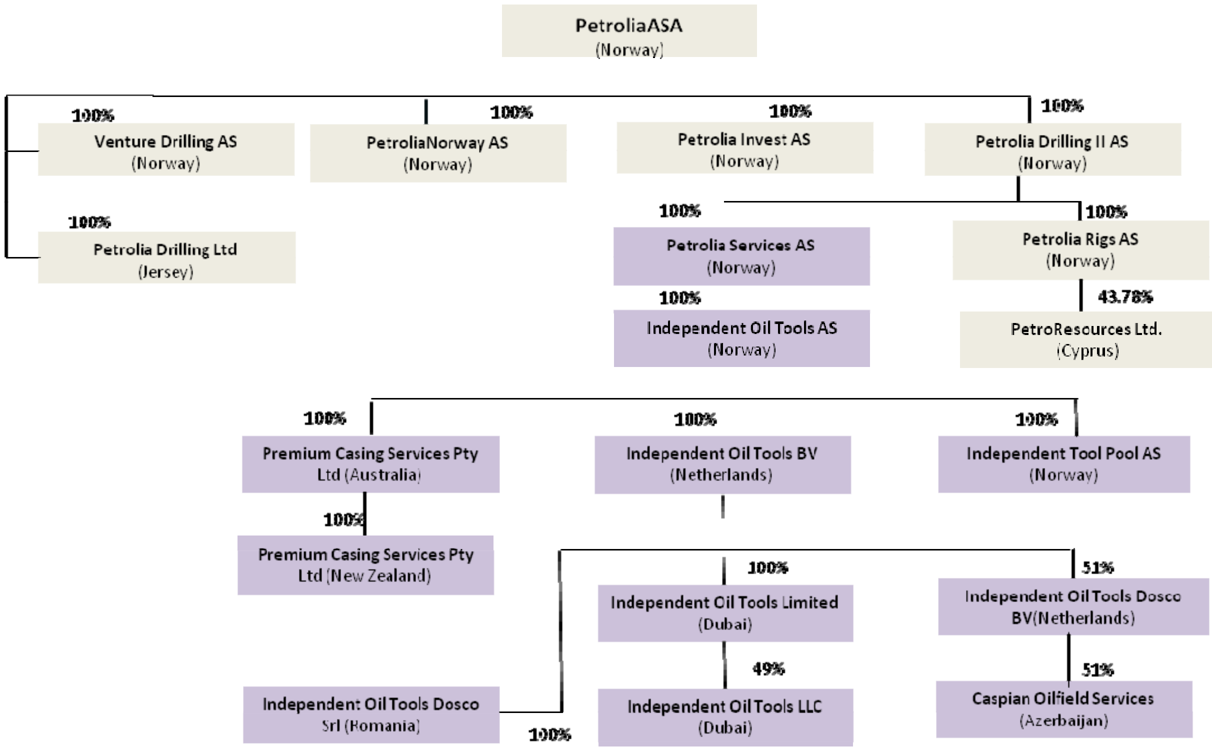
5.2 HISTORY AND DEVELOPMENT OF THE COMPANY

March 17th 1997	The Company was incorporated
May 1997	The Company purchased SS "Petrolia".
May 12th 1997	The Company was listed on Oslo Stock Exchange
September 1997	The Company entered a 10 year bareboat charter for DS "Valentin Shashin".
March-November 2005	DS "Valentin Shashin" was redelivered and a new bareboat charter made with a new party. The Company entered into a joint venture, Venture Drilling AS, with Sinvest ASA.
December 2005	Investments into shares in PetroMENA ASA started. By June 2008, the Company owned 51.5 % of its shares.
December 2005	Investments into shares in Petrojack ASA started. By February 2007, the Company owned 39.9 % of its shares.
January 15 2007	Independent Oil Tools AS (IOT) purchase completed. IOT group included Independent Tool Pool AS, Independent Oil Tools BV, Premium Casing Services Australia and Premium Casing Services New Zealand.
October 2007	The SS "Petrolia" was sold to PetroMENA Ltd.
15 November 2007	PetroMENA ASA became a subsidiary
June 2008	Investment in Deepwater Driller Ltd. (initially named Larsen Rig Ltd.).
21 December 2009	PetroMENA ASA bankrupt
8 March 2010	Petrojack ASA bankrupt
April 2010-March 2011	DS Valentin Shashin off-hire due to invalid bareboat charter. Negotiations with owners. Full settlement reached 24 February 2011 and the vessel is now redelivered to its owners. Petrolia ASA owns 100 % of Venture Drilling AS from 28 March 2011.
24 January 2011	Shares in Deepwater Driller Ltd sold for USD 34.5 million.
April-present 2011	Negotiations with COR regarding the phasing out of COR as rental manager (oilfield services), incorporation of two new subsidiaries Independent Oil Tools Ltd (Dubai) and Independent Oil Tools LLC (Dubai), ongoing acquisition of shares in COR Singapore Pte Ltd and COR Rentals Malaysia SDN. BHD.
9 August 2011	The Company launched the Offering contemplated by this Prospectus

5.3 LEGAL STRUCTURE OF THE PETROLIA GROUP

The Company is part of a group and operates in many countries. The Group consists of the Norwegian parent company Petrolia ASA and the wholly owned subsidiaries listed and described in Section 5.4 of this Prospectus.

The following chart depicts the Group's legal corporate structure and includes the companies in the Group and the ownership as of the date of the Prospectus (lilac are oilfield services, others are holding companies or companies within drilling & well or oil & gas as further detailed in Section 5.4 below), as well as Group's ownership share in the Group companies. The Group's voting power in the each of the Group companies corresponds to its respective ownership share.



The Group has furthermore entered into agreements with COR to purchase its 100 % of the shares in COR Singapore Pte Ltd and 30 % of the shares of COR Rentals Malaysia SDN. BHD. Local formalities regarding i.a. local ownership and completion and registration of the transaction are still outstanding as per the day of this Prospectus, and the companies have therefore not been included in the above Group chart. Cf. Section 5.6.5 for further details.

PetroMENA ASA and Petrojack ASA, where the Company holds 51 % and 40 % of the shares respectively, are not included in the chart as they are undergoing bankruptcy proceedings. The Company has no control over these proceedings, the information from the estates is limited and the investments are lost. For the sake of clarity however, the two companies are mentioned in Section 5.4 below.

5.4 ORGANISATION

The following is a description of the companies in the Group including associated companies.

5.4.1 Petrolia ASA, the parent company

Petrolia ASA, a holding company, is the parent company in the Group with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. The Company was incorporated 17 March 1997 with organization number 977 321 484. The Company has a total of 7 employees as at the date of this Prospectus.

The Company has decided to initiate a process with a view to relocate its head office to Cyprus. In the summons to the general meeting that was held on 28 June 2011, the Board included the following overview of its plans:

Item no. 13: Consultative vote regarding possible re-location of head-office

1. *Introduction*
Petrolia ASA (Petrolia) has considered re-domiciling the company from Norway to another jurisdiction, and has in this respect considered various alternatives. The board has decided to re-domicile the company to Cyprus as the best alternative for the company going forward.

2. *Overview of the recommended solution*
   - *Merger of Petrolia ASA with Petrolia Cyprus, with the latter as the surviving entity*
   - *Shareholders of Petrolia ASA will receive shares in Petrolia Cyprus as consideration for their shares in Petrolia ASA today*
   - *One share in Petrolia ASA will give one share in Petrolia Cyprus*

3. *Proposed timeline*
   - *Establishment of Petrolia Cyprus (July 2011)*
   - *Merger plan and exhibits to be prepared (July/August 2011)*
   - *Letter to Oslo Børs re listing requirements to be prepared (July/August 2011)*
   - *Due diligence (July/August 2011)*
   - *Notice to extraordinary general meeting to vote on merger plan (August 2011)*
   - *Extraordinary general meeting (September 2011) – Start creditor notice period (two months in Norway)*
   - *Completion of merger estimated to take place (November/December 2011)*
   - *The board of directors requests the general meeting to give their indicative instructions by voting over whether to approve the board's proposed plan and schedule.*

On 28 June 2011, the general meeting of the Company resolved as follows:

The shareholders meeting approved the plans to re-domicile Petrolia ASA to Cyprus, and instructed the board of directors to continue the process by preparing for an extra-ordinary shareholders meeting to resolve the merger process as scheduled by the board.

The subsidiaries listed in the following are all wholly owned unless otherwise stated.

5.4.2 Petrolia Services AS, Oilfield Services holding company

Petrolia Services AS, a limited company incorporated in Norway with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway, is the holding company of the oilfield services segment. In addition the company owns some drilling equipment. The company was incorporated as Petrolia Shashin AS on 16 June 1998 with organization number 979 849 362. On 7 December 2006 the company name was changed to Petrolia Services AS. There are no employees in the company.

5.4.3 Independent Oil Tools AS, Oilfield Services in Norway

Independent Oil Tools AS, a limited company incorporated in Norway with registered business address Midtgårdveien 30/32, 4065 Stavanger, Norway is an oilfield services company focusing on the Norwegian market. The company was acquired in January 2007 and owns drill pipes and tubing and related equipment. The company was incorporated as IOT Service AS on 20 March 2006 with organisation number 989 675 281. On 16 October 2006 the company name was changed to Independent Oil Tools AS. The company has 21 employees as at the date of this Prospectus.

5.4.4 Independent Tool Pool AS, Oilfield Services globally

Independent Tool Pool AS, a limited company incorporated in Norway with registered business address Midtgårdveien 30/32, 4065 STAVANGER, Norway, is an oilfield services company focusing on asset ownership. The company owns drill pipes and tubing and related equipment which is marketed for rental at various international markets. The company was incorporated as BL Tool Pool AS on 7 June 2005 with organisation number 988 380 636. On 21 December 2006 the company name was changed to Independent Tool Pool AS. There are no employees in the company.

5.4.5 Premium Casing Services Pty Ltd, Oilfield Services in Australia

Premium Casing Services Pty Ltd is an oilfield services company registered and domiciled in Australia with registered business address 92 Barberry Way, Bibra Lake WA 6163, Australia. The company hires out drilling equipment and provides related services. The company has a subsidiary in New Zealand. The company has 77 employees as at the date of this Prospectus.

5.4.6 Premium Casing Services Pty Ltd, Oilfield Services in New Zealand

Premium Casing Services Pty Ltd is an oilfield services company registered and domiciled in New Zealand with registered business address Cnr Paraite Rod & Okey Lane, Bell Block, New Plymouth, New Zealand. The company hires out drilling equipment and provides related services. The company has 15 employees as at the date of this Prospectus.

5.4.7 Independent Oil Tools BV, Oilfield Services in Continental Europe

Independent Oil Tools BV is a holding company as described in the chart in Section 5.3. Its registered business address is Boekel 36, 1921CE Akersloot, the Netherlands, and its KvK number is 37128568. The company owns and hire out drilling equipment in continental Europe. The company has no employees.

5.4.8 Independent Oil Tools Dosco Srl, Oilfield Services Romania

The company has registered address 35 Clucerului St, 4th floor, Atlantic Business Center, Bucharest, Romania with reg. no. J40/10995/2007. The company provides oilfield services in Europe and has 88 employees as at the date of this Prospectus.

5.4.9 Independent Oil Tools Dosco BV, Oilfield Services Netherlands, owned 51 %

The company has registered address Boekel 36, 1921 CE Akersloot, Netherlands with Kvk no. 37133602. The company provides oilfield services in Europe and has 21 employees as at the date of this Prospectus.

5.4.10 Caspian Oilfield Services Inc (BVI), oilfield services Azerbaijan, owned 51 %

The company is a British Virgin Islands company with reg. no. 1411914 with address P.o. box 116. It has an office in Baku with address 55 Khojali Ave, Baku AZ 1025, Azerbaijan. The company provides oilfield services in the Caspian region. The company has 17 employees

5.4.11 Petrolia Invest AS

Petrolia Invest AS, a limited company incorporated in Norway with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway, is a holding company for financial investments. In 2011, its 20.6 per cent of the shares in Deepwater Driller Ltd. have been sold for USD 34.5 million, cf. Section 5.2 above. The company was incorporated as on 24 June 2008 with organization number 992 848 405. There are no employees in the company.

5.4.12 Petrolia Drilling II AS

This is a limited liability company incorporated in Norway, with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. Its purpose is to hold the shares as illustrated in the chart in Section 5.3. The company was incorporated as on 18 June 1998 with organization number 980 021 874. There are no employees in the company.

5.4.13 Petrolia Rigs AS

This is a limited liability company incorporated in Norway, with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. The company was incorporated as on 23 February 1998 with organization number 979 644 264. There are no employees in the company. The company has provided loans to various group companies after it sold its semi-submersible drilling rig, SS Petrolia in 2007. The company also owns 43.78 % of the shares in Petroresources Ltd.

5.4.14 Venture Drilling AS

Venture Drilling AS is a company incorporated in Norway, with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. The company was incorporated as on 14 October 2005 with organization number 988 786 748. There are no employees in the company. The company operated the DS "Deep Venture" until charter parties were terminated and equipment sold in 2011 as further outlined in Section 5.7.3.

5.4.15 Petroresources Limited, associated company (43.78% owned by Petrolia Rigs AS)

This is a limited liability company incorporated in Cyprus, with registered business address Ernst & Young House, 27 Spyrou Kyprianou Avenue, Limassol, Cyprus and organisation number 181001. The company has invested in two associated companies, one focusing on mining and the other on oil exploration.

5.4.16 Independent Oil Tools Limited, oilfield services in the Middle East

This is a limited liability company incorporated on 2 February 2011 under the Jebel Ali Free Zone Authority in United Arab Emirates (Dubai) as an offshore company under no. OF 144053. Registered address is P.O. box 4254, Dubai, UAE. The company has no employees. The company owns 49 % of Independent Oil Tools LLC.

5.4.17 Independent Oil Tools LLC, oilfield services in the Middle East

This is a limited liability company incorporated 28 February 2011 in United Arab Emirates and having its registered office at Gold & Diamond Park, Building 6, Suite 112, Sheikh Zayed Road, Dubai, United Arab Emirates. The company has no employees.

The company rents COR's offices in Dubai, and will take forward some or all of the functions previously performed by COR, cf. Section 5.6.4 below.

5.4.18 Petrolia Drilling Ltd

A limited company incorporated on the British Virgin Islands with registered business address c/o Volaw Trust, Templar House, Don Rd., St. Helier, Jersey JE4 8WH, Channel Islands, is an empty and dormant company and has been so during the period for historic financial information. Its activities were previously within the drilling & well business.

5.4.19 Petrolia Norway AS

This is a new company incorporated on 3 June 2011. It is a limited company incorporated in Norway with registered business address Hopsnesvegen 127, 5232 Paradis, Norway. This company will be a vehicle in the Group's focus on the Norwegian oil & gas segment. New personnel is being recruited for this purpose, otherwise, the company does currently not have any activities.

5.4.20 PetroMENA ASA (in bankruptcy)

This is a limited liability company incorporated in Norway, with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. The Company owns 51.5 % of its shares, but no value is attributed to the shares, and the investment is lost. PetroMENA's assets are undergoing liquidation. The company was incorporated as on 7 January 2005 with organization number 987 727 713.

5.4.21 Petrojack ASA (in bankruptcy)

This is a limited liability company incorporated in Norway, with registered business address Haakon VII's gate 1, 2nd floor, 0116 Oslo, Norway. The Company owns 39.95 % of its shares, but no value is attributed to the shares, and the investment is lost. Petrojack's assets are undergoing liquidation. The company was incorporated as on 4 October 2004 with organization number 987 358 920.

5.5 BUSINESS OBJECTIVES AND STRATEGY. BUSINESS SEGMENTS

The Company's vision is:

> "To maximise shareholder value by offering investors exposure to a balanced portfolio of oilfield and oilfield service assets
>
> Excellence through Service and Innovation!
>
> Petrolia shall through a combination of acquisitions, organic and inorganic growth develop into a flexible, adaptive and vertically integrated oil company".

The Company operates within the following three industry segments:

- oilfield services
- drilling & well
- oil & gas.

The Company's strategy is to be innovative and to be a leader within these business areas. Furthermore, Petrolia ASA's top priority is QHSE (Quality, Health, Safety and Environment), and the Company will strive to deliver the right quality in all segments at a competitive pricing structure in a timely manner.

While Petrolia has been involved in drilling & well since its incorporation in 1997, oilfield services activities started in 2007, and in 2010 the business objectives were expanded to also include oil & gas. Below in Sections 5.6 to 5.8 follows an account of activities under each segment with focus on the period covered by the historical financial information, i.e. since 1 January 2008. As follows, there are currently activities in the oilfield services segment only (Section 5.6), while activities in drilling & well have currently ceased (Section 5.7). Oil & gas activities are so far limited to one financial investment position (section 5.8).

5.6 OILFIELD SERVICES

5.6.1 Overview

The Group's involvement in the oilfield services business started through the acquisition of Independent Oil Tools AS in January 2007. The business implies owning or leasing various equipment, as further described below in this section5.6.8 and offering such equipment for rental to oil companies, oilfield service companies, drilling contractors and others who can make use of the equipment. No Group company designs, produces or uses any of the equipment. Various oilfield services, such as casing running services, are also provided, cf. section 5.6.8.2 below.

Assets and personnel involved in the oilfield services business are organised under Petrolia Services AS as a holding company for this business segment with Petrolia Services AS also owning equipment itself. Through the subsidiaries and associated offices, there is currently presence (including equipment bases) in Norway, Netherlands, Romania, Azerbaijan, Dubai, Australia and New Zealand where nearby clients are served. In addition, there is presence in Malaysia and Singapore through COR subsidiaries, which are being acquired by the Group, cf. Section 5.6.5 below.

While the hiring out of Petrolia Services AS' and Independent Tool Pool AS' equipment has previously been handled by COR, the other subsidiaries in this segment have handled rental of their own equipment themselves. As detailed in Section 5.6.4, COR functions are being taken over by the Group.

5.6.2 Principal market and competitive universe

The oilfield services market and especially the rental market consist of a very large number of players on the service providing side. Contracts are traditionally awarded on a competitive bid basis. Governing factors for a successful bid are in most cases based on price, availability, technical compliance and the operator's experience and performance record.

Competition for contracts is on a worldwide basis; however the competition may vary significantly from region to region at any particular time. Competing contractors may be able to relocate equipment from areas with low utilisation and day rates to areas with higher activity and operational day rates. Orders of new equipment, upgrades of existing equipment and new technology could also affect the competition in the rental business.

The demand for Petrolia’s services is dependent on the level of activity of the offshore oil and gas industry that in turn is largely dictated by oil price trends. The relation between growth in global GDP and growth in global oil demand is strong.

However, the effects on the Group's business of oil price fluctuations will normally not be immediate, but somewhat delayed. Strong growth in oil demand and corresponding rising oil prices makes E&P spending to soar and the oil service segment see a greater demand for their equipment and expertise. Vice versa a consequence of fall in world GDP and fall in demand and oil prices is that oil companies cut their E&P spending, and this has an effect on the oilfield services market. From the time a change in demand in oil occurs and to the oilfield services companies are employed, or laid off, there is a time lag.

The Group has not experienced any effects of oil price changes since 1 January 2011, nor is it expected that any negative effects will occur due to oil price changes so far this year. A significant drop in the oil price in the near future, is likely, however, to have negative effects on the Group's business for 2011.

The key factors for the results of the oil services companies are oil prices, credit availability and construction costs.

Discovering new oil and gas fields has become more and more challenging, oil companies search for new reserves in deeper waters and more complex environments resulting in escalating exploration costs.

Many oil service companies may also be affected by environmental issues from time to time, but the Company's business has limited environmental exposure through the oilfield services segment. As the Company's business is primarily to own equipment and rent it to customers, it is normally the customers who operate the equipment and have to deal with environmental challenges. During such operations there is a general risk of accidents and pollution, but the Company's exposure in that connection is limited, cf. Section 2.6.

The Group has not experienced any particular changes in its business due to the "Deepwater Horizon" accident in the Mexico gulf in April 2010.

A key factor for the results of the oil services companies is currency fluctuation. As mentioned in Section 5.13, Petrolia compiles its accounts in USD and has USD as its functional currency. The Bond Loan is in NOK, and there is also significant group funding in NOK, which implies a key currency risk for the Company. Since 1 January 2011, currency fluctuations have not had any material impact on the Group's business, however, the exchange rate on the date of exchange in connection with upcoming debt payments in NOK later this year (cf. Section 8.14 on maturity of the Bond Loan) will be of importance. Please refer to section 2.3for more information regarding financial risk.

For more details, please see Section 6 for an overview of the main sectors the Company invests in and presentation of the key drivers for these sectors. Please go to Section 2.2 for details on the risk related to the Company and the industry it is related to.

5.6.3 Equipment rental – agreements with COR

As stated in Section 5.6.1, the business of the Group's oilfields services segment is to own or lease equipment (equipment type is detailed below in Section 5.6.8) and offer it for hire to players within this business segment around the world. The business includes investments in new equipment, sale of equipment, marketing of equipment for rental, entering into and following up customer contracts, invoicing and the logistics related to transport, storage, inspection and maintenance of the equipment.

The majority of the Group companies in this segment, being Independent Oil Tools AS, Premium Casing Services Pty Ltd with subsidiary and Independent Oil Tools BV with subsidiaries (cf. Section 5.3 on the Group structure) have their own employees to perform and manage all of these activities. Petrolia Services AS (as equipment owner and not as holding company for the segment) and Independent Tool Pool AS on the other hand have been outsourcing these functions to Certified Oilfield Rentals Ltd. (Dubai – "COR"), but the Group is now taking over these functions and phasing out the cooperation with COR as further outlined in this section 5.6.

In terms of assets value, COR handled the rental of assets (i.e. Petrolia Services AS' and Independent Tool Pool AS' assets) which at year end 2010 had a book value of USD 64.9 million. The business of these companies resulted in a revenue of USD 17.4 million.

The table set out below shows the geographic distribution of assets and revenue. The table illustrates the relation between COR managed assets (under the line item "other countries") and assets managed by Group companies as compared by revenue and asset value.

Revenue *(USD 1 000)*	**2010**	**2009**	**2008**
Norway[1]	15,907	8,928	11,361
Europe outside Norway[2]	24,689	22,267	20,966
Asia and Australia[3]	17,574	15,940	47,213
Other countries[4]	17,371	23,612	2,291
Total	**75,541**	**70,746**	**81,831**
Assets *(amounts in USD 1 000)*	**2010**	**2009**	**2009**
Norway[1]	6,747	2,949	3,371
Europe outside Norway[2]	9,530	15,236	57,020
Asia and Australia[3]	7,830	35,886	56,786
Other countries [4]	64,899	70,203	4,877
Total	**89,006**	**124,274**	**122,054**

[1] – Independent Oil Tools AS
[2] – Independent Oil Tools BV with subsidiaries
[3] – Premium Casing Services Pty Ltd with subsidiary
[4] – Petrolia Services AS and Independent Tool Pool AS.

The relatively low revenue related to the COR managed assets is primarily a result of low utilization rate.

The rental agreements were signed with COR by Petrolia Services AS and Independent Tool Pool AS in January 2008 and on 17 February 2008 respectively. While the first agreement expires in January

2012, the other one formally expired on 18 May 2011, but it is being continued based on an understanding between the parties. COR is in breach of both agreements (cf. Section 5.6.4 below), and the Group companies may terminate if and when considered necessary.

It follows from the agreements that COR shall market the equipment for hire, handle maintenance, inspections and repair of the equipment as well as transport and storage. COR has also conducted credit rating of new customers and has transferred funds to Petrolia after receiving payment from the customers. The contracts entitle COR to a percentage of the net revenues resulting from the rental.

5.6.4 COR's financial difficulties and the transition of COR functions to the Group

COR has experienced severe financial difficulties since 2010, and all receivables on COR were impaired (USD 30 million) in the Group's accounts for 2010, cf. note 8 to the accounts.

With Independent Tool Pool AS being COR's main creditor, the Group is currently working with the owners, management and other creditors and stakeholders of COR to handle COR's debt and facilitate the continuation of services to end-users of the Group's equipment. This process is moving forward to the satisfaction of the Company with the Group taking on the services previously having been provided by COR.

The Group has taken possession of most of its equipment which has been under COR control. Equipment over which possession has not been taken as per the day of this Prospectus is valued at not more than USD 7 million. The Group is continuing its efforts to take possession over this equipment.

There has been no interruption in services to end-users, and the Company does not expect there to be any such interruption or other material inconveniences for the customers in the foreseeable future as a consequence of COR's financial difficulties. Marketing activities towards end customers are being maintained as usual, and tenders for new contracts have been submitted. Where contracts are being extended or new contracts won, they are being concluded by Group companies.

5.6.5 Acquisition of COR Singapore Pte Ltd and COR Rentals Malaysia SDN. BHD

5.6.5.1 The transactions

Agreements have been signed regarding the purchase of 100 % of the shares in COR Singapore Pte Ltd and 30 % of the shares in COR Rentals Malaysia SDN. BHD. These companies are going concerns with personnel who will continue the handling of the Group's rental business in the South East Asia markets. Through the ongoing acquisition, the Group is strengthening its position in the region and taking on Group control of its equipment and forward strategy.

The Group has performed an internal due diligence on these two companies and has not discovered any significant risk factors. The companies have provided rental management services to Group companies only. Obligations towards users of the Group's equipment will be taken over by the Group.

The purchase price for the shares has been agreed to USD 1 per company. This reflects the financial position of the companies, in particular the fact that both companies had a negative equity per 31.12.2010 (cf. the two next Sections) and that the companies have had the Group as their only customer and that they would not be in a position to continue their business if the Group had withdrawn its equipment.

Local formalities regarding i.a. local ownership and completion and registration of the transaction are still outstanding as per the day of this Prospectus, and the companies have therefore not been included in the Group chart in section 5.3.

5.6.5.2 COR Singapore

COR Singapore Pte. Ltd. is a limited exempt private company incorporated in Singapore with registration number 199404066E and registered business address 6 Temasek Boulevard # 09-05, Suntec Tower 4, Singapore (038986). The company's business is technical consulting service and rental and sale of oil exploration equipment. The company's share capital is 100,000.00 Singapore

Dollars. Petrolia has agreed to acquire 100 % of the sharers of the company as well as 100 % of the voting power. All the shares are fully paid and will be held by Independent Oil Tools Limited (Dubai). Petrolia will receive no dividends in the course of the last financial year in respect of the shares held in this company.

Key indicators for this company as per 31 December 2010, as compared to 2009 are as follows (reported numbers are in SGD, conversion to USD at exchange rate 1,4 for illustration):

	SGD		USD at 1.4	
	2010	2009	2010	2009
	Unaudited	Audited		
Revenues	2 374 971	2 307 765	1 696 408	1 648 403
Result	-171 882	-30 542	-122 773	-21 816
Assets	432 950	682 058	309 250	487 184
Equity	-902 998	-731 115	-644 998	-522 225
Liabilities	1 335 947	1 413 173	954 248	1 009 409

The company had net accounts payables/receivables in the amount of USD 1,243,478 as per 30 June 2011, including accounts payable towards COR International in the amount of USD 4,000 and to the Group in the amount of USD 100,000. In addition, the company had net debt towards COR International in the amount of USD 900,000 per 31 May 2011.

5.6.5.3 COR Rentals Malaysia SDN. BHD.

COR Rentals Malaysia SDN. BHD. is a private limited liability company incorporated in Malaysia with registration number 655557-U and registered business address 17-4-1, Jalan 3/50, Diamond Square Commercial Centre, Off Jalan Gombak, 53000 Kuala Lumpur. The company's principal activities are technical back-up and rental of drilling tools. The company's authorized share capital is 500,000 Malaysian Ringgit ("RM"), of which 350,000 shares, each with a par value of RM 1 are issued and fully paid as per 31 December 2010. Petrolia has agreed to acquire 30 % of the issued shares as well as 30 % of the voting power. All the acquired shares are fully paid and will be held by Independent Oil Tools Limited (Dubai).

Petrolia will receive no dividends in for the last financial year in respect of the shares held in this company. Petrolia owes no debt to the company, and the company owes no debt to Petrolia.

Key indicators for this company as per 31 December 2010, as compared to 2009 are as follows (reported numbers are in RM, conversion to USD at exchange rate 3.0 for illustration):

	RM		USD at 3.0	
	2010	2009	2010	
	Audited	Audited		
Revenues	38 994 360	43 312 521	12 998 120	14 437 507
Result	31 240	-259 353	10 413	-86 451
Assets	41 101 022	41 030 688	13 700 341	13 676 896
Equity	-781 660	-812 900	-260 553	-270 967
Liabilities	41 882 682	41 843 588	13 960 894	13 947 863

Reported revenues, assets and liabilities are gross numbers and eliminations should be made in order for the numbers to be comparable with the Company's numbers, reflecting in particular that deductions have not been made in the revenues for payables to the Group and that assets and liabilities primarily relate to the Group's equipment. As a result, the following are the adjusted numbers:

	RM		USD at 3,0	
	Audited	Audited		
	2010	2009	2010	2009
Revenues	3 815 363	3 163 952	1 271 788	1 054 651
Result	31 240	-259 353	10 413	-86 451
Assets	11 924 544	19 975 350	3 974 848	6 658 450
Equity	-781 660	-812 900	-260 553	-270 967
Liabilities	12 706 204	20 788 250	4 235 401	6 929 417

The company had net accounts payables/receivables in the amount debt of USD 2,120,836 as per 30 June 2011, including accounts payable towards COR International in the amount of USD 7,157. There was no debt to the Group and the Group had no debt to the company. In addition, the company had net debt towards COR International in the amount of USD 2,200,000 per 31 May 2011

5.6.6 Incorporation of new subsidiaries in Dubai

In Dubai, where COR has had its main offices, the Group has incorporated two new subsidiaries, cf. section 5.4.16 and 5.4.17 above. One of them, Independent Oil Tools Limited (100 % owned), is a free trade zone company set up for customs duties purposes. The other, Independent Oil Tools LLC (49 % owned), rents offices and will have employees who will handle the rental business.

Independent Oil Tools LLC is owned 49 % by the Group due to local ownership requirements. The company will not own or lease equipment and will serve as an agent for other Group companies. The company will be set up with an income to cover costs plus a limited profit to be distributed among the owners.

These companies are fully operational and will be taking forward the handling of the Group's equipment rental business in the region. Further recruitment is ongoing, and personnel from other Group companies are supporting the Dubai companies with their competence and experience to cover all aspects of the services previously having been provided by COR.

5.6.7 Contract structure – customers

The Group's oilfield services equipment is routinely engaged through a portfolio of contracts consisting of a large number of smaller contracts with numerous customers throughout the world.

Customers include oil companies, oilfield service companies, drilling contractors and others who can make use of the equipment. Contracts are usually entered into on a project-by-project basis or for a fixed time. No single customer contract can be said to be of material significance to the Group.

However, among the most important customers one finds the following:

Oil companies	Drilling companies	Oil service companies
BG Norge	Archer Well	Baker Oil Tools
ConocoPhillips	KCA Deutag	BJ Services
Noble Energy	Seadrill	Dril-Quip
Marathon Petroleum	Stena Drilling	Expro
Chevron Thailand , China,	Transocean	FMC Kongsberg Offshore
Apache Energy	Vantage Drilling	Frank`s
Hess	Ensco	Odfjell
Shell	Santos Offshore	Schlumberger/Smith
Talisman		VetcoGray
Exxonmobil		Weatherford
Woodside		Baker Huges
Buru Energy		Smith
Total		Geodynamics
PTTEP		
NIDO Petroleum		
Petronas		
Mintra Energy Indonesia		
North West Energy		
Orign Energy		
Vanco		

Where COR has been handling the rental of Group equipment, COR has been entering into customer contracts in its own name, and the Group has not been involved in the details of which contracts have been made, on which terms or with whom. The overall revenues for the oilfield services segment are illustrated in the table in Section 5.6.3.

New contracts and renewals are entered into in Group companies' names, cf. Section 5.6.4.

5.6.8 Equipment

The Group owns various drilling equipment as specified by value in the table in Section 5.6.3 above. Part of this equipment is leased, and as per 31 December 2010, the total outstanding leasing balance was USD 26.4 million (primarily in Independent Tool Pool AS). Once an opportunity or a requirement arises, equipment is purchased after a tender process. The market is global and highly competitive. The Group's focus is on asset ownership and rental, so equipment is seldom hired in.

In 2008 investments in drilling equipment was USD 70.9 million of which USD 25.3 was leased. Included were purchases by Petrolia Services AS of drilling equipment from PetroMENA ASA and from Petrojack ASA. Cost price for that equipment was USD 26.3 million and USD 11.5 million respectively based on third party evaluations.

In 2009 investment in drilling equipment was USD 25.5 million of which USD 19.9 million was leased. In 2010 investment in drilling equipment was USD 13.5 million. For 2011 investment in drilling equipment is expected at the same level as in 2010. Such investments will be funded from working capital and/or through leasing.

The main categories of equipment hired out in the oilfield services division (and as referred in the table above in Section 5.6.3) are drill pipes, test tubing and auxiliary handling equipment. The main service provided is casing running services.

As per 31 December 2010, the book value of drilling equipment was USD 86.8 million. Of this 50 % is drill pipe, 30 % is test tubing and 20 % is handling and auxiliary equipment.

5.6.4.1 Drill pipes and test tubing

A drill string on a drilling rig is a column, or string, of drill pipe that transmits drilling fluid and torque to the drill bit. The drill string is hollow so that drilling fluid can be pumped down through it and circulated back up the annulus.

The drill string is typically made up of 5 sections: Bottom hole assembly (BHA), drill collars, used to deliver weight on bit, transition pipe, which is often heavyweight drill pipe (HWDP), drill pipe and drill stem subs. Each section is made up of several components, joined together using special threaded connections known as tool joints.

Bottom hole assembly is made up of a drill bit which is used to break up the rock formations, drill collars which are heavy, thick-walled tubes used to apply weight to the drill bit, and drilling stabilizers which keep the drilling assembly centred in the hole. The BHA may also contain other components such as a downhole motor, rotary steerable system, measurement while drilling (MWD), and logging while drilling (LWD) tools.

Transition pipe or heavyweight drill pipe (HWDP) is used to make the transition between the drill collars and drill pipe. The function of the HWDP is to provide a flexible transition between the drill collars and the drill pipe. This helps to reduce the number of fatigue failures seen directly above the BHA. A secondary use of HWDP is to add additional weight to the drill bit.

Drill pipe makes up the majority of a drill string. Drill stem subs are used to connect drill string elements.

Test tubing is used in connection with test production of a well. After completion of a test, the tubing is removed.

Drill pipes and test tubing are normally long lead items. Drill pipes are used to drill wells and come in a variety of specifications and dimensions depending on the characteristics of the relevant well. In addition the drill pipes and test tubing require various handling and auxiliary tools.

Drill pipe and test tubing and handling and auxiliary tools are rented out to oil companies or to other oilfield services companies. The operations do not involve sending personnel to the drilling sites.

The pictures below illustrate drill pipes and cross-overs (to connect drill pipes of different dimensions) respectively.


5.6.4.2 Casing and casing running services

A casing is a large-diameter pipe lowered into an open hole and cemented in place. The well designer must design casing to withstand a variety of forces, such as collapse, burst, and tensile failure, as well as chemically aggressive brines. Most casing joints are fabricated with male threads on each end, and short-length casing couplings with female threads are used to join the individual joints of casing together, or joints of casing may be fabricated with male threads on one end and female threads on the other. Casing is run to protect fresh water formations, isolate a zone of lost returns or isolate formations with significantly different pressure gradients. Casing is usually manufactured from plain carbon steel that is heat-treated to varying strengths, but may be specially fabricated of stainless steel, aluminium, titanium, fibreglass and other materials.

Petrolia, through Premium Casing Services, offers casing running services. This service involves crew, torque-turn and handling equipment to assemble the casing (steel pipes) at the drilling site.

5.6.4.3 Handling and auxiliary equipment

The Group companies within the Oilfield Services segment also own and offer for rental a large range of different handling and auxiliary equipment.

Examples of types of handling equipment owned by the Group are:

- Elevators. Used to hold on to the equipment as it is lifted to be added to or removed from the drill string.
- Slips. Used to hold equipment in place as it is being added to or removed from the drill string.
- Manual tongs. Used to assemble bottom hole assembly.
- Powered tongs. Used to run casing, test tubing or production tubing.
- Handling subs and lifting equipment. Used to avoid unnecessary wear on some equipment being added or removed from the drill string.

Examples of types of auxiliary equipment owned by the Group:

- Cross overs. Used to connect drill pipes of different dimensions.
- Stabilizers. Used for directional purposes.
- Jars. Used to release stuck equipment.
- Motors. Used to make the drill bit turn.
- Heavy weight drill pipe. Used to optimise the drill string.
- Drillcollar. Used to add weight above the drill bit.

Details can be found on the web pages of Independent Oil Tools AS (www.independent.no) and Premium Casing Services (www.premiumcasing.com.au).

5.6.9 Property, storage facilities, inspection and maintenance

Independent Oil Tools DOSCO Srl owns its offices and an equipment base in Romania. The property had a book value per 31 December 2010 of USD 2.2 million.

Other Group companies rent offices and storage facilities and some equipment is stored at subcontractors providing inspection and maintenance services.

Where COR have leased storage facilities for the Group's equipment, the Group is taking over the leases if considered necessary. Leased facilities in Malaysia and Singapore are being taken over through the ongoing acquisition of the COR subsidiaries, cf. Section 5.6.5 above.

Inspections and maintenance of equipment are performed by subcontractors in conjunction with the storage facilities. Agreements with local service providers are either continued (as is the case with the acquisitions in Malaysia and Singapore) or taken over by Group companies.

5.7 DRILLING & WELL

5.7.1 Introduction and current status

In the period after its incorporation in 1997, the Company's main activities were related to ownership and operation of semi-submersible and jack-up drilling rigs.

The following sections outline the Company's involvement with the SS "Petrolia", "Deep Venture", Deepwater Drilling, PetroMENA ASA and Petrojack ASA.

The Group does currently not have any material activities within the drilling & well segment. Activities are limited to Venture Drilling marketing certain equipment for sale or rental (cf. Section 5.7.3). The Group is continuously considering new opportunities within this segment. The Company's current board and management have important experience within this field.

The table below outlines the Group's total revenues from this segment for the period covered by the historical financial information. As the business segment was discontinued in 2009, a further breakdown by geographical markets is not available. Please note that the numbers are not included in the Group's revenues for the period covered by the historical financial information, but in the item for discontinued operations.

Revenue *(USD 1 000)*	**2010**	**2009**	**2008**
Total	**0**	**84,205**	**73,653**

5.7.2 The SS "Petrolia"

In May 1997, Petrolia Rigs AS acquired the SS "Petrolia", a second generation semi-submersible drilling rig. The rig was engaged on various contracts, and upgrades were performed.

In March 2007, Petrolia was awarded a 913 day charter party with Pemex with initial agreed startup in October 2007 (later postponed to December and with actual startup in February 2008). The agreement had an estimated gross value of USD 269 million.

Under the charter party, Petrolia Rigs was obliged to put up a performance bond of USD 27 million to the benefit of Pemex. The bond was arranged and issued by Handelsbanken on behalf of Petrola Rigs AS in favour of Pemex. As security towards the bank, Petrolia Rigs made a deposit with the bank of the amount in question.

In October 2007, the SS "Petrolia" was sold to a subsidiary of PetroMENA ASA, Petro Rig IV Ltd (later renamed PetroMENA Ltd), a company incorporated in Cyprus. The purchase price was USD 225 million. Regardless of the sale, Pemex required that the performance bond issued by Handelsbanken on behalf of Petrolia Rigs AS was continued. PetroMENA Ltd. therefore forwarded an amount corresponding to the deposited security amount to Petrolia Rigs AS. As a result, Petrolia Rigs held the security amount on their own account, but on behalf of PetroMENA Ltd.

The security amount has later been reduced to USD 21.2 million. Following the opening of bankruptcy proceedings in PetroMENA ASA on 21 December 2009, there have been discussions between the bank and Pemex regarding the return and release of the performance bond, which in turn would facilitate the release of the deposited amount. As per the date of this Prospectus, Pemex has not released the bond, and the deposit is still with the bank.

From Petrolia's point of view, the only exposure in this connection is if there would be a negative balance between the guarantee commission imposed by the bank and interest accrued on the deposit. In such case, a claim for the amount in question would be forwarded to Petromena Ltd. (in practice the PetroMENA ASA estate). Given the bankruptcy proceedings, there are uncertainties related to whether such claim would be paid.

Otherwise, it is the risk of PetroMENA Ltd. whether and when Pemex will return the performance bond, and it is consequently also their risk when the deposit will be released by the bank.

Larsen Oil & Gas Ltd. was manager for the rig through a management agreement with Petrolia Rigs AS, and this agreement was continued with PetroMENA Ltd. following the sale. Under the agreement, Larsen Oil & Gas Ltd. was responsible for the operation of the rig and for the engagement of crew members.

5.7.3 Venture Drilling

In September 1997, Petrolia ASA entered into a charter party for the drill ship DS "Valentin Shashin" (renamed "Deep Venture" in 2007), with the Russian owner Arktikmorneftegasrazvedka ("Arktik"). Following upgrade works, a charter party was concluded with the Brazilian oil company Petrobras. After various disputes with both Petrobras and Arktik, culminating with Petrolia taking off its equipment from the ship, a new five year bareboat charter party was entered into between Arktik and Sinvest ASA in November 2005.

Petrolia's equipment, which had been taken off the ship, consisted of drilling derrick, blow-out preventer, risers and other equipment needed to convert the ship into a drillship. Sinvest ASA and Petrolia agreed that the equipment should be put back on the ship. The parties then entered into a 50-50 owned joint venture, Venture Drilling AS, where Sinvest ASA contributed with the charter party with Arktik (which was transferred from Sinvest to Venture Drilling), while Petrolia contributed with the equipment. A charter party was concluded between Venture Drilling AS and ExxonMobile in November 2006 and the contract was later continued and extended with Maersk Oil Angola AS.

A new dispute materialized with Arktik, and Russian courts concluded that the bareboat agreement with Venture Drilling AS is invalid. As a consequence, the drilling contract with Maersk was terminated early in April 2010. Arbitration had been ongoing between Venture Drilling AS and Arktik regarding early redelivery of the vessel. On 24 February 2011 an amicable settlement was achieved whereby (i) an agreement for early redelivery of the vessel to Artik and (ii) JSC Zarubezhneft, a Russian joint stock company, purchased from Venture Drilling AS (a) equipment and (b) the position against Artik in the arbitration for a total consideration of USD 138 million.

Consequently, Venture Drilling's relations with Arktik as well as with Maersk are terminated. The company does no longer have any interest in the DS "Deep Venture" and is currently not actively engaged in vessel operations.

On 28 March 2011, Petrolia acquired Sinvest ASA's 50 % of the shares in Venture Drilling AS for USD 34 million. The price reflected a previous payment of dividends to the partners of USD 31 million, and the agreement settled all disputes between the parties related to the bareboat charter with Arktik.

Venture Drilling AS is now marketing its remaining drilling equipment for sale and/or rental and seeking new opportunities.

5.7.4 Deepwater Drilling

Petrolia Invest AS' was incorporated in June 2008 as a subsidiary of Petrolia and invested initially USD 42 million against 30 % of the shares in Larsen Rig Ltd, later renamed Deepwater Driller Ltd. In 2009 an additional USD 6 million was invested and in 2010 another USD 7 million (cf. also Section8.15.1), totalling USD 55 million. Deepwater Driller entered into a contract with Jurong Shipyard Pte Ltd in Singapore for the construction one sixth generation ultra-deepwater semi-submersible drilling rig with scheduled delivery in August 2011.

Petrolia Invest AS sold its shares in Deepwater Drilling on 21 January 2011 to Songa Offshore SE. At the time, Petrolia Invest AS controlled 20.6 % of the shares, and the purchase price was USD 34.5 million. The rig was renamed to "Songa Eclipse".

5.7.5 PetroMENA

Petrolia started investing in PetroMENA ASA in December 2005, and by 2008, Petrolia owned 51.5 % of the shares in PetroMENA.

PetroMENA had three sixth generation semi-submersible rigs for drilling in ultra-deep waters on order from Jurong Shipyard Pte Ltd in Singapore. The construction contracts were entered into by subsidiaries incorporated in Singapore, and the rigs were all engaged on charter parties, at the time valued at USD 700, 645 and 942 million respectively. Delivery was to take place in April and October 2009 and January 2010 respectively.

The financing model for the construction process required additional financing to be secured, but this proved to be difficult when the financial crisis hit the markets ultimo 2008. Bondholders, who were PetroMENA's principal lenders, decided not to support PetroMENA with such additional financing. Nor did they contribute to amicable solutions which could have enabled continued operations. Instead, the bondholders behind the best secured bond loan (there were three bond loans in total), where the majority of bondholders had acquired their bonds at prices significantly below par value, decided to sell the rigs/construction contracts and thereby realize their bonds. In this connection, PetroMENA ASA was filed for bankruptcy by the bondholders, and bankruptcy proceedings were opened on 21 December 2009.

The loss of the investment in PetroMENA ASA has caused a major change in the Company's business and has occasioned considerable losses for the Company and its shareholders. The Company does not expect to receive any return from the estate on its shares in PetroMENA.

The Group is also involved in a dispute with the PetroMENA estate, cf. Section 12.

5.7.6 Petrojack

Petrolia started investing in the shares of Petrojack ASA in 2006, and by February 2007, Petrolia owned 39.9 % of its shares.

Petrojack had four jack-up rigs under construction at Jurong Shipyard Pte Ltd of which three were sold. Petrojack experienced difficulties during the financial crisis, and after November 2009 was unable to service interest on its bond loans. The company also failed to service its other debts as they fell due, including tax liabilities. Petrojack therefore filed itself for bankruptcy on 8 March 2010.

The loss of the investments in Petrojack has had a significant negative impact on Petrolia's financial position.

The Company is currently involved in a dispute with the bankruptcy estate of Petrojack ASA, cf. section 12.

5.7.7 Management

With the exception of the DS "Deep Venture", all of the above referred rigs, including their construction, were managed by Larsen Oil & Gas AS, Larsen Oil & Gas Ltd. and Larsen Oil & Gas Pte Ltd (Singapore), and the same was the plan during operations. Further details on these management arrangements are included below in Section 7.11.

5.8 OIL & GAS

Oil & gas has up to the date of the Prospectus not had any activities, but through a change of the Company’s business objectives on 17 December 2010 the segment has been added to the strategy of the Company.

In this connection, a new subsidiary of Petrolia ASA was incorporated under the name Petrolia Norway AS on 3 June 2011. This company will be a vehicle in the Group's focus on the Norwegian oil & gas segment, and new personnel is being recruited for this purpose. The company does currently not have any activities.

The Company has had exposure to the segment through its associated company Petroresources Ltd and has recently increased its shareholding from 29 % to 44 %. Petroresources Ltd has invested in associated companies which have interests in mining and oil exploration.

5.9 CURRENT ACTIVITIES AS COMPARED TO THE PURPOSE OF PETROLIA AS STATED IN ITS MEMORANDUM OF INCORPORATION

When incorporated in 1997, the Company's purpose, according to § 1.3 of the articles as included in the memorandum of incorporation, was:

"acquisition and operation of drilling vessels, investments in shipping partnerships and everything related thereto, including participation in other companies".

This statement of purpose covered the initial activities of the Company, which were related to the operation of the SS "Petrolia" and the DS "Valentin Shashin", cf. Sections 5.7.2and 5.7.3above. In January 2007, when activities expanded into oilfield services (cf. section 5.6.1), the Company did not see a need to amend the articles' definition of the Company's purpose, which had remained unchanged since its incorporation.

Since the Group currently only has activities of significance within the oilfiled services segment (cf. section 5.6.1), its activities can be said to have remained within the definition of the Company's purpose as stated in the memorandum of incorporation since those activities are mostly related to the "operation of drilling vessels".

With activities having currently ceased in the drilling & well segment (cf. section 5.7), the Company nevertheless found it appropriate to amend the purpose of the Company in order to provide a more general description of the scope of the Company's activities. On the extraordinary general meeting on 17 December 2011, it was thus decided that the Company shall have the following purpose (§ 3):

"carry out petroleum, shipping, offshore, transport, trade, industrial and financing activities and other related activities and to participate as a shareholder or in other ways in other enterprises".

5.10 ENVIRONMENTAL ISSUES

Within the oilfield services segment, the Company's business has limited environmental exposure. As referred in Section 5.6.1 above, the Company's business is primarily to own equipment and rent it to customers, and it is normally the customers who operate the equipment. During such operations there is a general risk of accidents and pollution, but the Company's exposure in that connection is limited, cf. Section 2.6.

Before equipment can be used by customers, it is normally certified by subcontractors (or, after use, re-certified) to comply with the customer's particular requirements.

As referred above in Section 5.6.8, the Company has several equipment storage facilities. The facilities are inspected regularly by local environmental authorities in accordance with applicable regulation. All required environmental permits in that connection are in order.

5.11 RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

The Company has not had an active policy or strategy on research and development. To the extent the Group's business has been dependent upon intellectual property rights, such as the design of rigs or equipment, such rights have remained with the seller of the relevant asset. Other than the right to use the asset as designed, the Group has not acquired any formal intellectual rights in this connection. There are no material research and development activities within any companies in the Group, and there are no plans for such activities either.

5.12 DEPENDENCE ON INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTORING PROCESSES

The agreements with COR are commercial contracts within the Oilfiled Services segment on which the Group has depended in connection with the hiring out of an important part of the Group's equipment, cf. Section 5.6.3 above. The contracts are currently being phased out in parallel with the ongoing acquisitions of COR Singapore Pte Ltd and COR Rentals Malaysia SDN. BHD., cf. Sections

5.6.4 and 5.6.5. The Company does not expect to be dependent on the services of COR after the completion these acquisitions.

Petrolia has also been and will continue to be dependent on the Bond Loan agreement as a means to provide important financing to the Group, cf. Section 8.14 below.

Other than the mentioned above there are no industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability.

5.13 TREND INFORMATION

While Petrolia compiles its accounts in USD and has USD as its functional currency, the Bond Loan is in NOK, and there is also significant group funding in NOK. This implies a key currency risk for the Company. Since 1 January 2011 there has been a falling trend in US dollar against the Norwegian Kroner. A continued depreciation of the dollar is negative and will reduce the Group's working capital and also result in loss relating to the outstanding Bond Loan.

The demand for Petrolia's services is dependent on the level of activity of the offshore oil and gas industry which in turn is largely dictated by oil price trends. However, the effects on the Group's business of oil price fluctuations will normally not be immediate, but somewhat delayed, and the Group has not experienced any effects of oil price changes since 1 January 2011, nor is it expected that any negative effects will occur due to oil price changes so far this year. A significant drop in the oil price in the near future, is likely, however, have negative effects on the Group's business for 2011.

Otherwise, the Company is not aware of any significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of this Prospectus.

Other than stated above, the Company is not aware of information on any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year.

5.14 MATERIAL CONTRACTS

The agreements to purchase COR Singapore Pte Ltd and COR Rentals Malaysia SDN. BHD., as further detailed in Section 5.6.5, are material contracts outside the Group's ordinary course of business. The agreements imply that the Group is taking active control over the the handling of the Group's rental business in the South East Asia markets. Through the ongoing acquisition, the Group is strengthening its position in the region and taking on Group control of its equipment and forward strategy.

The purchase agreements are currently not yet completed due to outstanding formalities. In the meantime, COR is formally continuing its services to the Group in close cooperation with the top management of the Company, cf. Sections 5.6.3 and 5.6.4.

The Company is not party to any other material agreements that are not entered into in the ordinary course of business. Of the agreements entered into in the ordinary course of business, the above referred rental agreements with COR and the Bond Loan agreement described in Section 8.14 are the most important ones.

6. MARKET OVERVIEW

This Section may include "forward-looking" statements. See further presentation of such statements in Section 13 "Cautionary Notice regarding forward-looking statements". Some important factors that could cause actual results to differ materially from those in the forward-looking statements are, in certain instances, included with such forward-looking statements and in the Section 2 "Risk Factors" in this Prospectus. Given the aforementioned uncertainties, prospective investors are cautioned not to place undue reliance on any forward-looking statements.

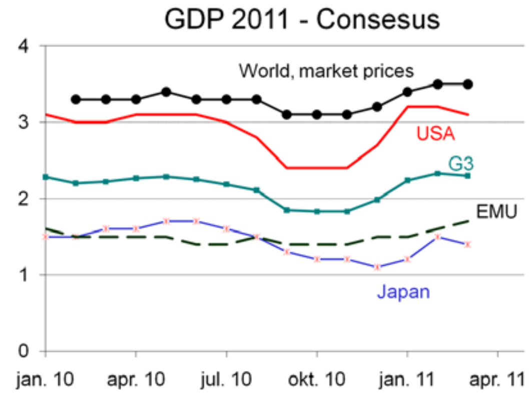
In this section we will give an overview of the main sectors the company invests in and present the key drivers for these sectors. The oil companies' E&P spending is the main driver for offshore services. The global oil and gas supply / demand situation influence all oil companies' investment decisions, together with the total picture of available investment opportunities, existing oil and gas reserves as well as their financial resources and market expectations. The future oil and gas price expectation is particularly important, influencing the oil companies' E&P budgets.

6.1 OIL DEMAND AND SUPPLY

6.1.1 Demand

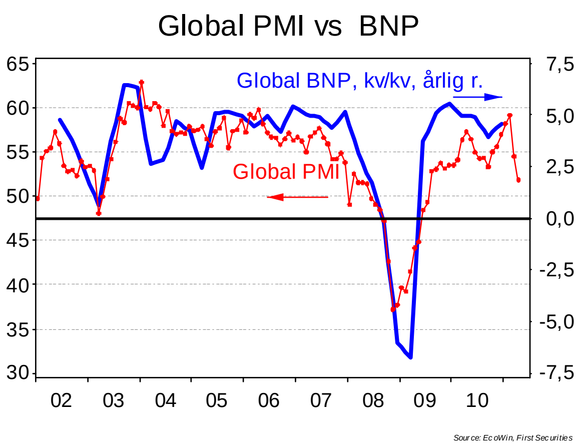
With the global economic growth from 2003 to 2008 the demand for energy grew significantly. Emerging markets, and especially China, was the main factor for this rapid growth. The last decade the average growth in global oil demand has been approximately 1.8% per year and the average global GDP growth has been nearly 3.8%. There is a strong relation between growth in global GDP and growth in global oil demand. A higher GDP is expected to stimulate demand for energy going forward. GDP estimates are being revised upwards globally, industry production is rising and industrial growth is on a historically very strong level. However there has been a recent fall in the global Purchasing Managers Index, indicating expectations of a lower GDP. This is mainly due to the turmoil in Middle east and North Africa countries, the earthquake in Japan and higher oil prices effecting GDP growth negatively. However, this is expected to have short term effect and it is not expected further fall in May/June (First Securites Macro Research).

Global GDP estimates



Source: EcoWin, First Securities, May 2011(database)

Global PMI and industrial production



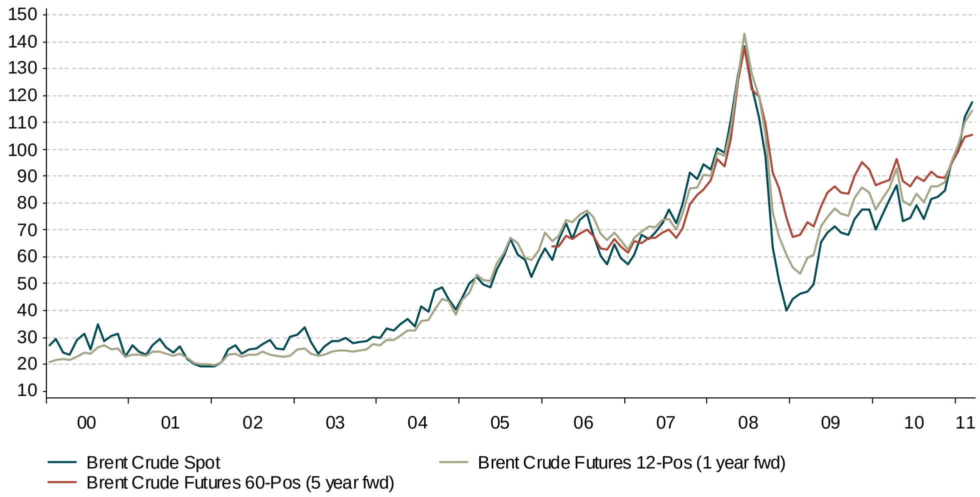
At the same time many of the large oil and gas fields in the world discovered in the 1970s and 1980s have or are reaching a peak production, and in some cases are now in decline. The combination of these factors resulted in a peak oil price in the beginning of 2008.

Following the sharp decline in the oil price that occurred during the second half of 2008, the global oil market has stabilized and the oil price is back to historically high levels in the range USD 95-100 per barrel. This level is also supported by the Brent forward curves going forward to 2017.

As of the date of this Prospectus the oil price is around USD 118 per barrel (Brent Blend), almost 100% higher than the average price over the last ten years.

Oil price development

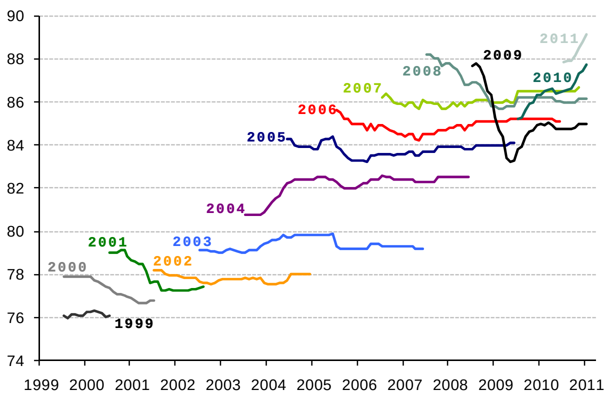
USD/bbl , 2000 – to date ***USD/bbl , 2010 – to date***



Source: Reuters, Ecowin, May 2011(database)

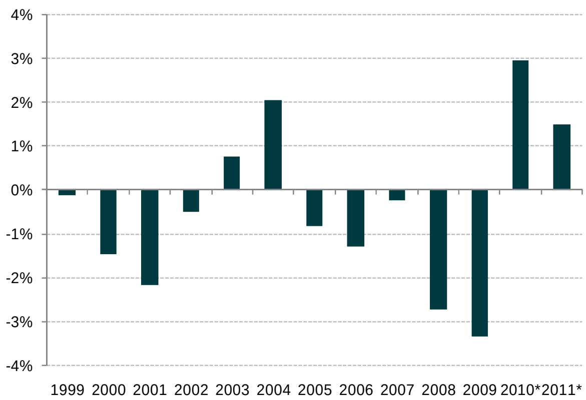
In the second half of 2010 the oil market tightened considerable, driven by strong demand growth in both non-OECD and OECD. The global demand exceeded production with a total of 2 mb/d in the second half of 2010, this is a high level of demand in a historical view and an important driver for the high increase in the oil price we have experienced the last few months. Historical demand growth has been steadily rising. Going forward it is expected high petroleum prices supported by demand growth as OECD has recovered and added to the solid growth in Non-OECD.

Global oil demand (Mb/d)



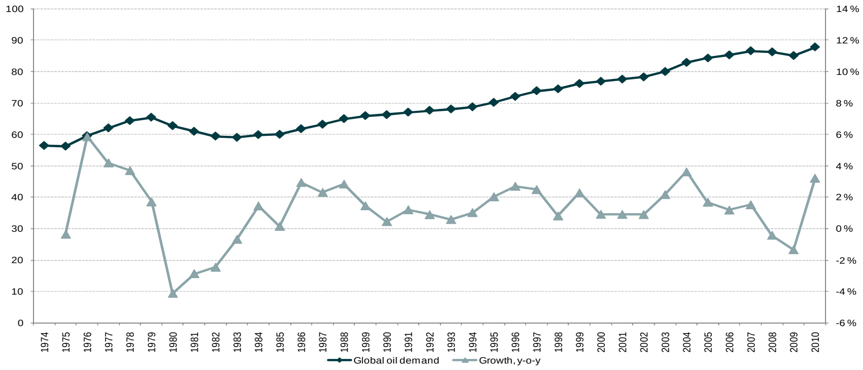
Source: IEA(Oil Market Review (OMR 4-2010)

Global oil demand (%)



Source: IEA(OMR 4- 2010)

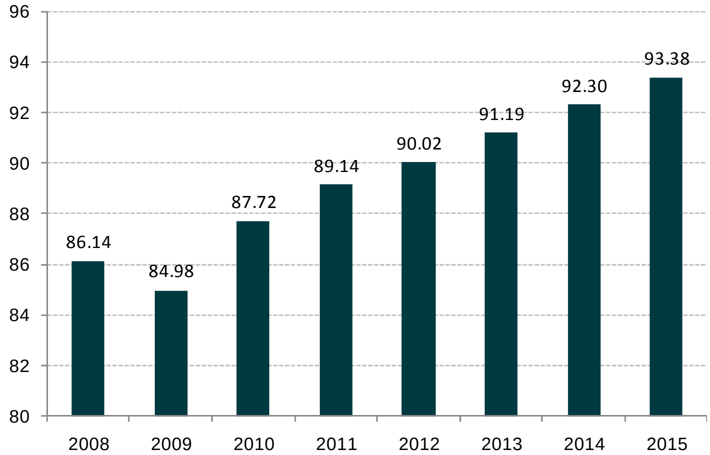
Global oil demand – growth (Mb/d)



Source: KBC, OPEC, IEA OMR 2011-01 for 2008-11, IEA medium term data update OMR 2010-12 for 2012-2015. Older IEA for 1974-2008(database)

IEA expect that global oil demand will increase to 89,14 mb/d in 2011 from 87,72 mb/d in 2010 and reach 93,38 mb/d in 2015.

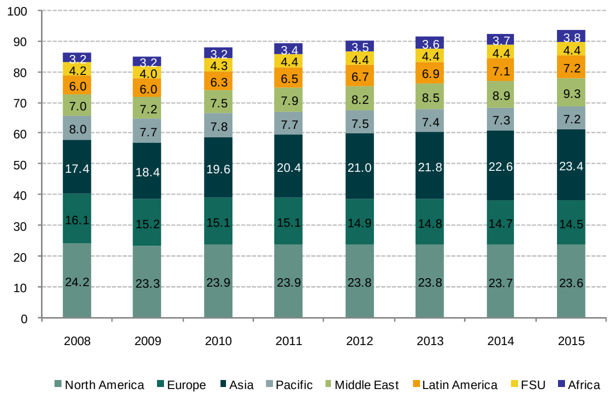
Global oil demand- medium term (Mb/d)



Source: IEA OMR 2011-01 for 2008-11, IEA medium term data update OMR 2010-12 for 2012-2015. Older IEA for 1974-2008(database)

Emerging economies will drive the global energy demand higher. IEA expect oil demand to continue grow steadily, reaching about 99 mb/d by 2035, 15 mb/d higher than in 2009. All the net growth is expected to come from non-OECD, almost half from China alone. Non-OECD countries account for 93 % of the projected increase in world primary energy demand, reflecting faster rates of growth of economic activity, industrial production, population and urbanisation. (IEA:WEO 2010)

Global oil demand per region (Mb/d)



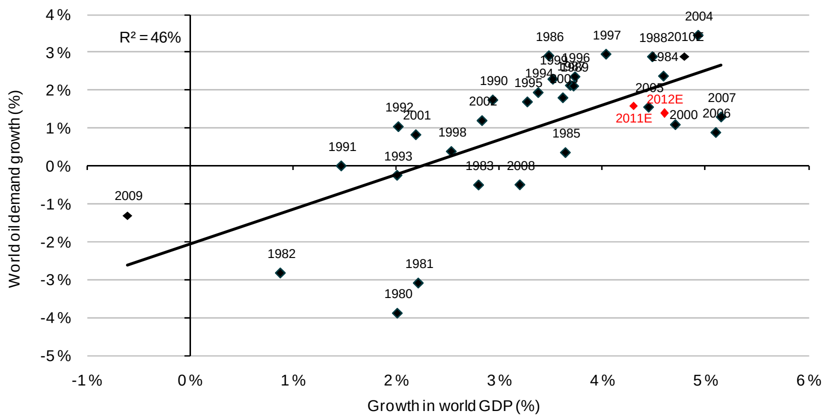
Source: IEA OMR 2011-01 for 2008-11, IEA medium term data update OMR 2010-12 for 2012-2015. Older IEA for 1974-2008

Fossil fuels remain the dominant sources of primary energy worldwide, expecting to account for 77% of the demand increase in the period 2007 to 2030, according to the IEA's Reference Scenario. Oil is expected to remain the single largest fuel in the primary fuel mix, despite a drop in share from the current rate of 34 % to 30 % in 2030. Demand for oil (excluding biofuels) is projected to grow by 1% per year on average over the projection period, from 85 million barrels per day in 2008 to 105 million barrels per day in 2030. This growth comes in its entirety from non-OECD countries, with demand from OECD countries expected to fall.

The transport sector accounts for 97% of the increase in oil usage. As conventional oil production in non-OPEC countries is expected to peak around 2010, most of the increase in output would need to come from OPEC countries which hold the bulk of the remaining recoverable conventional oil resources.

First Securities Macroeconomic Research forecasts World GDP to grow by 4.3% and 4.6% in 2011 and 2012, respectively. This implies a growth in oil demand of 1.9% and 2.2% in 2011 and 2012, respectively, based on a trend line on the basis of historical observed data;

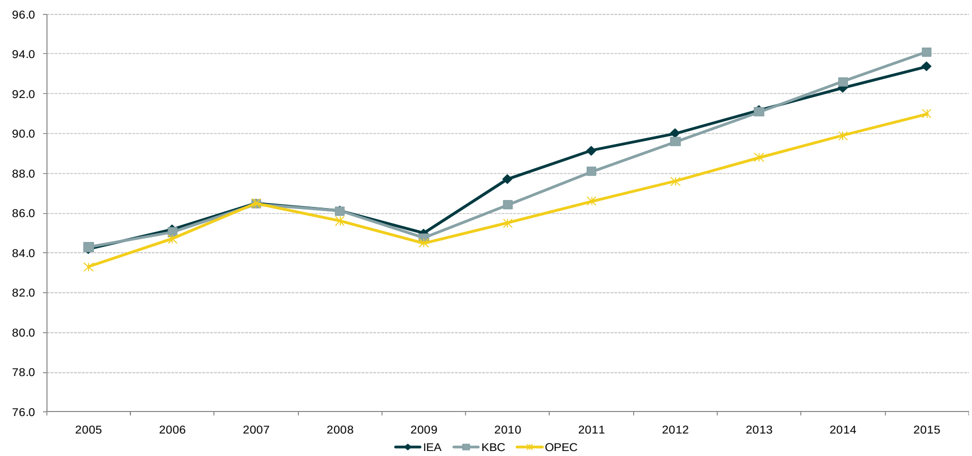
Oil demand growth vs. GDP growth - First Securities forecast (%)



Source: BP Statistical Review 2010, IMF WEO, First Securities Research

Demand forecast from KBC, OPEC and IEA shows a considerable growth in global oil demand going forward. KBC estimates a demand of 94.1 mb/d in 2015, while OPEC estimates a demand of 91 mb/d in 2015.

Global oil demand forecast, IEA, KBC, OPEC (Mb/d)

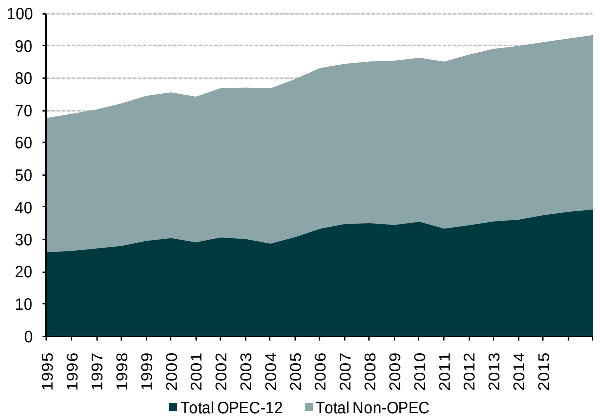


Source: KBC, OPEC, IEA(OMR 4-*2010)*

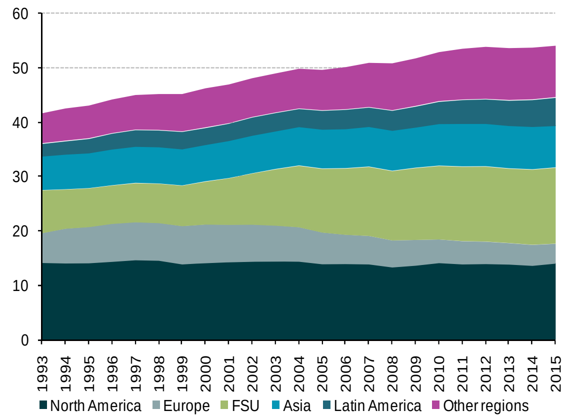
6.1.2 Supply

The IEA expects oil production to rise from 83.1 mb/d in 2008 to 93.4 mb/d in 2015. Most of the projected increase in output comes from members of OPEC, which hold the bulk of remaining proven oil reserves and ultimately recoverable resources. Currently, non-OPEC countries have no spare oil production capacity. Hence, all reported spare capacity, based on IEA research, is held by OPEC countries. IEA expects that spare capacity as a percentage of demand, represented by OPEC's spare capacity, will fall from 5.9% in 2010 to 4.7 % in 2015.

Global oil supply (Mb/d)

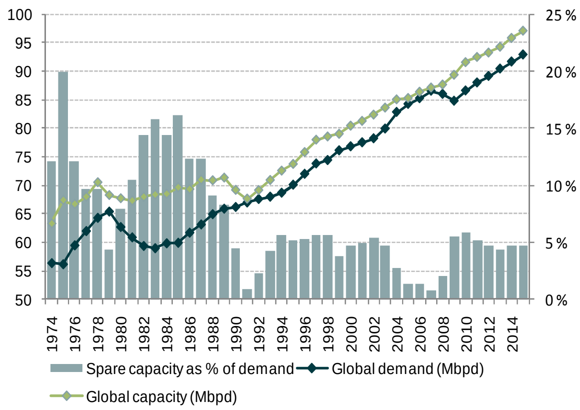


Global oil supply per region ex. OPEC (Mb/d)

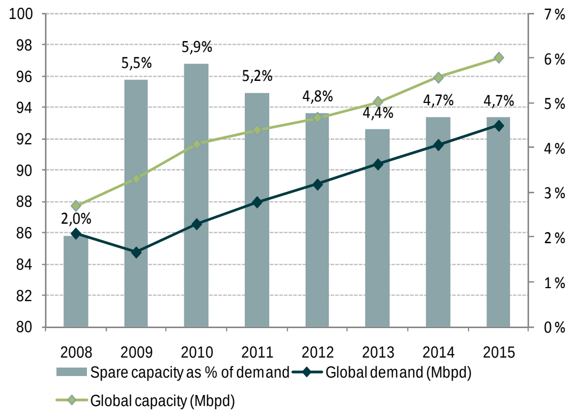


Source: 1993-08 IEA stat. Supplement 2008, 2009-15 IEA 2010-12, adjusted to current OPEC members. OPEC-12: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, Venezuela (database.)

Global oil balance summary (Mb/d)



Global oil balance summary (Mb/d)



Source: IEA except: 2008-15 (IEA, KBC, OPEC avg. for demand & capacity, IEA, KBC, OPEC, Rystad avg. for supply), Capacity (05-07 KBC, 74-04 CERA), Call on OPEC crude = OPEC crude prod. for 74-92 (CERA) (database.)

OPEC continues to dismiss the need for holding an extraordinary meeting to discuss supply levels before the previously scheduled gathering in June, arguing the market has enough oil. Japan earthquake, low seasonal refinery runs and some output increases from Saudi Arabia, Kuwait and UAE averted a supply crisis in March, but by the second half of 2011, demand for OPEC crude is likely to rise substantially. A collective decision to formally raise output targets in June seems unlikely. Most analysts argue that Saudi Arabia, Kuwait, the UAE, Nigeria and Angola the members which collectively hold the lion's share of spare capacity will step in and raise production unofficially instead (Source: IEA OMR 2011-04). Non-OPEC producers is also seeing unrest;

Production lost in countries facing turmoil (mbpd)

Country	Oil production (mbpd)	Degree of turmoil	Latest change	Production lost (mbpd)
Libya	1,55	Major violence	→	1,55
Yemen	0,26	Protests, some violence	↗	0,11
Iran	3,68	Protests, some violence	→	
Oman	0,87	Protests, some violence	→	
Total at risk	**6,36**			
Syria	0,39	Protests, some violence	↗	
Jordan	Insignificant	Protests, some violence	→	
Ivory Coast	0,04	Protests, some violence	↗	
Egypt	0,74	Regime change	↘	
Gabon	0,25	Oil workers strike (resolved)	→	
Kuwait	2,42	Protests	→	
Iraq	2,69	Nothing unusual	→	
Bahrain	0,04	Protests	↗	
Tunisia	0,09	Regime change	→	
Algeria	1,28	Protests	→	
Saudi Arabia	8,9	Protests	↗	
Total	**23,18**			**1,66**

Source: IEA OMR 2011-04

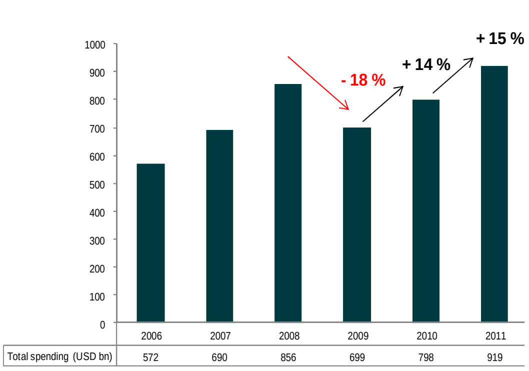
6.2 E&P SPENDING

With strong growth in oil demand and corresponding rising oil prices E&P spending soared in the period 2003 to 2007. The average annual growth in E&P spending was as high as 14% in the period 2003 to 2008. When the financial crises hit in 2008, the growth in oil demand turned and was reported negative in 2008 and 2009 (0.4% and 1.3% respectively). As a consequence of the fall in demand and oil price, oil companies cut their E&P spending in 2009 by 16%.

While annual growth in E&P spending dropped significantly in 2009, it bounced back in 2010. Total oil & gas spending 2010 and 2011 demonstrates growth after post-crises decline. Data from GlobalData shows an increased spending (14%) in 2010 after a decline of 18% in 2009. Total spending is up 15% in 2011 from $ 800 bn to $ 920 bn. The majority of E&P spending was from National Oil Companies (NOCs).

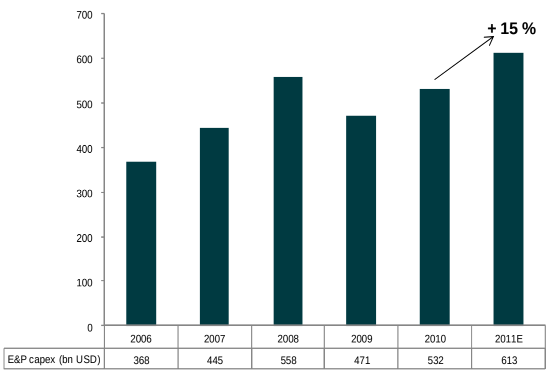
Economic recovery and lowered construction costs gave increased investments in 2010 within the E&P sector. The positive trend looking at E&P capex is expected continue to grow by 15 % in 2011 to a total of $ 615 bn. Main reason for growth in 2011 is stable high oil prices, eased credit availability and low construction costs. Discovering new oil and gas fields has become more and more challenging for the petroleum companies. Oil and gas companies search for new reserves in deeper waters and more complex environments with adjacent escalating exploration costs.

Global Oil & Gas spending 2006-2010, $ bn



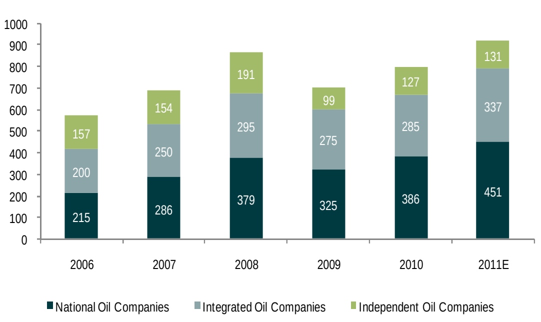
Source: GlobalData, January 2011(database)

Global E&P upstream capex 2006-2011, $ bn



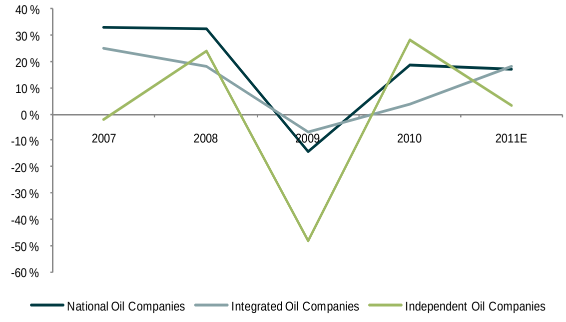
Source: GlobalData, January 2011(database)

Oil & Gas capex 2006-2011, $ bn growth bn



Source: GlobalData, January 2011(database)

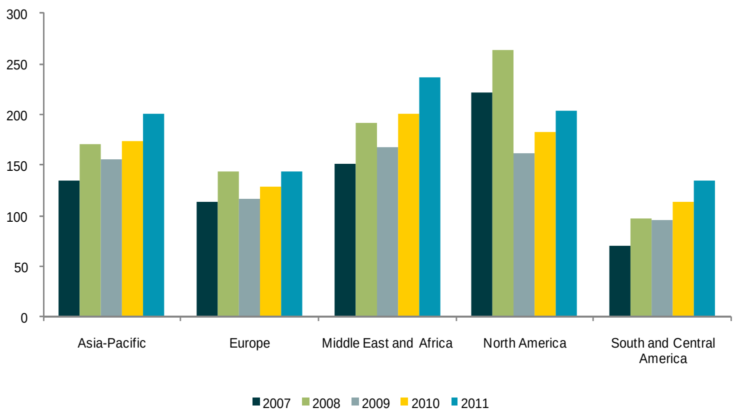
Oil & Gas capex 2006-2011, % Y/Y



Source: GlobalData, January 2011(database)

South and Central America in addition to Middle East and Africa is expected to grow their investments in 2011 with 18% compared to 2010 spending. In South and Central America is offshore drilling and production a major growth source. In Middle East and Africa there are strong exploration activities in Iran, Iraq and other African countries in addition to refinery construction in Middle East driving 2011 growth.

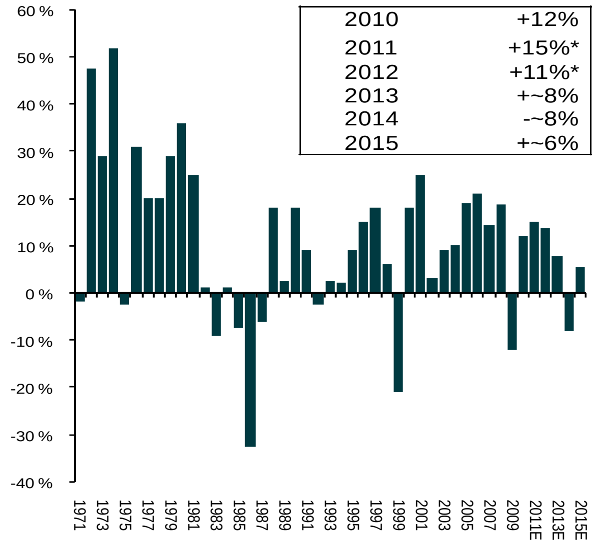
Oil & Gas capex by region 2006-2011, $ bn



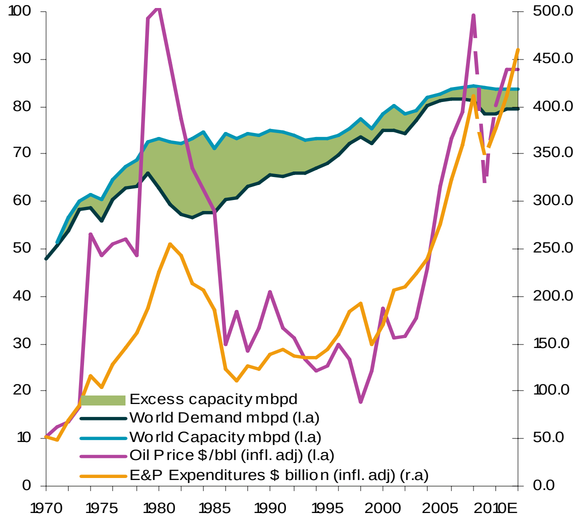
Source: GlobalData, January 2011(database)

First Securities Equity Research estimates a forecast for E&P spending. This forecast is based on interviews with 15 international oil companies. First Securities expects all-time high E&P spending in 2011-13.First Securities Equity Research estimates a growth in E&P spending of 15% in 2011 and 11% in 2012. E&P spending is supported by strong oil demand and a historically high oil price, and there might be the case that oil companies raise their spending budgets even further.

Change YOY E&P spending



Market fundamentals



Source Source: Schlumberger annual report 2010, First Securities research, BP Statistical Review of World Energy 2009, IEA OMR 4-2010, Citigroup research report 2010

6.3 OFFSHORE RIG MARKET

Offshore oil and gas production is more challenging and expensive than onshore production due to the remote and often harsh environment in which the resources are located. During drilling the offshore well needs to be extended from the seabed to the rig floor. Due to the higher complexity of offshore drilling versus onshore operations, required rig time is significantly higher.

Within offshore rigs there are two main categories; Jack-ups and floaters (Semi-submersibles and Drill ships). Jack-ups do not float during operation, they simply stand on retractable legs (usually three) and hence provide a stable platform from which to drill.

Jack-ups – A self-contained combination drilling rig and floating barge, fitted with long support legs that can be raised or lowered independently of each other. Upon arrival at the drilling location, the legs are jacked down onto the seafloor, preloaded to securely drive them into the sea bottom, and then all three legs are jacked further down. Since the legs have been preloaded and will not penetrate the seafloor further, this jacking down of the legs has the effect of raising the jacking mechanism, which is attached to the barge and drilling package. In this manner, the entire barge and drilling structure are slowly raised above the water to a predetermined height above the water, so that wave, tidal and current loading acts only on the relatively small legs and not the bulky barge and drilling package. A Jack-up rig can naturally only work in water depths that are less than the length of its legs, and typically this limits operations to less than 400 feet of water depth. When moving the rig between different locations rig jack itself down to the water until it floats, and the hull is then usually towed by tugs or carried by a specialist vessel, with the legs sticking high into the air. Ultra premium Jack-ups have enhanced operational capabilities which make them able to work in water depths exceeding 300 feet.

Semi-submersibles – A particular type of floating vessel that is supported primarily on large pontoon-like structures submerged below the sea surface. The operating decks are elevated perhaps 100 or more feet above the pontoons on large steel columns. This design has the advantage of submerging most of the area of components in contact with the sea and minimizing loading from waves and wind. Semisubmersibles can operate in a wide range of water depths, including deep water. They are usually anchored with six to twelve anchors tethered by strong chains and wire cables, which are computer controlled to maintain station keeping. Semi-submersibles can be used in different operations, such as drilling, work over operations and production, depending on the equipment with which they are equipped.

Drill ships – A maritime vessel modified to include a drilling rig and special station-keeping equipment. The vessel is typically capable of operating in deep water. A drillship must stay relatively stationary on location in the water for extended periods of time. This positioning may be accomplished with multiple anchors, dynamic propulsion (thrusters) or a combination of these. Drill ships typically carry larger payloads than semisubmersible drilling vessels, but their motion characteristics are usually inferior.

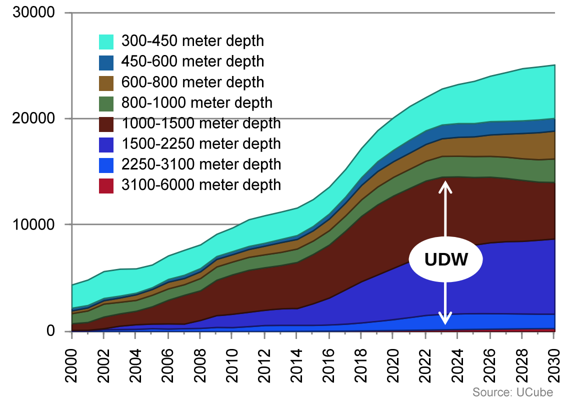
6.3.1 Deepwater market

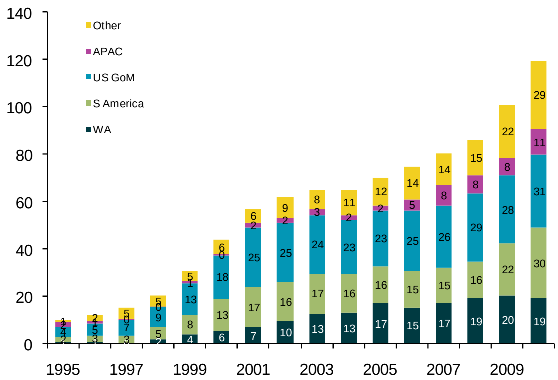
In deeper, more open waters over continental shelves, drilling is done from free-floating platforms or from platforms made to rest on the bottom. Floating rigs are most often used for exploratory drilling, while bottom-resting platforms are usually associated with the drilling of wells in an established field

The main growth in offshore production will come from deepwater, exhibits below illustrates illustrates that deepwater drilling is growing.

Offshore O&G production forecast *World deepwater floater demand by region*

(kboe/d, by water depth) *(# of rig years contracted, (>5000ft))*



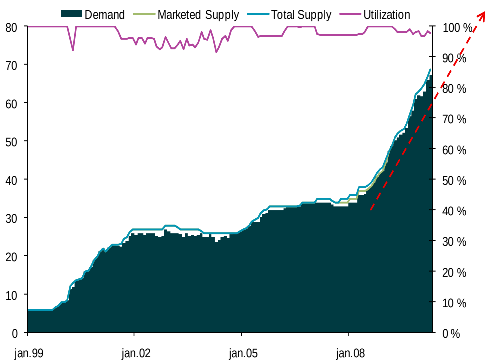


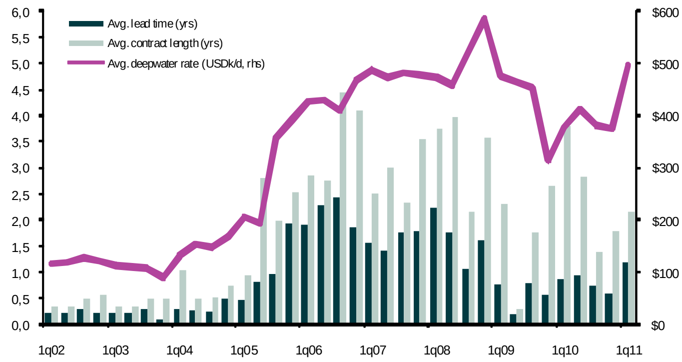
Source: RystadEnergy, ODS Petrodata, UCube (2010) *(database).*

Deepwater exploration success, increasingly in frontier regions, will be a robust demand driver for advanced drilling capacity. 12 of the 21 discoveries announced YTD are in the established deepwater triangle (WA, US GoM, Brazil). Oil companies have just started exploring the major potential of harsh environment regions. New developments in this region will further contribute to increased demand for development drilling

Ultra Deepwater units have the strongest growth in the rig market and even strong growth over the last three years despite of financial crisis. This growth is expected to maintain, driven by increased E&P budgets and increased number of wells drilled and more expensive wells and the fact that deepwater as share of exploration and development is increasing. Deepwater leading indicators as lead times, durations and volumes are pointing upwards;

UDW Floater market balance ***Deepwater leading indicators***





Source: First Securities based on statistics from ODS Petrodata (Jamuary 2011) (database).

6.3.2 Jack up market

Jack-up rigs have been a part of the offshore oil exploration industry since the 1950's. They have been used for exploration drilling, tender assisted drilling, production, accommodation, and work/maintenance platforms.

We saw a rapid growth in the global Jack-up fleet from the mid 1970s to the beginning of the 1980s, mainly driven by an accelerating oil price. The fleet growth peaked in 1982 with a y.o.y fleet increase of 92 Jack-ups. In the ten-year period from 1974 to 1984 the Global Jack-up fleet went from 133 to 455 units, giving a CAGR of 13.1 %.

The massive net increase in the fleet together with a steep drop in commodity prices led to a significant oversupply of Jack-up rigs that lasted from the mid 1980s to the mid 1990s. Consequently, the yearly net fleet growth was negative in all thirteen years in the period from 1985 to 1998. Since 1998 we have seen a net fleet growth with small fluctuations in both a positive and negative direction, until a new, but far more conservative construction cycle were commenced in 2004. The number of Jack-ups in the global market first exceeded the levels from the beginning of the 1980s in 2009 and the fleet is expected to continue a more healthy growth in the years to come.

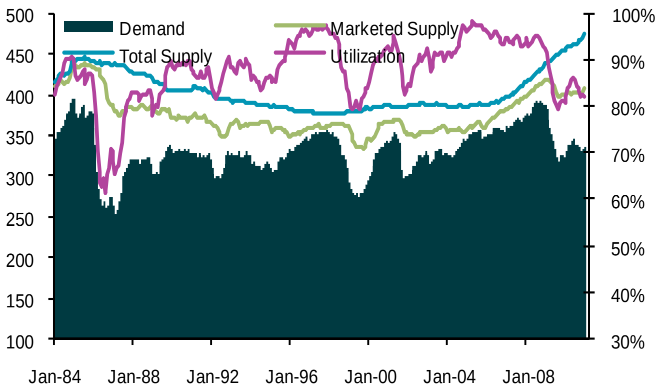
Today, 28 % of the global Jack-up rigs are older than 30 years, including rigs under construction. As a large percentage of today's rigs were built in the beginning of the 1980s, this share is expected to increase to 64 % in 2015[1].

There has been a modest fleet growth since the mid 1980s, and this is reflected in the average age of the fleet to most market participants. The vast majority of the market players have a fleet with an average age above 10 years. A natural consequence of this is that it is necessary with a fleet renewal in the years to come, putting pressure on available yard capacity with increasing construction costs as a result.

In addition to the technological developments which affect the cost and operational efficiency of offshore drilling, demand for offshore drilling is strongly influenced by two factors; oil and gas demand and E&P spending as described earlier.

Jack-up; current and historical fleet utilization

Jack-up util'	Current	-1m	-1y	10y avg.
Marketed JU util'	82%	83%	84%	91%
In service > 2000	89%	90%	89%	94%
IC >350 ft	85%	86%	88%	95%
Rig count	**Current**	**-1m**	**-1y**	**10y avg.**
Total # JUs	476	475	456	408
Marketed # JUs	399	398	393	377
Contracted # JUs	326	331	329	345
Mktd. # JUs > 2000	117	116	96	37
Contr. # JUs > 2000	104	104	86	34
Mktd. # IC > 350ft	132	131	116	72
Contr. # IC > 350ft	112	112	102	68



Source: First Securities estimates, ODS Petrodata (Jamuary 2011) (database).

Global utilization for Jack-up rigs has been reported in the range 80-85% for the last couple of years after operating in the range 95-100% in the period 2005-2008. In historical down-cycles, illustrated by the drop of utilization in 1986 with utilization reported as low as 62%, a construction boom in combination with a fall in demand hit Jack-up rig utilization hard. In the latest down-cycle, at the wake of the financial crises which hit in 2008, utilization fell to just below 80%. Marketed jack-up utilization stands at 82%, with utilization apparently bottoming out after a negative trend since 2q10, partly due to the slow well permitting in the US GoM in the wake of the Macondo oil spill.

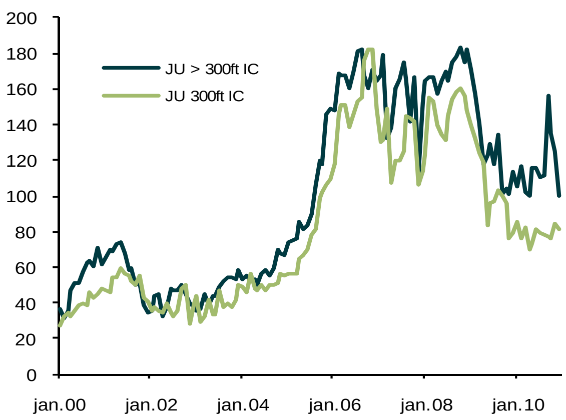
[1] ODS Petrodata 2010

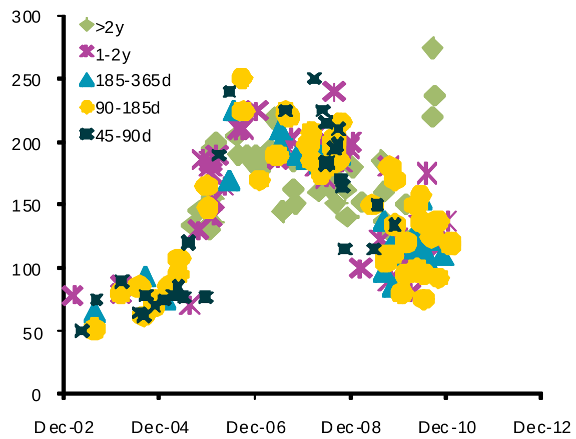
When considering fleet utilization, newer rigs are achieving higher utilization than older rigs. This is also the case for Jack-up rigs where units built in 2000 or after currently achieves 92% utilization, while older Jack-up rigs built before 2000 currently achieves only 64% utilization. The main reason for this major difference is the higher efficiency and capacity offered by newer rigs. As long as there is available rigs in the market, high-end rigs will be preferred relative to older and second rated rigs.

In the period 2004 to 2006 there was a strong development in day rates for Jack-up rigs based on a tight market balance. At the wake of the financial crises in 2008, there was a drop in day rates. Currently, day rates are reported at the same levels as after the drop in 2008. In the figures below day rates for Jack-up rigs above 300 ft and at 300 ft are shown. Multiple high-spec long term contracts were reported in September 2010, which made a spike in the day rate development. This is not representative for the overall Jack-up rig market and we have included a normalised day rate development to take this matter into account.

Jack-up rigs with legs above 300 ft have achieved higher day rates than rigs with legs at 300 ft since the drop in 2008. Premium day rates achieved by Jack-up rigs above 300 ft have on average been about USD 20,000 since the drop. This is related to the tighter market balance for high capacity and – effiency rigs, which to a large degree is represented in the above 300 ft segment.

Jack-up fixtures and day rates (USDk/d)





Source: ODS Petrodata (Jamuary 2011) (database). *Note: Chart to the left include contracts with duration > 45 days for rigs with minimum 350ft IC, excluding sublets, and excluding fixtures in high cost regions such as Aus./NZ, North Sea and Canada as well as in US GoM.*

7. BOARD OF DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

7.1 BOARD OF DIRECTORS

In accordance with Norwegian law, the Board is responsible for administering the Company's affairs and for ensuring that the Company's operations are organized in a satisfactory manner.

The Company's Articles of Association provide that the Board shall have no fewer than 3 members and no more than 5 members. In accordance with Norwegian law, the Managing director and at least half of the members of the Board must either be resident in Norway, or be citizens of and resident in an EU/EEA country. The members of the Board are elected by the general meeting of shareholders. The board is elected for a term of 2 years. Board members may be re-elected. In the event of equal voting, the chairman of the board shall have a double vote.

The Board consists of 5 members, whereof 3 are independent of the management, main business associates and the main shareholder.

As at the date of the Prospectus the Company's Board of Directors consists of the following individuals:

Berge Gerdt Larsen, Chair, (Born 1952)
Mr. Larsen has considerable long term oil- and offshore industry experience in management, Board of Directors and ownership. He currently has direct or indirect ownership in Petrolia ASA, Independent Oil & Resources ASA and DNO International ASA. He is Board Member of Det Norske Oljeselskap ASA. Previously Mr. Larsen has been Managing Director of Odfjell Drilling and Chairman of the Norwegian Rig-owner Association, Board Member of the Oil Industry Association and Chairman of Bergen Ship-owner Association. Mr. Larsen holds a Master of Business Administration Degree from University of Texas at Austin and a BSc degree in Chemical Engineering from University of Newcastle upon Tyne. Mr. Larsen is a Norwegian citizen with business address; Hopsnesveien 127, 5232 Paradis, Norway.

Erik Johan Frydenbø, Director, (Born 1945)
Mr. Frydenbø has considerable long term experience within oil and shipping industry as legal consultancy and lawyer. From 1975 to 1996 he held various positions as legal consultancy, lawyer and managing director in various oil industry related companies. Presently he holds a position as lawyer within his own company. Mr. Frydenbø holds a law degree from University of Bergen and as a lawyer from 1977. Mr. Frydenbø is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

Unni Fossberg Tefre, Director, (Born 1946)
Mrs. Tefre is educated within administration, human relations and organization. She has extensive experience and administrative qualifications related to management positions within the oilfield industry. From 1986 to 2004 Mrs. Tefre was employed by Odfjell Drilling AS. As from 2004 she held the position as administration manager in Larsen Oil & Gas AS. Mrs. Tefre is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

Marit K. Instanes, Director, (Born 1958)
Mrs. Instanes has extensive experience and administrative qualifications related to management positions within economic, human relations and administration. Her current activities are within investments and real estate. From 2004 – 2007 Mrs. Instanes was employed by OPTICONSULT AS and was responsible for administration incl. economy, salary and human resources. From 2007 – 2009 Mrs. Instanes was employed in SWECO AS and was responsible for salary and human resources. Mrs. Instanes holds a BA degree in History-Politics and Economics from London University Queen Mary and a BSc degree in General Management from New Hampshire College London. Mrs. Instanes is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

Sjur Storaas, Director, (Born 1953)
Mr. Storaas has considerable long term experience within oil and oil related industry in management and Board of Directors. From 1983 to 2009 he held various positions as Managing Director and Vice

President in oil industry related companies. Presently he holds a position as partner in SAM Headhunting AS. Mr. Storaas holds a M.Sc degree in Naval Architecture & Marine Engineer from the Norwegian Institute of Technology (NTH) and has education within Business Administration. Mr. Storaas is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

The table below sets out the name, current position, election date and the end of current term of office for each of the current members of the board of directors.

Name	**Position**	**Member Since**	**Term expires**
Berge Gerdt Larsen	Chair	19.04.2010	*The annual general meeting in 2012*
Erik Johan Frydenbø	Director	19.04.2010	*The annual general meeting in 2012*
Unni Fossberg Tefre	Director	14.11.2007	*The annual general meeting in 2012*
Marit K. Instanes	Director	28.06.2010	*The annual general meeting in 2012*
Sjur Storaas	Director	28.06.2010	*The annual general meeting in 2012*

7.2 INDEPENDENCE OF THE BOARD

According to the Norwegian Code of Practice for Corporate Governance (the "Code"), a majority of the shareholder-elected board members should be independent of the executive management and important business connections. At least two members should be independent of the Company's most important shareholders.

Mrs. Tefre is employed by Larsen Oil & Gas AS, a company which provides administration services and previously also management services to the Company, cf. Section 7.11, and she is thus not independent of the Company's important business contacts. Larsen Oil & Gas AS is also an important shareholder in the Company, and Mrs. Tefre is therefore not independent of the Company's most important shareholders.

Mr. Berge Gerdt Larsen indirectly owns or controls an important number of Shares (cf. section 7.4.3) and is thus not independent of the Company's most important shareholders. He also controls Larsen Oil & Gas AS and is therefore not independent of the Company's important business contacts.

Mrs. Instanes, Mr. Frydenbø and Mr. Storaas are independent of main shareholders, management and main business connections; cf., however, Section 7.11 regarding Mr. Frydenbø's consultancy agreement with the Company.

7.3 BOARD SUB-COMMITTEES

Mrs. Instanes and Mr. Frydenbø have been elected to the audit committee. The audit committee shall prepare the board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the company's auditor on a current basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the company may jeopardize the independence.

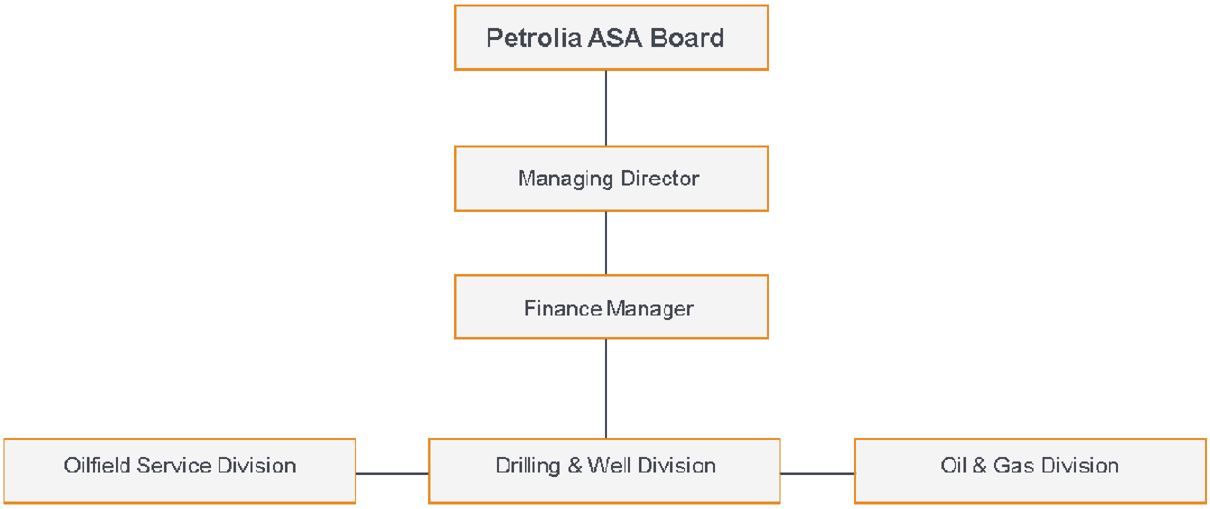
Otherwise, there are no board sub-committees.

7.4 MANAGEMENT

7.4.1 Organisational structure

The group executive management is responsible for the daily management and the operations of the Company.

The following is an overview of the organizational structure of the Company:



7.4.2 Members of the Executive Management

As at the date of the Prospectus the Company's Executive Management consists of the following individuals:

Kjetil Forland, Managing Director, (Born 1968)
Mr. Forland has been the Company's managing director since 18 January 2011. He joined the Company on 1 November 2010 as COO. He has considerable long term oil- and offshore industry experience onshore in management, business development and Board of Directors and offshore operation management experience. From 2008 – 2010 Mr. Forland has been Vice President of Bergen Group Offshore AS and from 1996 to 2008 he was employed by Odfjell Drilling and holds various positions within management of rig operations. Mr. Forland holds a degree in management program from Norwegian School of Management (BI), a degree as Business Economist from Norwegian School of Management (NHH) and 2 years drilling technical study from Technical School. Mr. Forland is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

Sølve Nilsen, Finance Manager, (Born 1969)
Mr. Nilsen has extensive experience within finance and audit. From 1997 to 2002 Mr. Nilsen has been controller in Kavli Holding AS and O. Kavli AS. From 2003 to 2010 he was employed by Oceanteam ASA as Finance Manager. Mr. Nilsen holds a degree in Finance and International economics from the Norwegian School of Management (NHH). Mr. Nilsen has been employed as Finance Manager of Petrolia ASA since 1 October 2010. Mr. Nilsen is a Norwegian citizen with business address Hopsnesveien 127, 5232 Paradis, Norway.

7.4.3 Executive shareholdings

Below is an overview of the Shares and Share Options held by the board and the management of the Company at the date of the Prospectus: These are shares held personally or via close associates.

Board	Position	Shares held	Share Options
Berge Gerdt Larsen	Chair		
Erik Johan Frydenbø	Director	2000	
Unni Fossberg Tefre	Director		
Marit K. Instanes	Director		
Sjur Storaas	Director		
Management			
Kjetil Forland	Managing Director		
Sølve Nilsen	Finance Manager		
Total held by Management and Board		2000	

Through control over Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 6.16 % of the Shares, Berge Gerdt Larsen, is indirectly a shareholder in the Company. This position is achieved in the following manner: Larsen is chairman of the boards of both companies. Increased Oil Recovery AS owns 100 % of the shares in Larsen Oil & Gas AS. Larsen indirectly owns 24.3 % of the shares in Increased Oil Recovery AS through his wholly owned company Time Critical Petroleum AS.

7.5 REMUNERATION AND BENEFITS

(Amounts in NOK)

Board	Position	Period	2010	2009	2008	2007
Berge Gerdt Larsen	Chair	21/4 – 28/6	33 300			
Erik Johan Frydenbø	Director	21/4 – 28/6	33 300			
Unni Fossberg Tefre	Director		200 000	300 000	175 000	
Marit K. Instanes	Director					
Sjur Storaas	Director					
Berge Gerdt Larsen	Director					225 000
Klaus Peter Tollefsen	Chair	- 21/4-10	166 700		1 000 000	300 000
Leif Holst	Director	- 21/4-10	166 700	300 000	1 000 000	225 000
Terje Hellebø	Director	- 21/4-10	166 700	300 000	1 000 000	225 000
Gun Marit Stenersen	Director	- 21/4-10	166 700	300 000	175 000	
Management						
Lars Moldestad	CEO			375 000	2 000 000	
Bernt Skeie	CEO	- 21/4-10	3 198 653*			
Ørnulf Samdal	Interim CEO	21/4-31/10	2 025 000			
Kjetil Forland	Managing Director	1/11-31/12	354 681			
Sølve Nilsen	Finance Manager	1/10-31/12	277 181			

* *In addition NOK 3 750 000 has been paid in 2011 after arbitration concluded the parachute approved by the previous board was binding for the Company. The present board disputed the parachute.*

The Managing Director has a twelve months termination payment agreement. Otherwise, no members of the administrative, management or supervisory bodies' have service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

Currently, no Board members or employees are entitled to any contingent or deferred compensation, nor are there any options schemes in place.

7.6 LOANS AND GUARANTEES

The Company has not issued any loans or guarantees to the benefit of any board member, management or other related party.

7.7 DIRECTORSHIP, PARTNERSHIPS AND MANAGEMENT POSITIONS

The members of the Board and the senior management presently have and have over the five years preceding the date of this Prospectus, held the following directorships, partnerships and/or management positions in companies outside the Company group:

Name	**Current directorships/partnerships/management positions**	**Directorships/partnerships/management positions previous 5 years**
Board of directors		
Berge Gerdt Larsen	Det Norske Oljeselskap ASA, Director Venture Drilling AS, Director Coast Center Base AS, Director KS Coast Center Base, Chair Increased Oil Recovery AS, Chair Kver AS, Chair Larsen Oil & Gas AS, Chair Time Critical Petroleum Services AS, Chair	DNO International ASA, Chair, DNO Invest AS,Director, PetroMENA ASA (in bankruptcy , Director *Petrojack ASA (in bankruptcy , Director* Deepwater Driller Ltd., Director
Erik Johan Frydenbø	Monteroma AS, Director Sweden Properites, Subst,Director, PetroMENA, Chair	West Energy AS, Director Morgans AS, Director Aker Eiendom AS, Director
Unni Fossberg Tefre	Independent Oil & Resources ASA Larsen Oil & Gas AS, Adm. Manager	
Marit K. Instanes	DNO ASA, Director Instanes AS, Director Instanes Eiendom AS, Director Wenche frisør AS, Director MKI-Invest AS, Director Bjarne Invest AS, Director Instanes Eiendom AS, MI-Invest AS	Opticonsult, Director RIF, Director Several KS mainly in shipping, Director Opticonsult AS, SWECO AS
Sjur Storaas	SAM Headhunting A, Partner and member of management Bergen Innovasjon, Owner CONNECT Vest, Chair Høgskolen i Bergen (HiB), dep. Director	NCE Subsea, Director Hordaland Oil & Gas, CEO Pöyry Energy AS, Bergen, General Manager,

Management	Current directorships/partnerships/management positions	Directorships/partnerships/management positions previous 5 years
Kjetil Forland	Askøyveiene AS, Director Forland Holding AS, Owner and Chair Rig Intelligence AS, Co-owner and Chair PCS Rental Tools Pty Ltd., Chair	EVP Bergen Group Offshore AS Bergen Group Rosenberg AS, Director Bergen Group Hanøytangen Eiendom AS, Chair Bergen Group Hanøytangen AS, Chair Bergen Group Engineering AS, Chair Bergen Group Kimek Offshore AS, Chair Bergen Group Rosenberg AS, Chair Bergen Group Shipbuilding AS, Director Engineers of Norway AS, Co-founder and Chair Odfjell Drilling, Director Kunnskapsparken Nord AS, Director
Sølve Nilsen	Environment Technologies AS, Director and member of Management Hubii AS (formerly MapItAll AS), Director and member of Management	Serious AS Various subsidiaries of Oceanteam Shipping ASA (formerly Oceanteam ASA)

Berge Gerdt Larsen was a Director of PetroMENA ASA until 14 August 2009, and bankruptcy was later opened on 21 December 2009.

He was a director of Petrojack ASA until 24 November 2009 where bankruptcy was opened on 8 March 2010.

Erik Johan Frydenbø was Chair of PetroMENA AS at the time of opening of bankruptcy.

On 16 June 2011, the Hordaland public prosecutor (Norwegian: Statsadvokatene i Hordaland) charged (in Norwegian: tiltalte) Berge Gerdt Larsen with serious breach of trust (in Norwegian: "grovt utroskap") and tax fraud. The charge replaced a preliminary charge issued on 18 October 2010. The charges relate to two instances: (i) The sale by Kver AS (later renamed Larsen Oil & Gas AS – LOG AS), at the time owned and controlled by Larsen, of its 34.1 % of the shares in Independent Oil Tools AS to Norden Oil Ltd. (British Virgin Islands) at a too low price during the period 1997 to 2000. According to the charge, this led to a loss or the risk of loss for LOG AS of at least NOK 20.5 million. (ii) In connection with an agreement from November 2000 regarding the sale of shares by Kver AS (later renamed LOG AS) to Increased Oil Recovery Ltd. of 1 million shares in DNO International ASA (DNO), Larsen, being in control of LOG AS, later amended the agreement to the disadvantage of LOG AS. Furthermore, Larsen was charged under the Tax Assessment Act for having provided incorrect and or incomplete information to the Taxation authority during the period 1997 to 2006 regarding taxable holdings in foreign companies.

Mr. Larsen has rejected the charges. LOG AS, as shareholder of DNO, DNO and more than 240 other DNO shareholders have brought a class action lawsuit against the Norwegian state for breach of confidentiality, alleging that confidential information was leaked to the Bergen newspaper Bergens Tidende in February 2006 in connection with the ongoing investigations. The breach of confidentiality resulted in a significant drop (NOK 1.2 billion market cap) in the price of the DNO share the following trading day. The appeal court ruled that there was a breach of confidentiality by the Bergen police and Kver AS and Berge Gerdt Larsen had a right to be compensated whereas the claimants had no such right for compensation. The claimants have therefore appealed the ruling about no right to compensation to the Supreme Court. The claimants are investigating whether this breach of confidentiality is in breach with treatment of insider information of the Securities Trading Act.

Other than stated above, during the last five years preceding the date of this Prospectus, no member of the Board of Directors or the senior management has:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from

acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company; or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidiation in his capacity as a founder, director or senior manager of a company.

7.8 POTENTIAL CONFLICTS OF INTEREST

As referred in Section 7.4.3 above, Berge Gerdt Larsen is indirectly a shareholder in the Company and is also member of the board of a shareholder. Normally, Larsen's interest as a shareholder will coincide with the interests of the Company and thus not be in conflict with his duties as a board member. However, it cannot be ruled out that Larsen's interests as a shareholder from time to time may conflict with those of other shareholders of the Company or of the Company. This especially applies to transactions or measures concerning the Company's share capital and/or the rights of shareholders.

Berge Gerdt Larsen furthermore controls Kver AS. The Company has entered into an office rental agreement with Kver AS, cf. Section 7.11 below. His interests as owner of Kver AS may be in conflict with his duties as a board member of the Company. The office rental agreement is however entered into on arm's length terms.

Berge Gerdt Larsen is furthermore a member of the board of Det Norske Oljeselskap ASA. This company engages in the oil and gas industry and may to some extent be a competitor or customer of Petrolia. Larsen's duties as board member of the Company may potentially be in conflict with his duties towards Det Norske Oljeselskap ASA.

Board member Erik Frydenbø owns 2000 Shares. He has furthermore entered into a consultancy agreement with the Company, cf. Section 7.11 below. His duties at board members of the Company may at times be in conflict with his interests as shareholder and as a provider of consultancy services to the Company.

Larsen and Frydenbø routinely withdraw from the board meetings of the Company when the board of directors deals with matters in which they have a prominent personal or economic interest, cf. also the Public Limited Companies' Act section 6-27.

Other than described in this Section 7.8 in this Prospectus, there are no potential conflicts of interests between any duties towards the Company, of the persons referred to in Sections 7.1 and 7.4, and their private interests and/or other duties.

7.9 EMPLOYEES

As of the date of the Prospectus, the Group has approximately 246 employees.

Countries	**Employees**
Norway	28
Netherlands	21
Romania	88
Azerbaijan	17
Australia	77
New Zealand	15
Total	**246**

The table below illustrates the development in number of employees over the last three years, as per the end of each calendar year.

Year	**2010**	**2009**	**2008**	**2007**
Number of employees	236	211	218	198

7.9.1 Employee incentive schemes

There are currently no incentive schemes in place, but the Company is continuously considering means of compensating its current and future employees.

7.9.2 Pensions

The Company complies with the requirements of the Norwegian Mandatory Occupational Pension Act and has implemented a defined contribution based scheme with 4 % contribution on income up to 6 G (the National Insurance Base Amount, currently NOK 75,641 and 8 % on income between 6 and 12 G.

7.10 CORPORATE GOVERNANCE

As per date of this Prospectus the Company is fully compliant with the Norwegian Code of Practice for Corporate Governance (the “Code”) as published 21 October 2010 with the following exceptions:

1. The Company has not developed specific written guidelines for corporate social responsibility ("CSR"), cf. section 1 of the Code. During the limited period of time since the introduction of the CSR recommendation on 21 October 2010, taking into consideration the required focus during this period on extraordinary issues, such as handling various litigation and the off-hire status of the DS "Valentin Shashin", this has not been a priority for the Board. However, there is a constant focus on conducting business in compliance with all applicable rules and regulations. Moving forward, the Board will consider whether and when to implement CSR guidelines in connection with its general review and revision of its corporate governance procedures due to take place in the near future.

2. Members to the nomination committee have not yet been appointed, cf. section 7 of the Code. The Company plans to facilitate such appointment following the conclusion of the process initiated to relocate the head-office to Cyprus, cf. section 5.4.1. Guidelines for the nomination committee are under preparation. Once appointed, the names of the committee members will be published on the Company's web site.

3. The Board of Directors has currently not found it necessary to formally appoint a remuneration committee. Given the limited size of the Company's administration and the considerable experience of the board members, it is the board's opinion that the matters in question may be properly handled by the Board without such formal committee.

7.11 RELATED PARTY TRANSACTIONS

The following gives an overview of all agreements between the Group and related parties since 2008 and until the Prospectus date. All agreements have been entered into on arm’s length conditions.

Larsen Oil & Gas AS (LOG AS)
LOG AS is owned by Increased Oil Recovery AS which in turn is indirectly controlled by Berge Gerdt Larsen, chairman of the board of the Company, and his son.

Since 1997 and until 31 December 2004, the Company was party to a business administration agreement with Kver AS (org. no. 935 951 968). Before 21 September 2004, Kver AS was named Larsen Oil & Gas AS. At that time it was decided to separate the business administration function of Kver AS, including the name "Larsen Oil & Gas", into a different company, and the business administration agreement was therefore transferred to CCB Logistics Services AS (org. no. 967 959 308), which took over the name Larsen Oil & Gas AS with effect from 21 September 2004.

Therefore, on 1 January 2005, the Company continued the business administration agreement with LOG AS, and the agreement was terminated in July 2010. The business administration fee was NOK 3 million from year 2000. In 2008 an additional fee of NOK 2 million was paid and approved by the Company's general meeting. As a part of a limited financial due diligence performed by Ernst & Young for the independent directors it has been established that the fee during 2007-2009 has been too low to cover the actual costs LOG AS had incurred to provide services to the Company. The parties have agreed that Petrolia ASA should pay an additional NOK 16.4 million to LOG AS to cover those documented additional costs. This payment was made in April 2011.

An administration agreement effective from 1 August 2010 has been signed with LOG AS. The annual cost coverage is NOK 2.5 million, and the scope of the agreement is limited to secretarial matters such as arranging and documenting board and shareholder meetings, maintenance of web site, IT support and similar.

Kver AS
Kver AS is owned 51 % by Time Critical Petroleum AS, a company owned by Berge Gerdt Larsen.

Kver AS was the business manager of the Company during 1997-2004, cf. the section above regarding Larsen Oil & Gas AS.

An office rental agreement effective from 1 August 2010 has been signed with Kver AS. Annual rent is NOK 1.1 million.

Erik Frydenbø
The Company has from 1 May 2010 entered into a consultancy agreement with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 216,000 with two months termination to assist with legal matters.

Larsen Oil & Gas Ltd. (LOG Ltd), Aberdeen
LOG Ltd., controlled by Mr. Berge Gerdt Larsen, was contracted by Venture Drilling AS (at the time a 50 % owned joint venture with Sinvest ASA, cf. Section 5.7.3above) on 28 November 2005 to perform technical and operational management of the drilling vessel DS "Deep Venture". The agreement was terminated in connection with the redelivery of the vessel to its owners earlier this year. The agreed fee was USD 10,000 per day when the vessel was under drilling contract, USD 6000 per day during reactivation and USD 3000 per day when the vessel was not in operation or was being moved without being under drilling contract.

LOG Ltd also provided technical and operational management of the Larsen Rig (under construction by Deepwater Driller Ltd., cf. Section5.7.4). The agreement was entered into on 27 June 2008 and was terminated in 2010. The agreed fee was USD 3000 per day. Cf. note 16 to the annual accounts for 2009, included as Annex 4 for more details.

Larsen Oil & Gas Pte Ltd (LOG Pte), Singapore
The company is 100 % owned by Larsen Oil & Gas FZCO in Dubai ("LOG FZCO"). LOG Ltd., controlled by Berge Gerdt Larsen, owns 45 % of LOG FZCO. Deepwater Driller Ltd entered into an agreement of project management and yard supervision with LOG Pte in June 2008. Annual supervision fee is USD 3.6 million. The agreement was terminated in February 2010 with six months termination.

Independent Oilfields Rentals IOR Ltd.
Berge Gerdt Larsen is indirectly a minority shareholder. In 2005 the Group purchased drilling equipment from the company worth USD 2.0 million. The equipment was in its entirety used as part of contribution in kind at the establishment of Venture Drilling AS. The amount is recognised in the balance sheet as other current liability per 31 December 2009.

On 16 December 2009, Independent Oilfield Rentals IOR Ltd. and its subsidiary NET AS granted Petrolia Services AS short term loans of total NOK 20 million. The loans were unsecured, and prescribed interest rate was 16 % p.a. The amount is recognised in the balance sheet for 2009 as other current liability per 31 December 2009. The loans were repaid late in March 2010.

Independent Oil & Resources ASA
Berge Gerdt Larsen is indirectly a minority shareholder. In December 2006, the Group agreed to acquire 100 % of the shares in Independent Oil Tool AS at a price of NOK 380 million, whereof transferred loan NOK 276 million.

On 1 February 2007, the Group entered into an agreement for the acquisition of 25,000,000 shares in Petrojack ASA from Independent Oil & Resources ASA (at the time named IOT Holding ASA) worth NOK 550 million (value per share NOK 22). As settlement the Company issued 163,204,747 shares worth NOK 550 million (value per share NOK 3.37).

On 1 January 2008, Independent Oil & Resources ASA granted Independent Tool Pool AS a short term loan of USD 13.2 million. The loan was calculated at an interest rate of 6 % and was settled in 2010.

Venture Drilling AS
The Company paid the directors' fee for its representatives in the board of Venture Drilling AS in 2009. In 2009 Scandinavian Consulting Group AS through Terje O. Hellebø (board member) and Lars Moldestad (former managing director) each received USD 62,500.

In 2008, Petrolia Services AS sold drilling equipment to Venture Drilling AS. The equipment was sold for USD 6.0 million based on a price established by a third party evaluation.

Petrolia Rigs AS
In connection with the sale of the rig SS "Petrolia" from Petrolia Rigs AS to PetroMENA Ltd. (cf. Section 5.7.2), equipment of NOK 37.6 million was sold to Petrolia Rigs AS in 2007 which resold the equipment to PetroMENA Ltd. The sales amount was based on external valuation.

PetroMENA and Petrojack
The Company owns 51.5 % of the shares in PetroMENA ASA and 39.95 % of the shares in Petrojack ASA. Both companies are under liquidation (cf. sections 5.7.5 and 5.7.6) and can therefore currently not be considered as parties related to the Company. The following is a list of transactions from the period before bankruptcy.

<u>Agreements between LOG Ltd and PetroMENA ASA:</u>

1. Management agreement entered into in 2005 comprising management and project supervision in the construction period for PetroRig I, II and III. An annual fee of USD 800,000 per rig was to be charged for this work. If more than 50 % of the rigs/holding companies were to be sold, LOG Ltd should receive 4 % of the sales amount. The agreement could be terminated subject to 12 months notice, but could not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligation to operate the rig when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, USD 1 million shall be paid for each of the rigs I and II for discharge of management. Following the opening of bankruptcy of PetroMENA ASA, Petrolia ASA is no longer updated on the status of this agreement.
2. Agreement for technical and operational management should cover tasks as marketing and technical operation under the construction period for Petrorig I, II and III and made USD 3 000 per day for rig I and USD 4 500 for rig II and III. After delivery LOG Ltd would be drilling company for operation of the rigs with a fee of USD 6 000 per day for rig I and USD 9 000 per day for rig II and III. Following the opening of bankruptcy of PetroMENA ASA, Petrolia ASA is no longer updated on the status of this agreement.
3. LOG Ltd has been drilling company for SS "Petrolia" since its purchase in 1997. The management fee has been USD 10,240 per day. The contract also included an incentive fee of USD 4 800 per day for each month without zero day-work rate from the drilling contract. A condition for the fee is that accumulated "zero day-work rate" is less than 72 hours per 3 month period and a possibility of bonus connected to the minimization of down time for the rig and general execution of the contract. LOG Ltd. has set up a local branch, LOG Mexico Branch, who is to support local matters for the operations. Following the opening of bankruptcy of PetroMENA ASA, Petrolia ASA is no longer updated on the status of this agreement.

<u>Agreement between LOG Pte and PetroMENA ASA:</u>
In May 2007, PetroMENA ASA entered into an agreement of project management and construction supervision between PetroRig I Pte Ltd. and PetroRig II Pte Ltd. on the one hand (both companies subsidiaries of PetroMENA ASA) and LOG Pte in Singapore on the other hand. For this work an

annual fee of USD 2.2 million per rig was to be paid. This fee was to be deducted from the fee USD 3 million to LOG Ltd. PetroRig III Pte Ltd. (another subsidiary of PetroMENA ASA) had entered into a corresponding agreement with LOG Pte in January 2007 with an annual fee of USD 2.2 million. The agreements could be terminated subject to 12 months' notice, but could not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligation to operate the rigs when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, USD 2 million per rig was to be paid for discharge of project management services. Following the opening of bankruptcy of PetroMENA ASA, Petrolia ASA is no longer updated on the status of this agreement.

Agreement between LOG FZCO and PetroRig III Pte Ltd:
In 2007 PetroRig III Pte Ltd entered into a business and management agreement with LOG FZCO involving an annual fee of USD 800,000. The fee was to cover project supervision services and market activities connected to Petrorig III. The agreement could be terminated subject to 12 months' notice, but could not be terminated when the rigs are executing a drilling contract, fulfilling an intention agreement for a drilling contract or other obligation to operate the rig when this takes place based on an offer from manager. In the case of termination without the approval of the manager and without reason before delivery, USD 1 million was to be paid for Petrorig III for discharge of management. If the rig or more than 50 % of the holding company was sold, LOG FZCO was to receive 4 % of the sales amount. Following the opening of bankruptcy of PetroMENA ASA, Petrolia ASA is no longer updated on the status of this agreement.

Agreement between Petrolia Services AS and PetroMENA ASA and Petrojack ASA:
In 2008, Petrolia Services AS bought drilling equipment from PetroMENA ASA. Cost price for the equipment was USD 26.3 million based on a price established by a third party evaluation. In 2008, Petrolia Services AS bought drilling equipment from Petrojack ASA. Cost price for the equipment was USD 11.5 million based on a price established by a third party evaluation.

Agreement between Petrolia Rigs AS and PetroMENA Ltd:
PetroMENA Ltd has been a wholly owned subsidiary of PetroMENA ASA. As further outlined in section 5.7.5, PetroMENA Ltd. purchased the SS "Petrolia" from Petrolia Rigs AS in October 2007 for USD 225 million. The purchase price was set following third party appraisals.

8. HISTORICAL FINANCIAL INFORMATION

You should read the following discussion of the financial condition and results of operations in conjunction with the financial statements included in this Prospectus. The following discussion contains forward-looking statements that are based on current assumptions and estimates by the Company's management regarding future events and circumstances. The Company's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of many factors, including those described in Section 2 "Risk factors"

8.1 ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as decided by the International Accounting Standards Board (IASB) and adopted by the European Union in accordance with the Norwegian Accounting Law. The IFRS principles have been applied consistently for 2008, 2009 and 2010.

The consolidated financial statements have been prepared under the historical cost convention with the following modification: Financial assets recognised at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed below. The accounting year follows the calendar year. The income statement is by nature.

Please see the Company's Annual Report for 2010 for information on the Company's significant accounting policies.

8.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards adopted by the Group in 2010.

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements have been changed with effect for 2010. These changes might have effect for future transaction for Petrolia, but in 2010 there have been no transactions that have been affected by the changes.

Other changes in accounting standards and interpretations with effect for 2010 are changes within IFRS 2 Share-based Payment, IFRIC 16 Hedges of a Net Investment in a Foreign Operation, IFRIC 17 Distribution of Non-Cash Assets to Owners and IFRIC 18 Transfers of Assets from Customer. None of these changes are relevant for Petrolia.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

IFRS 9 Financial Instruments IFRS 9 replaces the classification and measurement rules in IAS 39 Financial Instruments- Recognition and measurement for financial instruments. According to IFRS 9 financial assets with basic loan features shall be measured at amortised cost, unless one opts to measure these assets at fair value. All other financial assets shall be measured at fair value. The classification and measurement of financial liabilities under IFRS 9 is a continuation from IAS 39, with the exception of financial liabilities designated at fair value through profit or loss (Fair value option), where change in fair value relating to own credit risk shall be separated and shall be presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, but the standard is not yet approved by the EU. The Group expects to apply IFRS 9 as of 1 January 2013.

IAS 24 (revised) Related Party Disclosures. The revised IAS 24 clarifies and simplifies the definition of a related party, compared to the current IAS 24. IAS 24 (R) is effective for annual periods beginning on or after 1 January 2011. The Group expects to implement IAS 24 (R) as of 1 January 2011.

Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues The amendment to IAS 32 Financial Instruments - Presentation provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Application of the amendment is retrospective and will result in the reversal of profits or losses previously recognized. The amendment is effective for annual periods beginning on or after 1 February 2010. The Group expects to implement the amendments as of 1 January 2011.

Other
Petrolia assess that other issued changes in IFRSs and IFRICs will not be relevant for Petrolia. These are changes within IFRS 7 Financial Instruments - Disclosures, Amendments to IAS 12 Income Taxes, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments and changes from the annual improvements project 2010.

Cf. the Company’s Annual Report for 2010, page 15.

8.3 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

Items included in the financial statements of each of the group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in USD, which is the Company’s functional and the Group’s presentation currency.

8.4 HISTORICAL FINANCIAL INFORMATION

The following tables present data extracted from selected financial information for the Company as of and for each of the three accounting years ended 31 December 2008, 2009 and 2010 as well as the unaudited interim financial information for the three months ended 31 March 2011 and 31 March 2010. The financial statements have been prepared in accordance with IFRS as adopted by EU and the Norwegian Accounting Act.

The tables should be read in conjunction with the financial statements as attached in this Prospectus, see Appendices 2, 3 and 4.

The historical financial information for 2008, 2009 and 2010 has been audited. The annual reports include notes and auditor opinions. For Auditors Report for 2010 see the Annual Report page 59, Annual Report 2009 see page 77 and Auditors Report for 2008 see page 65. The audit reports have been unqualified for all three years. The interim quarterly reports for Q1 2011 and Q1 2010 have not been audited.

8.4.1 Consolidated income statement

Below are the condensed consolidated income statements for the Company for the accounting years 2010, 2009 and 2008 as well as the unaudited consolidated income statement for the three months ended 31March 2011 and 31 March 2010.

Summary of Historical consolidated income statement

(USD 1000)	Q1 2011 *Unaudited*	Q1 2010 *Unaudited*	2010 *Audited*	2009 Audited	2008 *Audited*
Revenue	**20 668**	**17 087**	**75 541**	**70 746**	**81 831**
Operating expenses	12 460	11 594	109 575	46 123	53 539
Operation profit before depreciation	**8 208**	**5 493**	**-34 034**	**24 623**	**28 292**
Depreciation	9 749	11 201	42 081	40 371	29 197
Impairment of fixed assets	4 115	0	4 796	8 468	0
Operating result*	**-5 656**	**-5 708**	**-80 911**	**-24 307**	**-905**
Result from investment in joint venture**	10 106	9 522	16 089	30 954	28 451
Result from associated companies**	-1	256	-10 946	304	-113 669
Net financial income/expenses (-)	-7 967	-6 210	-11 568	-12 869	-24 327
Result before income taxes	**-3 518**	**-2 140**	**-87 336**	**-5 919**	**-110 451**
Tax on result	-21 379	68	0	4 653	641
Result from the period from continuing operations	**17 861**	**-2 208**	**-87 336**	**-10 572**	**-111 091**
Discontinued operations					
Profit for the year from discontinued operations***	0	0	0	118 413	-395 278
Result for the period	**17 861**	**-87 336**	**-87 336**	**107 841**	**-506 370**
Attributable to:					
Shareholders	17 877	-2 208	-87 605	148 460	-327 044
Minority interests	-16	0	269	-40 619	-179 326
Consolidated statement of comprehensive income:					
Result for the period	**17 861**	**-2 208**	**-87 336**	**107 841**	**-506 370**
Other comprehensive income:					
Currency translation differences	**-798**	**158**	**3 545**	12 545	-12 115
Total comprehensive income for the year	**17 063**	**-2 050**	**-83 791**	**120 386**	**-518 485**
Attributable to:					
Owners of the parent	17 063	-2 050	84,141	160 949	-339 137
Minority interests	0	0	350	-40 563	-179 348
Total comprehensive income for the year	**17 063**	**-2 050**	**-83 791**	**120 386**	**-518 485**

**Revenues and items down to and including Operating results are from the Oilfield Services segment*
***Includes Drilling & Well (Venture Drilling AS and Petrojack ASA) with exception of 2008 which also included USD 3 million in impairment of Petroresources (Oil & Gas).*
**** PetroMENA ASA was deconsolidated in 2009 and presented as discontinued operations in the financial statements for 2009. Amounts for 2008 were also changed to be comparable.*

Total revenue in Q1 2011 was USD 20.7 million compared to USD 17.1 million in Q1 2010. Operating profit before depreciation was USD 8.2 million in Q1 2011 compared to USD 5.5 million in Q1 2010. Total operating expenses was USD 12.5 million in Q1 2011 compared to USD 11.6 million in Q1 2010. Result from Joint Venture was USD 10.1 million in Q1 2011 compared to USD 9.5 million in Q1 2010. Result for the period was USD 17.9 million in Q1 2011 compared to USD -2.2 million in Q1 2010. Tax assets of USD 21.4 million, which was not recognised as assets per 31 December 2010, has been recognised as assets in Q1 and resulted in tax revenues of USD 21.4 million.

Total revenue in 2010 was USD 75.5 million compared to total revenue of USD 70.7 million in 2009 and total revenue was USD 81.8 million in 2008. Operating loss before depreciation in 2010 was USD 34.0 million compared to profit of USD 24.6 million in 2009 and USD 28.3 million in 2008.

Total operating expenses was USD 109.6 million in 2010 compared to USD 46.1 in 2009 and USD 53.5 million in 2008. The increase in total expenses from 2009 to 2010 is primarily caused by impairment of receivables of USD 30.0 million and impairment of goodwill of USD 20.4 million. The increase in total expenses from 2009 to 2010 resulted in an increase in the operating loss in 2010, which was USD 80.9 million including USD 42.1 million in depreciation of equipment. Operating loss in 2009 equalled USD 24.3 million, including USD 40.4 million in depreciations. Operating loss in 2008 was USD 0.9 million, including USD 29.2 in depreciations.

Result from investment in joint venture (Venture Drilling AS) was USD 16.1 in 2010 compared to USD 31.0 million in 2009 and USD 28.5 million in 2008. This was significantly lower than previous years since the vessel has been off-hire since May 2010.

Result from associated companies was USD -10.9 million in 2010, primarily related to dilution effect and impairment of the shares in Deepwater Driller Ltd. In 2009 the result from associated companies was USD 0.3 million, Behind this number was reversed impairments of the shares in Deepwater Driller Ltd of USD 11.3 million and losses connected to shares in Petrojack ASA of USD 10.9 million. In 2008 the result from associated companies was USD -113.7 million of which USD – 21 million came from the shares in Deepwater Driller Ltd, USD – 89.6 million came from the shares in Petrojack ASA and USD - 3.1 million from the shares in Petroresources Ltd.

Net finance in 2010 was USD 11.6 million compared to USD 12.9 million in 2009 and USD 24.3 million in 2008. The reduction from 2008 to 2009 came after a reduction in bond loans.

Net result was loss of USD 87.3 million in 2010 compared to profit of USD 107.8 million in 2009 and loss of USD 506.4 million in 2008. The profit in 2009 is a result of deconsolidating PetroMENA ASA and must be seen in connection with the large losses in 2008.

8.4.2 Consolidated balance sheet

Below are the condensed consolidated balance sheet for the Company for the accounting years 2010, 2009 and 2008 as well as the unaudited consolidated income statement for the three months ended 31March 2011.

Summary of Consolidated Balance sheet

(USD 1000)	**Q1 2011** *Unaudited*	**2010** *Audited*	**2009** *Audited*	**2008** *Audited*
Assets				
Non-current assets				
Intangible assets	0	0	20 395	17 344
Deferred income tax assets			0	3 694
Drilling units			0	28 262
Construction contracts Semi-Rigs			0	541 118
Drilling equipment and other equipment	82 993	86 761	121 969	119 509
Land and buildings	2 135	2 245	2 305	2 705
Investments in joint venture	0	65 658	86 955	76 827
Investments in associated companies	3 281	2 674	41 060	34 756
Non-current assets held for sale	0	34 500	0	0
Other financial fixed assets	1000	6	450	0
Total non-current assets	**89 409**	**191 844**	**273 133**	**824 213**
Current assets				
Inventory		1 121	1 478	327
Trade-and other current receivables	1 955	22 949	42 288	73 795
Other debtors	46 521			
Financial assets at fair value through profit and loss		0	620	871
Other liquid assets	3 011			
Investment in money market fund	15	16	15	83
Bank deposits	153 838	45 749	49 616	127 812
Total current assets	**205 340**	**69 835**	**94 017**	**202 888**
Total assets	**294 749**	**261 679**	**367 150**	**1 027 102**
Equity and liabilities				
Equity				
Share capital	749	93 568	93 568	93 568
Own shares	-4	-2 153	-2 153	-2 153
Share premium fund	45 232	45 232	95 352	123 119
Other equity	63 496	-44 253	-10 232	-198 948
Majority interests	**109 473**	**92 394**	**176 536**	**15 587**
Minority interests	**2 838**	**2 854**	**2 504**	**43 067**
Total equity	**112 311**	**95 248**	**179 040**	**58 654**
Liabilities				
Non-current liabilities				
Bond loans	72 549	68 391	85 143	418 400
Pension liability	286	307	562	433
Other non-current liabilities	12 022	15 582	25 992	27 282
Total non-current liabilities	**84 857**	**84 280**	**111 697**	**446 115**
Current liabilities				
Short term portion of non-current liabilities	28 954	27 915	11 106	438 261
Trade payables	15 964	16 545	11 958	22 964
Payable tax	11 884	-293	120	173
Other current liabilities	40 779	37 984	53 230	60 936
Total current liabilities	**97 581**	**82 151**	**76 413**	**522 334**
Total liabilities	**182 438**	**166 431**	**188 111**	**968 448**
TOTL EQUITY AND LIABILITIES	**294 749**	**261 679**	**367 150**	**1 027 102**

As of 31 March 2011 total assets amounted to USD 294.7 million. As of 31 December 2010, total assets amounted to USD 261.7 million compared to USD 367.2 million in 2009 and USD 1 027.1 million in 2008. The significant reduction from 2008 to 2009 is primarily related to the bankruptcies of PetroMENA ASA and Petrojack ASA. Investment in drilling equipment had a book value of USD 86.8 million in 2010 compared to USD 122.0 million in 2009 and USD 119.6 million in 2008.

Investment in joint venture had a book value of USD 65.7 million compared to USD 87.0 million in 2009 and USD 76.8 million in 2008.

As per 31 March 2011, net interest bearing bond loans amounted to USD 90.7 million (of which USD 18.1 million was recognised as short term liability). The change from 31 December 2010 is due to changed exchange rate. As per 31 December 2010, net interest bearing bond loans amounted to USD 85.5 million (of which USD 17.1 million was recognised as short term liability) compared to USD 85.1 million in 2009 and USD 834.2 million (of which USD 415.8 million was recognised as short term liability) in 2008 The reduction from 2008 to 2009 was due to the bankruptcy of PetroMENA ASA. In addition there is a financial leasing facility for rental equipment in the amount of USD 22.8 million, compared to USD 26.4 million as of 31 December 2010, USD 36.8 million as of 31 December 2009 and USD 30.4 million per 31 December 2008.

Total equity was USD 112.3 million as of 31 March 2011, including a minority interest of USD 2.8 million. Total equity equalled USD 95.2 million as per 31 December 2010, including a minority interest of USD 2.9 million. Year end 2009, the total equity equalled USD 179.0 million, including a minority interest of USD 2.5 million. Year end 2008, the total equity was 58.7 million, including a minority interest of USD 43.1 million. The reduction from 2009 to 2010 is due to the loss in 2010. The increase of total equity and decrease of minority interests from 2008 to 2009 is primarily due to deconsolidation of PetroMENA ASA.

Book value of equity per shares was USD 1.11 per 31 March 2011. Book value of equity per share equalled USD 0.94 as per 31 December 2010, including minority interest of USD 0.03 per share. Book equity per share equalled USD 1.77 per year end 2009, including a minority interest of USD 0.02 per share. Book equity per share was USD 0.58 per year end 2008, including a minority interest of USD 0.43.

As of 30 June 2010, a reverse split of the shares in Petrolia ASA was completed so that 10 shares were combined to 1 share. Booked equity per share as of 31 December 2009 and 2008 have been changed to be comparable to the 31 December 2010 figures. On 17 December 2010 an extraordinary general meeting resolved to change par value from NOK 5.00 to NOK 0.04 per share. The reduction was used to increase other equity. The capital reduction was recorded at Brønnøysund Register Centre on the 5th of March 2011.

Included in Bank deposits and in Other current liabilities is USD 21.2 million regarding the deposit held by Petrolia Rigs AS on behalf of PetroMENA Ltd., cf. Section 5.7.5 guarantee to Pemex regarding SS Petrolia. Once the guarantee is terminated, this cash will be released in favour of PetroMENA Ltd (Cyprus). Also included in Bank deposits is USD 8.3 million on a bond loan interest security account.

8.4.3 Consolidated Cash flow statements

Below is the consolidated cash flow statement for Petrolia ASA for the accounting years 2010, 2009 and 2008 as well as the unaudited consolidated cash flow statement for the three months ended 31March 2011 and 31 March 2010

(USD 1000)	**Q1 2011** Unaudited	**Q1 2010** Unaudited	**2010** Audited	**2009** Audited	**2008** Audited
Cash flow from operating activities					
Result before taxes			-87 336	107 841	-505 729
Prepaid taxes in period			0	-53	842
Gain from sale of equipment				0	-2 934
Loss/gain from sale of current assets				0	-70
Profit from discontinued operations			0	-118 413	0
Depreciation			42 081	40 371	31 961
Impairment of drilling equipment			4 796	8 468	0
Impairment of rigs				0	502 059
Impairment of goodwill			20 395	0	
Change in net pension liability			-255	129	58
Change in inventory			357	-1 151	-327
Change in trade receivables			19 339	1 187	-10 990
Change in trade payables			4 587	-11 006	7 885
Accruals and items classified as financing/investment			0	0	41 554
Result from investment in joint venture			-16 089	-30 954	-28 451
Result from investment in associated companies			10 946	-304	113 669
Dividend from joint venture			0	0	12 424
Unrealised foreign currency loss/ gain			-2 205	12 720	-130 310
Cash flow discontinued operations			0	955	0
Net cash generated from operating activities	**-3 024**	**1 070**	**-3 384**	**9 790**	**31 641**
Cash flow from investing activities					
Proceeds from sale of property, plant and equipment			323	0	4 610
Purchase of operating equipment			-13 456	-15 933	-357 214
Dividend and capital reduction from Venture Drilling AS			40 272	20 826	0
Cash flow from acquisition				0	4 239
Proceeds from sale of shares and investments in operating companies				0	-283
Investment in shares in associated companies			-7 050	-6 000	-47 999
Investment in shares in other companies				0	-8 702
Proceeds from sale of liquid reserves				68	18
Purchase of liquid reserves				0	0
Cash flow from discontinued operations			0	-21 780	0
Net cash used in investing activities	**116 151**	**-2 407**	**20 089**	**-22 819**	**-405 331**
Cash flow from financing activities					
Proceeds from bond loan			0	1 635	94 609
Proceeds from short-term loan				0	6 070
Repayment of long-term loans				0	-139 898
Leasing installments			-10 628	-11 803	
Interest paid on bond loans			-9 944	-9 820	-48 731
Purchase of own shares/issue costs				0	-690
Payment of debt financing costs				0	-5 238
Increased capital through subsidiaries (minority)				0	23 049
Repayment of long-term/short term borrowings			0	-450	-33 754
Cash flow from discontinued operations			0	-46 358	0
Net cash used in financing activities	**-5 038**	**-1 553**	**-20 575**	**-66 796**	**-104 582**
Net cash flow of the period	108 089	-2 860	-3 867	-79 825	-478 273
Cash and cash equivalents at the beginning of the period	45 749	49 616	49 616	127 813	612 275
Exchange gains (loss) of cash and cash equivalents		-118		1 628	-6 190
Cash balance at December 31	**153 838**	**46 608**	**45 749**	**49 616**	**127 812**
Specification of cash equivalents at period end					
Bank deposits	153 838	46 608	45 749	49 616	127 812
Whereof restricted bank accounts are	35 809	35 095	29 696	35 409	97 769

Cash flow from operations was USD -3.0 million in Q1 2011 compared to USD 1.1 million in Q1 2010. Cash flow from investments in Q1 2011 was USD 116.2 million compared to USD -2.4 million in Q1 2010. Cash flow from financing activities in Q1 2011 was USD -5.0 million compared to USD -1.6 million in Q1 2010.

Cash flow from operations equalled USD -3.4 million in 2010, compared to USD 9.8 million in 2009 and USD 31.6 million in 2008. Cash flow from investments in 2010 was USD 20.1 compared to USD -22.8 million in 2009 and USD -405.3 million in 2008.

Cash flow from financing activities in 2010 was USD – 20.6 million, compared to USD -66.8 million in 2009 and USD -104.6 million in 2008. Cf. Section 8.10 of this Prospectus for a more detailed description of the cash flows and the changes from year to year.

Cash position as of 31 December 2010 was USD 45.7 million compared to USD 49.6 million in 2009 and USD 127.8 million in 2008.

Of the cash, USD 8.3 million is security for Bond Loan interests and USD 21.2 million is tied to the SS "Petrolia" performance bond held on behalf of the estate of PetroMENA ASA by Petrolia Rigs AS. The performance bond is expected to be released in favour of the PetroMENA ASA estate in 2011.

PetroMENA ASA was deconsolidated in 2009 and presented as discontinued operations in the financial statements for 2009. The cash flow from 2009 has not been recalculated and thus includes PetroMENA's cash flows and cash deposits.

8.4.4 Cash flow from discontinued operation

The following table shows the cash flows from discontinued operation PetroMENA

	Q1 2011 *Unaudited*	**Q1 2010** *Unaudited*	**2010** *Audited*	**2009** *Audited*	**2008** *Audited*
Operating cash flow	0	0	0	955	759
Investing cash flow	0	0	0	-21 780	-322 471
Financing cash flow	0	0	0	-46 358	-7 766
Total cash flow	**0**	**0**	**0**	**-67 183**	**-313 946**

8.5 CHANGES IN EQUITY

Below is an overview of the Company’s consolidated statement of changes in equity for the past three years and as per 31 March 2011.

(1000 USD)	**Share capital**	**Own shares**	**Share premium fund**	**Other reserves**	**Uncovered loss**	**Minority Interests**	**Total equity**
1 January 2008	**93 568**	**-1 464**	**283 552**	**-7 524**	**-16 084**	**2 020 146**	**554 195**
Profit or loss			-160 434		-166 610	-179 326	-506 370
Currency translation differences				-12 093		-22	-12 115
Total comprehensive income			**-160 434**	**-12 093**	**-166 610**	**-179 348**	**-518 485**
Capital increase in subsidiary						23 049	23 049
Issue expenses in subsidiary				-688		-648	-1 336
Remeasurement of shares in subsidiary				4 053		-2 132	1 921
Purchase of own shares		-690					-690
Total transactions with owners		**-690**		**3 365**		**20 269**	
1 January 2009	**93 568**	**-2 153**	**123 119**	**-186 855**	**-12 093**	**43 067**	**58 654**
Profit or loss			**-27 767**	**176 227**		**-40 619**	**107 841**
Currency translation differences					**12 489**	**56**	**12 545**
Total comprehensive income			**-27 767**	**176 227**	**12 489**	**-40 563**	**120 386**
1 January 2010	**93 568**	**-2 153**	**95 352**	**-10 262**	**396**	**2 504**	**179 040**
Comprehensive income							
Profit or loss			-50 120	-37 566		350	-87 336
Currency translation differences					3 545		3 545
Total comprehensive income			**-50 120**	**-37 566**	**3 545**	**350**	**-83 791**
Equity 31 December 2010	**93 568**	**-2 153**	**45 232**	**-48 192**	**3 941**	**2 854**	**95 248**
Comprehensive income							
Profit or loss				17 877		-16	17 861
Currency translation differences				-798			-798
Reduced par value from NOK 5.00 to NOK 0.04	-92 819	2 149		90 670			0
Total comprehensive income	**-92 819**	**2 149**	**0**	**107 749**	**0**	**-16**	**17 063**
Equity 31 March 2011	**749**	**-4**	**45 232**	**59 555**	**3 941**	**2 838**	**112 311**

Per 31 December 2008, 2009 and 2010 the Company owned 525 003 own shares. There has been no change to this as of Prospectus date.

8.6 SIGNIFICANT CHANGES IN THE GROUP’S FINANCIAL OR TRADING POSITION

On 20 June 2011 an instalment of NOK 100 and NOK 30 million in interest was paid to the bondholders in accordance with the payment schedule of the loan agreement. An additional NOK 25.5 million was repaid on 23 June 2011 after the Company offered to purchase own bonds at 85% of par value.

No other significant changes in the financial or trading position of the Group have ocurred since the last published interim financial information was published.

8.7 SEGMENT INFORMATION

The Group has historically had operations in two segments: oilfield services and drilling & well. In December 2010 the Company’s business objective in the Articles of Incorporation was changed to add oil & gas as a new segment. In the 2008, 2009 and 2010 accounts the reported operations were only in the oilfield services segment after PetroMENA ASA was reported as discontinued operations.

The oilfield services segment had revenues of USD 76 million in 2010, USD 71 million in 2009 and 82 million in 2008. Operating loss was USD 81 million in 2010, USD 24 million in 2009 and USD 1 million in 2008. Loss was USD 92 million in 2010, USD 42 million in 2009 and USD 26 million in 2008.

The drilling & well segment had no revenues in 2010, compared to USD 84 million in 2009 and USD 74 million in 2008. Operating result was USD 0 in 2010, USD 1 million in 2009 and USD -501 million in 2008. Revenues and operating result comes only from PetroMENA in 2009 and 2008.

Result from PetroMENA ASA, Venture Drilling AS, Deepwater Driller Ltd and Petrojack ASA combined was USD 5 million in 2010, USD 150 million in 2009 and USD -477 million in 2008.

The oil & gas segment (Petroresources Ltd) had no revenues and no operating result for 2008-2010. Result was 0 in 2010 and 2009, whereas in 2008 there was a loss of USD 3 million due to impairment of shares.

8.8 KEY FINANCIAL FIGURES

	Q1 2011	2010	2009	2008
Operating revenues (USD million)	20.7	75.5	70.7	81.8
Earnings before Interest, Taxes, Depreciation and Amortization (USD million)	4.1	-38.8	16.1	28.3
Net income (USD million)	17.9	-87.3	107.8	-506.4
Book equity (end of period) (USD million)	112.3	95.2	179.0	58.7
Earnings per share (adjusted for split)	0.18	-0.86	1.06	-5.00
Book equity per share (end of period) (adjusted for split)	1.11	0.94	1.77	0.58
Equity ratio (%) end of period	38%	36%	49%	6%
Annualized return on equity (%)	16%	-92%	60%	-863%
Number of employees	246	236	211	218
Dividend per share	0	0	0	0

Definitions of financial key figures:
Book equity per share: *Book equity / Number of shares*
Earnings per share: *Profit/loss of the year / Number of shares*
Equity ratio: *Book equity at period end / Total assets at period end*
Annualised return on equity: *Profit after taxes / Book equity at end of period*

8.9 COMPARISON FOR THE ACCOUNTING YEARS ENDED 31 DECEMBER 2008, 2009 AND 2010 AS WELL AS THE 3 MONTHS ENDED 31 MARCH 2011.

8.9.1 Development in 1Q 2011

P&L Accounts

In Q1 2011 consolidated operations were only in the oilfield services and operating loss was on similar levels as in the previous year. Tax assets of USD 21.4 million which were not recognised as assets as of 31 December 2010, has been recognised as assets in Q1 and resulted in tax revenues of USD 21.4 million.

Revenues increased from USD 17.1 in Q1 2010 to USD 20.7 million in Q1 2011.

Capital

Following capital changes have taken place in Q1 2011:

> 17 December 2010, par value reduced from NOK 5.00 to NOK 0.04. Effect = NOK 502,247,988 moved from Share Capital to Other equity. This change is effective from 5 March 2011 when it was recorded at the Brønnøysund Register Centre.

8.9.2 Development in 2010

P&L Accounts

In 2010 consolidated operations were only in the oilfield services segment following the bankruptcy of PetroMENA ASA. The operating result was dominated by an impairment of trade receivables of USD 30 million and an impairment of goodwill of USD 20 million.

The result from joint ventures (Venture Drilling AS) was lower than previous years since the vessel has been off-hire since April after an early termination of the last contract. Due to uncertainty regarding the validity of the bareboat charter it proved impossible to obtain a new contract. Also the result from associated companies (Deepwater Driller Ltd) was lower than the previous year due to impairments.

Revenues increased in 2010 from USD 70.7 million to USD 75.5 million.

Capital
Following capital changes have taken place in 2010:

- 28th June 2010, 5 new shares issued at NOK 0.50, total NOK 2.50 (to make number of shares a factor of 10). Effect = NOK 2.50 increase of capital.
- 28th June 2010, reverse split whereby 10 old shares at NOK 0.50 are replaced by 1 new share at NOK 5.00. Effect = none
- 17th December 2010, par value reduced from NOK 5.00 to NOK 0.04. Effect = NOK 502,247,988 moved from Share Capital to Other equity. This change is effective from the 5th of March 2011 when it was recorded at the Brønnøysund Register Centre.

8.9.3 Development in 2009

P&L Accounts
In 2009 consolidated operations were only in the oilfield services segment since PetroMENA ASA was reported as discontinued operations. Revenues fell from USD 81.8 to USD 70.7 million. The operating result was lower than the previous year due to reduced revenues, increased depreciations and impairment of equipment.

Result from Joint Venture was a little better than the previous year.

Result from Associated Companies was significantly improved from previous year primarily related to impairments. Previous year impairments were – USD 88 million, in 2009 impairments were + USD 45 million. Petrojack ASA was included in both years.

Capital
There were no capital changes in 2009.

8.9.4 Development in 2008

Also for 2008 consolidated operations were only in the oilfield services segment. Operating result was significantly lower than previous year, but in 2007 it included operations of SS "Petrolia".

Capital
In 2008 there was a capital increase in PetroMENA ASA and consequently there was an increase in the minority interests of the equity.

8.10 DESCRIPTION OF THE CASH FLOW

(USD 100)	**Q1 2011**	**2010**	**2009**	**2008**
Operating activities	-3 024	-3 384	9 790	31 641
Investing activities	116 151	20 089	-22 819	-405 331
Financing activities	-5 038	-20 572	-66 796	-104 582

The cash flow in Q1 2011 is dominated by investing activities, primarily the sale of the shares in Deepwater Driller Ltd and the effect of purchasing the remaining 50% of the shares of Venture Drilling AS. The investment activities include several large transactions in Q1 2011. Net effect from Venture Drilling AS transactions is USD 86.8 million and include received dividend of USD 31 million, share purchase of USD -34 million and consolidating cash of USD 89.8 million into the group accounts. All shares in Deepwater Driller Ltd have been sold and USD 34.5 million has been received. Other investment activities in Q1 2011 are: equipment investments of USD 2.5 million, receipts from equipment sales of USD 2.0 million, investment in associates of USD 0.6 million and investment in other shares of USD 4.0 million. Free cash as of 31 March 2011 was USD 118.0 million compared to USD 16.1 million in as of 31 March 2010.

In 2010 the net cash from operating activities suffered from reduced payments from customers and repayments of current liabilities. Net cash from investing activities consisted in equipment purchases of USD 13 million, investment in Deepwater Driller Ltd of USD 7 million and capital repayment and dividends from Venture Drilling AS of USD 40 million. There was no lease or goodwill connected to these investments. Net cash from financing activities consisted of USD 10 million in interests, primarily to the Bond Loan, and USD 11 million in leasing.

In 2009 the net cash from investing activities consisted of equipment purchases of USD 16 million, USD 6 million was invested in Deepwater Driller Ltd, USD 21 million was received in dividends from Venture Drilling AS and discontinued operations invested for USD 22 million. There was no goodwill connected to these investments. Net financing activities consisted of USD 10 million in interests, primarily to the Bond Loan, USD 12 million in leasing and discontinued operations had financing activities of USD – 46 million.

In 2008 discontinued operations were not separately reported. Net cash from operating activities thus included the "SS Petrolia". Net cash from investing activities included USD 73 million in drilling equipment (of which USD 25 million was leased), USD 309 million in rigs under construction (of which USD 63 million was interest, USD 42 million in Deepwater Driller Ltd and USD 6 million in Petroresources Ltd. There was no goodwill connected to these investments. Net cash from financing activities consisted of USD 49 million in interests, primarily to bond loans, issuing a new bond loan gave USD 95 million and loans of USD 140 million were repaid. Cf. Section 8.4.3.

8.11 CAPITALIZATION AND INDEBTEDNESS

The table below gives an overview of the Company's capitalization and indebtedness as per 31 March 2011, as well as adjusted numbers close to the date of the Prospectus. Please note that in Q1 2011 the Bond Loan had a non-current part of NOK 400 million (USD 72.5 million) and a current part of NOK 100 million (USD 18.1 million). At the time of the Prospectus the NOK 100 million has been repaid and the remaining balance is now also current. Additionally, an extraordinary repayment of NOK 25.5 million (USD 4.5 million) has also been done after Q1 2011.

(USD 1,000)	31 March 2011	Change	Adjusted (23 June 2011)	Note
Total current debt	**97 581**	**33 017**	**130 598**	
Guaranteed	0	0	0	
Secured	10 817	0	10 817	1
Unguaranteed/unsecured	86 764	33 017	119 781	2 & 6
Total Non-current debt (excluding current portion of long term debt)	**84 857**	**-72 549**	**12 308**	
Guaranteed	0	0	0	
Secured	12 022	0	12 022	1
Unguaranteed/ unsecured	72 835	-72 549	286	3
Shareholder's equity	**112 311**	**0**	**112 311**	
a Share Capital	749	0	749	
b Legal reserves	45 232	0	45 232	
c Other reserves	66 330	0	66 330	
Total	**294 749**	**-39 532**	**255 217**	**5**
Financial assets and indebtedness				
A. Cash	118 029	-50 528	67 501	5
B. Cash equivalents (detail)	0	0	0	
C. Trading securities	3 011	0	3 011	
D. Liquidity (A+B+C)	**121 040**	**-50 528**	**70 512**	
E. Current financial receivables	**0**	**0**	**0**	
F. Current bank debt	0	0	0	
G. Current portion of non-current debt	28 954	50 314	79 268	4 & 6
H. Other current financial debt				
I. Current financial debt (F+G+H)	**28 954**	**50 314**	**79 268**	
J. Net current financial indebtedness (I-E-D)	**-92 086**	**100 842**	**8 756**	
K. Non-current bank loans	0	0	0	
L. Bond issues	72 549	-72 549	0	3 & 6
M. Other non-current loans	12 022	0	12 022	1
N. Non-current financial debt (K+L+M)	**84 571**	**-72 549**	**12 022**	
O. Net financial indebtedness (J+N)	**-7 515**	**28 293**	**20 778**	

The table above regards to Total current and total non current debt and shareholders equity reconciles directly against the balance sheet. The rest of the table does not due to the fact that only financial indebtedness is included. Petrolia only has the bond loan and leasing as financial indebtedness Other liabilities such as accounts payable, payable tax, other current liabilities are thus not included in the table above.

Notes (primarily commenting the Q1 amounts, but also the key adjustments made to make an estimate of situation at the time of the Prospectus)

1) Financial leasing is listed as a secured debt (since the leasing company is the legal owner of the equipment). The current part is USD 10.8 million and the non-current part is USD 12.0 million. Book value of the leased equipment is USD 28 million. The leasing company owns the equipment and Petrolia has provided a guarantee of maximum USD 65.50 million.

2) Unsecured current debt per 1Q 2011 include among other:

* USD 18.1 million (NOK 100 million) bond repayment)
USD 16.0 million trade payables
** USD 11.9 million payable taxes
USD 21.2 million to be released to Petromena Ltd once Pemex guarantee is terminated (ref also same amount in restricted cash)
* USD 2.7 million in accrued interests
USD 1.5 million in public duties (social security etc.)

* this has been paid in Q2 2011 and total became USD 24.1 compared to USD 20.8 per Q1 2011.
** of which USD 8.5 million has been paid in Q2 2011.
In addition, current debt at the time of the Prospectus has increased due to the reclassification of the Bond Loan. Total adjustment of current debt of USD 33 million thus consists of: + USD 68 (Bond Loan reclassified) – USD 35 (liabilities paid)

3) Non-current part of bond loan is USD 72.8 million (NOK 400 million) pr Q1 and zero at the time of the prospectus (since entire remaining balance now is current).
In Q2 2011 the Company purchased NOK 25.5 million own bonds.

4) Per Q1 2011 current portion of non-current debt is USD 18.1 million regarding the Bond Loan and USD 10.8 million regarding leasing. The current part of the Bond Loan (NOK 100 million / USD 18.1 million) was repaid in Q2 2011. At the time of the Prospectus, the entire balance of the Bond Loan (NOK 374.5 million / USD 68.4 million) is current since less than 12 months remain before it must be paid.

5) Only free cash is included, in addition there is restricted cash of USD 35.8 million.
The adjustment includes paid liabilities of USD 35.4 million, equipment investments of USD 3.7 million, shares in Petroresources Ltd USD 2.8 million, other shares USD 4.5 million and purchase of own bonds USD 4.1 million. Restricted cash consists of (i) USD 21.2 million regarding Pemex guarantee, (ii) USD 8.9 million regarding the Bond Loan, (ii) USD 5.2 million regarding asset sales and (iii) USD 0.2 million regarding with-held employee tax.

6) At the time of the Prospectus, the Bond Loan is in its entirety current debt.

Regarding the writs of summons cf. Section 12, there is a contingent liability of NOK 245 million in case the PetroMENA ASA estate wins their claim and there is a contingent liability of NOK 33 million in case the Petrojack ASA estate wins their claim.

There have not been material changes to the above information since 23 June 2011 and to the date of this Prospectus.

8.12 WORKING CAPITAL STATEMENT

As of date of this Prospectus, the Company is of the opinion that the working capital is not sufficient for the Group’s present requirement for the next twelve months.

Relative timing
The final repayment of the Bond Loan of NOK 374.5 million (excluding interest of NOK 22.5 million) is due on 20 June 2012, and there is significant risk that the working capital is insufficient to cover that repayment. Before this reimbursement the working capital is sufficient.

The disputes with the Petromena and Petrojack bankruptcy estates are still unresolved, cf. Section 12, and two separate court hearings are scheduled to be held in October 2011. There is no guarantee that out of court settlements will be reached, and verdicts in the first instance court, following the hearings in October, will then be expected towards year end 2011. Depending on the outcome, the Company and/or the opposing parties may decide to appeal the verdict(s) to the Appeal Court and further to the Supreme Court.

Shortfall
The approximate quantum of any working capital shortfall is challenging to disclose. The reason for this is that the outfall of the calculation is dependent on several uncertainties which are difficult, or impossible, for the Group to predict months ahead.

How much additional funding the Group will need within the next twelve months is though estimated to amount at a range up to USD 50 million. In the Company's best judgment the total shortfall is estimated to be USD 25-50 million (NOK 138-276 million based on an exchange rate of NOK 5.5 to USD 1)). This estimate is based on, and taking account for today's level of cash earnings from the oil services segment less some working capital from operations, estimated capital expenditure from the different segments kept relatively stable over the next months and added repayment of the Bond Loan. Within this calculation one has also the uncertainty in regards to the currency exchange rate, the USD versus NOK and the disputes with the estates. A continued depreciation of the dollar is negative and will reduce the Group's working capital and also result in loss relating to the outstanding Bond Loan, cf. Section 8.14. To reach a conclusion regarding the approximate quantum of shortfall one has simulated an exchange rate of NOK 5.5 to USD 1.

Action plan
The Group does currently not have any specific action plan except for the Rights Issue as described in this Prospectus (cf. in particular Section 4). Regarding the disputes with the bankruptcy estates, the Company's plan is to continue rejecting the claims, but at the same time continue to seek amicable settlements on terms acceptable for the Group.

As for the Rights Issue, the Company seeks to raise NOK 25,314,918.50, assuming full subscription. Expected date of settlement is 30 August 2011. The proceeds from the Rights Issue will be maintained as a cash reserve for general corporate purposes and working capital in the Company, and the Rights Issue is one step towards financing of the Group's obligations, including the expected shortfall in working capital as described above.

The Company is very confident that the Rights Issue will be successful. The outcome of the disputes with the estates, on the other hand, is more uncertain.

The above actions will not be sufficient to deal with the expected shortfall.

Actions under consideration
Other action than what is mentioned above, has to be effectuated within the next twelve months in order to meet the Group's obligations. So far, as at Prospectus date the following implements are just possible measures without firm proposals:

The Company may seek refinancing of the oilfield services division and at the same time be restrictive in approving new investments without extra financing, the Company may consider additional equity increases, strive to improve operating cash flow from oilfield services division though increased sales and cost efficiency, consider hedging the NOK exposure in case the USD appreciates as well as continuously analyze possibilities for equipment sale.

Implications
Failure to succeed with the above proposed action plan will not, in the Company's opinion, impact the Company's ability to meet any obligation expected to result from the disputes with the two bankruptcy estates. Such failure may, however, contribute to the Company defaulting the Bond Loan and in a worst case scenario the situation could escalate to a point where equity is lost and the Company would have to file for bankruptcy.

Implications linked to actions under consideration
Within the next twelve months the Company will consider implementing one or several of the above mentioned actions under consideration. There are no guarantees for success, however, as there are several elements of uncertainty which may cause a huge impact on the Group's achievements and results. Implications of such failure may severally impact the financial position of the Company and may lead to a default of the Bond Loan with a possible need for restructuring and/or ultimately bankruptcy.

A negative scenario would include continued depreciation of the USD, large negative cash flow from the oilfield services and no financing of investments resulting in need of large equipment sales. If such sales cannot be made in time or if significant discounts must be given, this could result in large losses and put the Company in default with its Bond Loan.

An appreciation of the USD combined with improved operating cash flow and high level of financing of investments would be a positive scenario significantly reducing the need of new long term financing. Still the Group would need new long term financing.

8.12.1 Key ratios

The table below sets forth some consolidated key ratios for the Group per 31 December for the three accounting years 2010, 2009 and 2008.

Key ratios as per 31 December	Q1 2011	2010	2009	2008
Working capital ratio[2]	210%	85%	123%	39%
Debt to equity ratio[3]..	50%	54%	41%	94%
Solidity[4]...	38%	36%	49%	6%

The Company finds debt to equity ratio of 50 % and the solidity of 38 % to be satisfactory.

8.13 FUNDING STRUCTURE AND RESTRICTIONS ON THE USE OF CAPITAL

The Company's liquidity of USD 67 million in free cash at the time of this Prospectus is satisfactory, however, new long term financing is required to re-finance the NOK 374.5 million repayment of the bond loan due in June 2012. The company does not have overdraft facilities or similar liquidity reserves.

The main objectives of the Group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satisfactory debt to equity ratio (50 % as per Q1 2011, as detailed in 8.12.1) the Group is supporting the current operations and maximizing the value of the group's shares accordingly. The Group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present-, short- and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital or issuing new shares.

Petrolia is primarily funded through the Bond Loan cf. Section 8.14 and equipment leases. The leases are entered into by subsidiaries under Petrolia Services AS in connection with the leasing of specific equipment.

[2] Current assets/current liabilities.
[3] Total interest bearing debt/total equity plus total interest bearing debt.
[4] Equity/total capital.

There are no restrictions on the use of capital other than those following from the Articles of Association and the terms and conditions of the Bond Loan, which also contains restrictions on dividend payments, cf. Section 8.14.

There are no restrictions on transfers from subsidiaries other than the Companies Act regulating dividends. Please refer to Section 10.1 for details.

The Company does not have overdraft facilities.

8.14 BORROWINGS – THE BOND LOAN

The Company has entered into a bond financing with Norsk Tillitsmann ASA, as trustee for the bondholders, through one bond loan agreement dated 13 June 2008 with ISIN number 001 044025.8 (the "Bond Loan"). Under the agreement, the Company has issued a series of bonds in the total amount of NOK 500 million. Each bond is in a denomination of NOK 500,000.

The credit facility was made available for (i) refinancing of an outstanding bond (ISIN NO 001 030199.7) at NOK 250 million and (ii) general corporate purposes, which may include investments in other companies/assets within the oil/offshore sector.

The disbursement date for the loan was 20 June 2008. The loan was repaid with a first instalment of NOK 100 million on 20 June 2011. On 23 June 2011, bonds representing NOK 25.5 million of the remaining loan was repurchased by the Company. The remaining NOK 374.5 million shall be repaid on 20 June 2012. The interest on the loan is a fixed rate of 12.0 % per annum. Interest payments are payable semi-annually in arrears on 20 June and 20 December each year. The loan is secured by a first priority pledge over a debt service reserve account, which at all times shall be in an amount sufficient to employ interest payment for the next nine months period of the loan.

Maturity profile of the Bond Loan:

(NOK million)	**20 December 2011**	**20 June 2012**
Principal		374.5
Interests	22.5	22.5
Sum	**22.5**	**397.0**

The debt service account has a balance of NOK 49 million at the date of the Prospectus, so interests after 20 June 2011 should not reduce free cash.

The loan includes call options customary for similar types of bond financings. Pursuant to the call option, the Company may, by giving the bondholders 30 days prior written notice, from 20 June 2010 to, but not included, 20 June 2011, redeem parts of the loan or the entire loan at 103.5 % of par plus accrued interest on redeemed amount, and from 20 June 2011 to 20 June 2012 redeem parts of the loan or the entire loan at 103.25 % of par plus accrued interest on redeemed amount.

The Bond Loan further includes a put option customary for similar types of bond financings. The bondholders may, following a change of control event (meaning that a shareholder or group of affiliated shareholders (pursuant to the Norwegian Securities Trading Act section 2-5), other than Mr. Berge G. Larsen and/or companies related to Mr. Berge G. Larsen, obtain ownership of more than 50 % of the Issuer), exercise the put option giving them right to repayment of the bonds at a price of 100 % of par plus accrued interest.

The Bond Loan includes provisions of event of default customary for similar types of bond financings. The covenant provisions of the bond agreement are similar to those found in comparable bond financings, hereunder shall the Issuer ensure that it maintains a ratio of a) the aggregate of the market value of its shares in listed and book value of its shares in non-listed companies together with its free cash, to b) the aggregate book value of its financial indebtedness, at 2,0x or higher.

According to the covenant provisions of the bond agreement, the Issuer may further not declare or make any dividend payment, reduction of share capital, repurchase of shares or other distributions to the shareholders exceeding (on a consolidated basis) 30 % of net profit after taxes based on the accounts for the previous calendar year.

A copy of the loan agreement can be obtained by contacting the Company, cf. contact details in Section 5.1.

8.15 INVESTMENTS

8.15.1 Historical investment

In 2011 the Group has invested in and sold equipment, invested in Petroresources Ltd as well as invested in Venture Drilling AS, bringing ownership from 50 % to 100 % for the latter. The Group sold Deepwater Driller Ltd and invested in listed shares. Details on these investments follow below.

USD 34 million was paid for the remaining 50 % of the shares in Venture Drilling AS and here USD 31 million was received in dividend from Venture Drilling AS. This transaction will not result in any goodwill.

Up to the date of the Prospectus, net cash from investing activities include equipment purchases of USD 3 million and the investment in Petroresources Ltd of USD 3 million, bringing ownership up to 43.78 %. Equipment for USD 9 million has been sold of which USD 7 million remains to be invoiced once agreed milestones are reached. Connected to this sale USD 2.2 million has been placed in escrow since the PetroMENA estate demanded this to hold the buyer harmless. The equipment sold was originally purchased from PetroMENA ASA.

The sale of Deepwater Driller Ltd amounted to USD 34.5 million of which USD 3 million was placed in escrow.

USD 4 million was invested in listed shares. In addition equipment of USD 8 million was purchased from COR, and the amount has been offset against the receivables on COR.

In 2010 the net cash from investing activities consisted in equipment purchases of USD 13 million, investment in Deepwater Driller Ltd of USD 7 million and capital repayment and dividends from Venture Drilling AS of USD 40 million.

In 2009 investing activities consisted of equipment purchases of USD 16 million, USD 6 million was invested in Deepwater Driller Ltd, USD 21 million was received in dividends from Venture Drilling AS and discontinued operations invested for USD 22 million.

In 2008 investing activities included USD 73 million in drilling equipment (of which USD 25 million was leased), USD 42 million in shares in Deepwater Driller Ltd. and USD 6 million in Petroresources Ltd. In addition, PetroMENA ASA invested USD 309 million in rigs under construction (of which USD 63 million was interest).

8.15.2 Ongoing commitments

The Group is in a process for the acquisition of 100 % of the shares in COR Singapore Pte Ltd and 30 % of the shares in COR Rentals Malaysia SDN. BHD. Purchase agreements have been signed, and formalities regarding i.a. local ownership and completion and registration of the transaction are still outstanding as per the day of this Prospectus.

As further detailed in Section 5.6.5, both acquisitions are made abroad (Singapore and Malaysia). The purchases are financed by drawing on available cash reserves (purchase price is USD 1 in both cases).

As per the date of this Prospectus, no other material investments are in progress.

8.15.3 Future commitments

The Company has no material future investments on which its management bodies have already made firm commitments.

8.16 STATUTORY AUDITORS

The Company's independent auditor since 17 December 2010 is Ernst & Young AS, Thormøhlens gate 53 D, P.O. Box 6163 Postterminalen, NO-5892 Bergen, Norway.

Prior to that, PricewaterhouseCoopers DA, Pb 3984 – Dreggen, 5835 Bergen, Norway had been the Company's auditor since the incorporation in 1997.

PricewaterhouseCoopers DA has audited the historical financial information for the years 2008 and 2009 which is included herein and Ernst & Young has audited 2010. The reason for the change of auditor is that following the bankruptcies of PetroMENA ASA and Petrojack ASA (cf. Sections 5.7.5 and 5.7.6), which had been audited by PricewaterhouseCoopers until the time of the bankruptcies, PricewaterhouseCoopers was no longer was auditing a material part of the companies in the Group. Therefore Ernst & Young, which had been auditing a number of the most important oilfield services subsidiaries, was elected new auditor.

The Statutory auditors mentioned above are members of the Norwegian Institute of Public Accounts.

9. SHARES CAPITAL AND SHAREHOLDER INFORMATION

9.1 GENERAL

The issued share capital of the Company is NOK 4,050,387 comprising of 101,259,675 Shares fully paid with a par value of NOK 0.04 and issued in accordance with Norwegian law. The Shares are registered in the VPS register with ISIN NO NO0003075301.

The Shares are equal in all respects, and each Share carry one vote at the Company' general meeting.

9.2 MARKET WHERE THE SHARES ARE BEING TRADED

The Shares are listed on Oslo Stock Exchange, and the New Shares will be listed as well once the Offering is completed.

9.3 SHARE CAPITAL DEVELOPMENT

Below is a table that sets forth the development of the Company's share capital for the past three accounting years and up to the date of the Prospectus.

Historical development in share capital and number of Shares

Year	Type of change in share capital	Change in issued share capital (NOK)	Change in number of shares	Par value per Share (NOK)	Total issued share capital (NOK)	Total number of issued Shares following change
1.2007	Status per 1.1.2007			0.50	424,695,999	849,391,998
2.2007	Private placement	81,602,373.50	163,204,747	0.50	506,298,372.50	1,012,596,745
2.2007	Status per 31.12.2007			0.50	506,298,372.50	1,012,596,745
1.2008	Status per 1.1.2008			0.50	506,298,372.50	1,012,596,745
12.2008	Status per 31.12.2008			0.50	506,298,372.50	1,012,596,745
1.2009	Status per 1.1.2009			0.50	506,298,372.50	1,012,596,745
12.2009	Status per 31.12.2009			0.50	506,298,372.50	1,012,596,745
1.2010	Status per 1.1.2010			0.50	506,298,372.50	1,012,596,745
6.2010	Capital increase[5]	2.50	5	0.50	506,298,375.00	1,012,596,750
6.2010	Reverse split	-	-911,337,075	5	506,298,375.00	101,259,675
12.2010	Capital reduction by reduction in par value	502,247,988	-	0.04	4,050,387.00	101,259,675
12.2010	Status per 31.12.2010			0.04	4,050,387.00	101,259,675
1.2011	Status per 1.1.2011			0.04	4,050,387.00	101,259,675
2011	Public Share Offering[6]	2,025,193.48	50,629,837	0.04	6,075,580.48	151,889,512

The private placement in February 2007 was performed as settlement for the Company's purchase of shares in Petrojack ASA. The price per share was NOK 3.37. The transaction implies that more than 10 % of the Company's share capital has been paid for with assets other than cash. Petrojack ASA is now undergoing bankruptcy proceedings.

The price per share in the capital increase in June 2010 was set at NOK 0.50.

9.4 RESOLUTION TO ISSUE SHARES

On 28 June 2010, the general meeting of the Company authorized the Board to increase the Company's share capital with a maximum amount of NOK 253,149,185 by issuing up to 50,629,837 new shares with par value of NOK 5 per share. Also, the Board was authorized to raise convertible bond loans within the same limits. In addition, the Company was authorized to acquire 10 % of its own shares (as treasury shares) with a price range from NOK 5 to NOK 300. All authorizations were to expire on the next annual general meeting or on 30 June 2011.

On 17 December 2010, the general meeting resolved to reduce the share capital by reducing the par value from NOK 5 to NOK 0.04. On that basis, it was resolved to adjust the Board's authorizations, and the maximum share capital increase under the authority is now NOK 2,025,194.48 by issuance of

[5] Capital increase and reverse split was performed in order to comply with the rules of the Oslo Stock Exchange clause 2.4 according to which the price for the shares in trade shall not be less than NOK 1.

[6] Assuming full subscription.

up to 50,629,837 new shares at par value NOK 0.04 at market price. The price range for treasury share acquisitions was set at NOK 0.04 to NOK 300.

9.5 OPTIONS AND WARRANTS

The Company has not adopted any Share Option Programs nor having any options or warrants outstanding.

9.6 TREASURY SHARES

The Company holds 525,003 Shares, each of a par value of NOK 0.04. The book value of the treasury shares is NOK 11.6 million.

9.7 SHAREHOLDER STRUCTURE

The following table sets out the 20 largest shareholders in the Company as per 28 July 2011. At this date the Company had in total 5112 shareholders.

	Name of shareholder	**Number of Shares**	**Percentage (%)**
1	INDEPENDENT OIL & RESOURCES ASA	27 049 744	26,71%
2	Ø. H. HOLDING AS	13 823 200	13,65%
3	LARSEN OIL & GAS AS	5 800 000	5,73%
4	NET AS	5 644 296	5,57%
5	DNO INVEST AS	1 679 074	1,66%
6	SILVERCOIN INDUSTRIES AS	1 651 964	1,63%
7	WILLUMSEN, THOR INGE	940 000	0,93%
8	TROMMESTAD, OLE	813 839	0,80%
9	CITIBANK N.A. NEW YORK BRANCH	707 748	0,70%
10	SIX-SEVEN AS	705 000	0,70%
11	DANSKE BANK A/S	619 734	0,61%
12	ASKELADDEN INVEST AS	530 030	0,52%
13	PETROLIA ASA	525 003	0,52%
14	SÆTER, HAAKON MORTEN	524 000	0,52%
15	PEDERSEN TORE	450 000	0,44%
16	INCREASED OIL RECOVERY AS	435 000	0,43%
17	EKRESAR, TRYGVE	410 000	0,40%
18	SIX SIS AG ACCOUNT 2	408 254	0,40%
19	HEDEN HOLDING AS	405 930	0,40%
20	MØLLER, ULRICH	400 000	0,40%
	Total 20 largest shareholders	**63 522 616**	**62,72%**
	Others	**37 737 004**	**37,28 %**
	Total	**101 259 675**	**100,00%**

The major shareholders of the Company are defined as shareholders holding more than 10 % of the share capital in the Company. The major shareholders are Independent Oil & Resources ASA and Ø.H. Holding AS.

The Company is not aware of any shareholders or consolidated groups of shareholders owning more than 26.71 % of the Shares. Consequently, the Company does not have knowledge of shareholders or consolidated groups of shareholders having decisive control or negative control over the Company.

There are no differences in voting rights between the shareholders.

In accordance with the disclosure obligations under the Norwegian Securities Trading Act, shareholders acquiring ownership to or control over more than 5 % of the share capital of a company listed on Oslo Børs must notify the stock exchange immediately. The table above shows the percentage held by such notifiable shareholders. See also Section 10.7 below for a detailed description of the disclosure obligations under the Norwegian Securities Trading Act.

9.8 SHAREHOLDER AGREEMENT

The Company is not aware of any agreements between holders of Shares regarding the exercise of shareholder rights.

9.9 THE ARTICLES AND CERTAIN ASPECTS OF NORWEGIAN COMPANIES LAW

9.9.1 The Articles of Association

The current articles of association of the Company were adopted by the general meeting on 17 December 2010.

According to the Articles § 3, the object and purpose of the Company is to carry out petroleum, shipping, offshore, transport, trade, industrial and financing activities and other related activities and to participate as a shareholder or in other ways in other enterprises.

When incorporated in 1997, the Company's purpose, according to § 1.3 of the articles as included therein, was acquisition and operation of drilling vessels, investments in shipping partnerships and everything related thereto, including participation in other companies.

The Articles stipulate that the Company shall have a nomination committee which shall present to the general meeting a proposal for candidates to be elected as members of the Board. The committee shall also propose to the general meeting the board members' remuneration. The nomination committee shall consist of three members. The members of the nomination committee shall be elected by the company's general meeting. The committee shall be independent of the Board and the management of the Company. The general meeting shall set the committee members' remuneration. The general meeting may adopt instructions for the nomination committee. The costs of the nomination committee shall be covered by the Company.

Members to the nomination committee have so far not been elected, but the Company plans to do so following the conclusion of the process initiated to relocate the head-office to Cyprus, cf. Section 5.4.1.

The Articles do not contain provisions implying that action more significant than required by Public Limited Companies Act, under which the Company is incorporated is necessary to change the rights of holders of Shares.

9.9.2 The general meeting of shareholders

The shareholders of the Company exercise supreme authority of the Company through the general meeting. Written notice of a general meeting of listed companies shall be sent to all shareholders whose addresses are known at least three weeks prior to the date of the meeting.

A shareholder may attend the general meeting either in person or by proxy. A company listed on Oslo Børs shall send proxy forms to its shareholders for the general meeting. Appendices and attachments to the notice for the general meeting are not sent to the shareholders physically, but are made available at the Company's website. Nevertheless, any shareholder may request that such documents be sent to him or her free of charge.

The annual general meeting of the Company shall, according to applicable law, be held each year on or before June 30.

The following matters must be discussed and decided at the annual general meeting:

- approval of the annual accounts and annual report, including the distribution of any dividend, use of proceeds and the coverage of any deficit;
- the statement of the board of directors with regard to remuneration and benefits to the Company's managing director and other senior management;
- election of members to the board and nomination committee; and

- any other business required to be discussed at the general meeting by law or in accordance with the Company's Articles.

In addition to the annual general meeting, extraordinary general meetings of shareholders may be held if deemed necessary by the Company's board of directors. An extraordinary general meeting must also be convened at the written request of the company's auditors or shareholders representing a total of at least 5% of the share capital to consider specific matters.

A shareholder is entitled to have an issue discussed at a general meeting if such shareholder provides the board of directors with notice of the issue at least seven days prior to the deadline for the notice of the general meeting. A shareholder is entitled to propose resolutions for items listed on the agenda at the general meeting.

9.9.3 The Board of Directors

According to § 5 of the Articles, the board of directors shall consist of three to five members. By law, at least half of the board of directors must be present in order to form a quorum.

By law, the board of directors shall govern the business of the Company and protect the interests of the Company and its shareholders, manage employee relations in general and relations with the chief executive officer specifically and ensure that the business, accounts and asset management are subject to proper control.

The members of the Board are elected by the general meeting by majority vote, and the general meeting also resolves the annual remuneration of the Board members, in both cases based on the nomination committee's proposal, cf. Section 9.9.1 above.

As required the Board has an audit committee, see Section 7.3.

9.9.4 The management of the Company

The Board employs the Managing Director (MD) of the Company and resolves his/her remuneration. The MD conducts the day-to-day business in accordance with the guidelines and instructions of the Board. The MD has the right to participate at Board meetings.

The MD employs the other members of the executive management and sets their remuneration

Under Norwegian law the members of the executive management do not become members of the Board, unless the general meeting elects them.

9.9.5 Voting rights

Each Share represents the right to one vote. No shareholders have different voting rights. No voting rights can be exercised with respect to treasury shares held by the Company. There are no quorum requirements for general meetings.

In general, decisions that shareholders are entitled to make may be made by a simple majority of the votes cast. In the case of elections, the persons who obtain the most votes cast are elected. However, certain resolutions require the approval of at least two-thirds of the votes cast, as well as two-thirds of the share capital represented at the general meeting, including but not limited to resolutions seeking:

- to authorize an increase or reduction of the Company's share capital;
- to waive preferential rights in connection with any share issue;
- to approve a merger or demerger; and
- to amend the Company's articles of associations.

Norwegian law further requires that certain decisions, which have the effect of substantially altering the rights and preferences of any shares or class of shares, receive the approval by the holders of such shares or class of shares as well as the majority required for amending the Articles of Association.

Decisions that (i) would reduce the rights of some or all of the Company’s shareholders in respect of dividend payments or other rights to assets or (ii) restrict the transferability of the Shares, require that at least 90 percent of the share capital represented at the general meeting in question vote in favour of the resolution, as well as the majority required for amending the Articles of Association.

There are no quorum requirements for general meetings. Certain types of changes in the rights of the Company's shareholders require the consent of all shareholders or 90% of the votes cast at a general meeting.

In order to be entitled to vote, a shareholder must be registered as the owner of shares in the share register kept by the VPS (described below), or, alternatively, report and show evidence of the shareholder's share acquisition to the Company prior to the general meeting.

The Company may include in its articles of association the latest date by which the owner of the shares must be registered in the VPS in order to vote in the general meeting. The Company has not included such provisions in its Articles.

A beneficial owner of shares registered through a VPS-registered nominee is not guaranteed the ability to vote unless ownership is re-registered in the name of the beneficial owner prior to the relevant general meeting.

9.9.6 No restriction on ownership of the Shares

Neither the Articles of the Company nor the Public Limited Companies Act restricts ownership of the Shares. There are no limitations under Norwegian law on the rights of non-residents or foreign owners to hold or vote the shares.

9.9.7 Freely transferable shares

There are no limitations on the transferability of the Shares under Norwegian law or the Articles.

9.9.8 Additional issuances and preferential rights

If a public limited company issues any new shares, including bonus share issues (involving the issuance of new shares by a transfer from the Company's share premium reserve or distributable equity to the share capital), its articles of associations must be amended, which requires a two-thirds majority of the votes cast and the share capital represented at a general meeting of shareholders. In connection with an increase in the Company's share capital by a subscription for shares against cash contributions, Norwegian law provides the Company's shareholders with a preferential right to subscribe for the new shares on a pro rata basis in accordance with then-current shareholdings in the Company. The preferential rights to subscribe to an issue may be waived by a resolution of the Company's shareholders at a general meeting passed by two-thirds of the votes cast, as well as two-thirds of the share capital represented at the general meeting. The general meeting may, with a two-thirds majority vote as described above, authorize the board of directors to issue new shares. Such authorization may be effective for a maximum of two years, and the par value of the shares to be issued may not exceed 50% of the nominal share capital as at the time the authorization was registered in the Norwegian Registry of Business Enterprises.

To issue shares to shareholders who are citizens or residents of the United States upon the exercise of preferential rights, the Company may be required to file a registration statement in the United States under U.S. securities laws. If the Company decides not to file a registration statement, these holders may not be able to exercise their preferential rights.

9.9.9 Dividends

(i) Any proposal to pay a dividend must be proposed by the board of directors and approved by the shareholders at a general meeting. Further, the supervisory board shall provide a statement in respect of the board of directors' proposal. The shareholders at an annual general meeting may vote to reduce (but not to increase) the dividends proposed by the directors.

(ii) Dividends are payable only out of (i) the annual profit for the last financial year, (ii) retained profit from previous years, and (iii) distributable reserves, after deduction of (a) any uncovered losses, (b) the book value of research and development, (c) goodwill, (d) net deferred tax assets recorded in the balance sheet, (e) the aggregate value of any treasury shares that the Company has purchased or been granted security over, and (f) any credit or security given to related entities and provided always that such distribution is compatible with good and prudent business practice with due regard to any losses which may have occurred or are expected to occur after the last balance sheet date.

(iii) A public limited company cannot distribute any dividends if the equity amounts to less than 10% of the total balance sheet without a two-month creditor notice period. No interim dividends may be paid in respect of a financial period as to which audited financial statements have not been approved by the annual general meeting of shareholders.

(iv) The Board will consider the amount of dividend (if any) to recommend for approval by the Company’s shareholders, on an annual basis, based upon the earnings of the Company for the years just ended and the financial situation of the Company at the relevant point in time.

(v) Dividends accrue to the shareholders who are shareholders at the time of the resolution to declare dividends, unless otherwise provided by the dividend resolution.

(vi) Neither the Public Limited Companies Act nor the Company's articles of association provide for any time limit after which entitlement to dividends lapses. Subject to various exceptions, Norwegian law provides a limitation period of three years from the date on which an obligation is due. There are no dividend restrictions or specific procedures for non-Norwegian resident shareholders to claim dividends.

(vii) Dividends are the only means for shareholders to share in the Company's profit.

(viii) No dividend payments have been made by the Company during the period covered by the historical financial information.

9.9.10 Rights of redemption and repurchase of shares

A public limited company may issue redeemable shares (i.e. shares redeemable without the shareholder's consent). The Company's share capital may also be reduced by reducing the par value of the shares. Such a decision requires the approval of two-thirds of the votes cast at a general meeting as well as two-thirds of the share capital represented in the general meeting. Redemption of individual shares requires the consent of the holders of the shares to be redeemed.

A public limited company may purchase its own shares if the board of directors is so authorized by the shareholders at a general meeting with the approval of at least two-thirds of the aggregate number of votes cast at the meeting. The aggregate nominal value of treasury shares so acquired and held by the Company may not exceed 10% of the Company's share capital. Treasury shares may only be acquired if the Company's distributable equity, according to the latest adopted balance sheet, exceeds the consideration to be paid for the shares. The authorization by the shareholders at the general meeting cannot be given for a period exceeding 18 months. A public limited company may not subscribe for its own shares.

9.10 SHAREHOLDER AND DIVIDEND POLICY

9.10.1 Shareholder policy

Petrolia will inform Oslo Børs, the Company's shareholders and the market in general on ongoing continuous basis of the Company's development, activities and special events, ensuring that as far as possible the pricing of the Shares reflects the underlying values and expectations on future profits. Such information will, among other things, take the form of annual reports, quarterly reports, stock exchange bulletins, press releases and investor presentations when appropriate.

9.10.2 Dividend policy

In accordance with the terms and obligations of the Bond Loan, the Company's ability to distribute dividends is limited, and shareholders should not expect dividend payments until the Loan, which matures in 2012, has been repaid in full. Thereafter, depending on the future strategy and financing of the Company, the Company will strive to follow a dividend policy favourable to shareholders. This will be achieved by sound business development and continuous growth. The Company aims to give shareholders a competitive return on capital relative to the underlying risk.

9.11 DISTRIBUTION OF ASSETS ON LIQUIDATION

According to the Public Limited Companies Act, a company may be wound up by a resolution of the company's shareholders in a general meeting passed by the same member of votes as are required with respect to amendments to the articles of association. The shares rank equally in the event of a return on capital by the company upon a winding-up or otherwise.

10. SECURITIES TRADING IN NORWAY

10.1 INTRODUCTION

The Oslo Stock Exchange was established in 1819 a Any proposal to pay a dividend must be proposed by the board of directors and approved by the shareholders at a general meeting. Further, the supervisory board shall provide a statement in respect of the board of directors' proposal. The shareholders at an annual general meeting may vote to reduce (but not to increase) the dividends proposed by the directors.

Dividends are payable only out of (i) the annual profit for the last financial year, (ii) retained profit from previous years, and (iii) distributable reserves, after deduction of (a) any uncovered losses, (b) the book value of research and development, (c) goodwill, (d) net deferred tax assets recorded in the balance sheet, (e) the aggregate value of any treasury shares that the Company has purchased or been granted security over, and (f) any credit or security given to related entities and provided always that such distribution is compatible with good and prudent business practice with due regard to any losses which may have occurred or are expected to occur after the last balance sheet date.

A public limited company cannot distribute any dividends if the equity amounts to less than 10% of the total balance sheet without a two-month creditor notice period. No interim dividends may be paid in respect of a financial period as to which audited financial statements have not been approved by the annual general meeting of shareholders.

Under Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval. However, all payments to and from Norway shall be registered with the Norwegian Currency Registry. Such registration is made by the entity performing the transaction. Further, each physical transfer of payments in currency shall be notified to the Norwegian customs. Consequently, a non-Norwegian resident may receive dividend payments without Norwegian exchange control consent if such payment is made through a licensed bank.

The Board will consider the amount of dividend (if any) to recommend for approval by the Company’s shareholders, on an annual basis, based upon the earnings of the Company for the years just ended and the financial situation of the Company at the relevant point in time.

nd is the principal market in which shares, bonds and other financial instruments are traded in Norway. As of 30 July 2010, the total capitalization of companies listed on the Oslo Stock Exchange amounted to approximately NOK 1,439 billion. Shareholdings of non-Norwegian investors as a percentage of total market capitalization on 30 July 2010 amounted to approximately 34.40 %.

In May 2007, the Oslo Stock Exchange introduced Oslo Axess. Oslo Axess is fully regulated market administered by the Oslo Stock Exchange. Less stringent listing requirements applies in respect of a listing on Oslo Axess compared to a listing on the Oslo Stock Exchange, in particular with respect to financial and operating history. Identical market monitoring and continuous obligations apply in respect of issuers with shares listed on Oslo Axess as to issuers with shares listed on the Oslo Stock Exchange.

The Oslo Stock Exchange has entered into a strategic cooperation with the London Stock Exchange group with regards to, inter alia, trading systems for equities, fixed income and derivates.

10.2 TRADING AND SETTLEMENT

Trading of equities on the Oslo Stock Exchange and Oslo Axess is carried out in the electronic trading system TradElect. This trading system is in use by all markets operated by the London Stock Exchange as well as by the Borsa Italiana and the Johannesburg Stock Exchange.

Official trading on the Oslo Stock Exchange and Oslo Axess takes place between 09:00 hours (CET) and 17:30 hours (CET) each trading day, with pre-trade period between 08:15 hours (CET) and 09:00 hours (CET), a closing auction from 17:20 hours (CET) to 17:25 hours (CET) and a post-trade period from 17:25 hours (CET) to 18:15 hours (CET).

The settlement period for trading on the Oslo Stock Exchange and Oslo Axess is three trading days (T+3).

Investment services in Norway may only be provided by Norwegian investment firms holding a license under the Securities Trading Act, branches of investment firms from an EEA member state or investment firms from outside the EEA that have been licensed to operate in Norway. Investment firms in an EEA member state may also provide cross-border investment services into Norway.

It is possible for investment firms to undertake market-making activities in shares listed in Norway if they have a license to this effect under the Norwegian Securities Trading Act, or in the case of investment firms in an EEA member state, a license to carry out market-making activities in their home jurisdiction. Such market-making activities will be governed by the regulations of the Norwegian Securities Trading Act relating to brokers' trading for their own account. Such market-making activities do not as such require notification to the Financial Supervisory Authority of Norway or the Oslo Stock Exchange except for the general obligation of investment firms that are members of the Oslo Stock Exchange to report all trades in stock exchange listed securities.

10.3 INFORMATION, CONTROL AND SURVEILLANCE

Under Norwegian law, the Oslo Stock Exchange is required to perform a number of surveillance and control functions. The Surveillance and Corporate Control unit of the Oslo Stock Exchange monitors all market activity on a continuous basis. Market surveillance systems are largely automated, promptly warning department personnel of abnormal market developments.

Under Norwegian law, a company that is listed on a Norwegian regulated market, or is subject to the application for listing on such market, must promptly release any inside information (that is, precise information about financial instruments, the issuer thereof or other matters that are likely to have a significant effect on the price of the relevant financial instruments or related financial instruments, and that are not publicly available or commonly known in the market). A company may, however, delay the release of such information in order not to prejudice its legitimate interests, provided that it is able to ensure the confidentiality of the information and that the delayed release would not be likely to mislead the public. The Oslo Stock Exchange may levy fines on companies violating these requirements.

10.4 THE VPS AND TRANSFER OF SHARES

The Company's shareholder register is operated through the VPS. The VPS is the Norwegian paperless centralised securities register. It is a computerised bookkeeping system in which the ownership of, and all transactions relating to, Norwegian listed shares must be recorded. The VPS and the Oslo Stock Exchange are both wholly owned by Oslo Stock Exchange VPS Holding ASA.

All transactions relating to securities registered with the VPS are made through computerised book entries. No physical share certificates are, or may be, issued. The VPS confirms each entry by sending a transcript to the registered shareholder irrespective of any beneficial ownership. To give effect to such entries, the individual shareholder must establish a share account with a Norwegian account agent. Norwegian banks, Norges Bank (that is, Norway's central bank), authorised securities brokers in Norway and Norwegian branches of credit institutions established within the EEA are allowed to act as account agents.

The entry of a transaction in the VPS is prima facie evidence in determining the legal rights of parties as against the issuing company or any third party claiming an interest in the given security. A transferee or assignee of shares may not exercise the rights of a shareholder with respect to such shares unless such transferee or assignee has registered such shareholding or has reported and shown evidence of such share acquisition, and the acquisition is not prevented by law, the relevant company's articles of association or otherwise.

The VPS is liable for any loss suffered as a result of faulty registration or an amendment to, or deletion of, rights in respect of registered securities unless the error is caused by matters outside the VPS's control which the VPS could not reasonably be expected to avoid or overcome the consequences of. Damages payable by the VPS may, however, be reduced in the event of contributory negligence by the aggrieved party.

The VPS must provide information to the Norwegian FSA on an ongoing basis, as well as any information that the Norwegian FSA requests. Further, Norwegian tax authorities may require certain information from the VPS regarding any individual's holdings of securities, including information about dividends and interest payments.

10.5 SHAREHOLDER REGISTER

Under Norwegian law, shares are registered in the name of the beneficial owner of the shares. As a general rule, there are no arrangements for nominee registration and Norwegian shareholders are not allowed to register their shares in VPS through a nominee. However, foreign shareholders may register their shares in the VPS in the name of a nominee (bank or other nominee) approved by the Norwegian FSA. An approved and registered nominee has a duty to provide information on demand about beneficial shareholders to the company and to the Norwegian authorities. In case of registration by nominees, the registration in the VPS must show that the registered owner is a nominee. A registered nominee has the right to receive dividends and other distributions, but cannot vote in general meetings on behalf of the beneficial owners.

10.6 FOREIGN INVESTMENT IN NORWEGIAN SHARES

Foreign investors may trade shares listed on the Oslo Stock Exchange and Oslo Axess through any broker that is a member of the Oslo Stock Exchange, whether Norwegian or foreign.

10.7 DISCLOSURE OBLIGATIONS

If a person's, entity's or consolidated group's proportion of the total issued shares and/or rights to shares in a company listed on a regulated market in Norway (with Norway as its home state, which will be the case for the Company) reaches, exceeds or falls below the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 90% of the share capital or the voting rights of that company, the person, entity or group in question has an obligation under the Norwegian Securities Trading Act to notify the Oslo Stock Exchange and the issuer immediately. The same applies if the disclosure thresholds are passed due to other circumstances, such as a change in the company's share capital.

10.8 INSIDER TRADING

According to Norwegian law, subscription for, purchase, sale or exchange of financial instruments that are listed, or subject to the application for listing, on a Norwegian regulated market, or incitement to such dispositions, must not be undertaken by anyone who has inside information, as defined in Section 3-2 of the Norwegian Securities Trading Act. The same applies to the entry into, purchase, sale or exchange of options or futures/forward contracts or equivalent rights whose value is connected to such financial instruments or incitement to such dispositions.

10.9 MANDATORY OFFER REQUIREMENT

The Norwegian Securities Trading Act requires any person, entity or consolidated group that becomes the owner of shares representing more than one-third of the voting rights of a Norwegian company listed on a Norwegian regulated market to, within four weeks, make an unconditional general offer for the purchase of the remaining shares in that company. A mandatory offer obligation may also be triggered where a party acquires the right to become the owner of shares that, together with the party's own shareholding, represent more than one-third of the voting rights in the company and the Oslo Stock Exchange decides that this is regarded as an effective acquisition of the shares in question.

The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares that exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

When a mandatory offer obligation is triggered, the person subject to the obligation is required to immediately notify the Oslo Stock Exchange and the company in question accordingly. The notification is required to state whether an offer will be made to acquire the remaining shares in the company or whether a sale will take place. As a rule, a notification to the effect that an offer will be made cannot be retracted. The offer and the offer document required are subject to approval by the Oslo Stock Exchange before the offer is submitted to the shareholders or made public.

The offer price per share must be at least as high as the highest price paid or agreed by the offeror for the shares in the six-month period prior to the date the threshold was exceeded. However, if it is clear that that the market price was higher when the mandatory offer obligation was triggered, the offer price shall be at least as high as the market price. If the acquirer acquires or agrees to acquire additional shares at a higher price prior to the expiration of the mandatory offer period, the acquirer is obliged to restate its offer at such higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered.

In case of failure to make a mandatory offer or to sell the portion of the shares that exceeds the relevant threshold within four weeks, the Oslo Stock Exchange may force the acquirer to sell the shares exceeding the threshold by public auction. Moreover, a shareholder who fails to make an offer may not, as long as the mandatory offer obligation remains in force, exercise rights in the company, such as voting in a General Meeting of the Company's shareholders, without the consent of a majority of the remaining shareholders. The shareholder may, however, exercise his/her/its rights to dividends and pre-emption rights in the event of a share capital increase. If the shareholder neglects his/her/its duty to make a mandatory offer, the Oslo Stock Exchange may impose a cumulative daily fine that runs until the circumstance has been rectified.

Any person, entity or consolidated group that owns shares representing more than one-third of the votes in a Norwegian company listed on a Norwegian regulated market is obliged to make an offer to purchase the remaining shares of the company (repeated offer obligation) if the person, entity or consolidated group through acquisition becomes the owner of shares representing 40%, or more of the votes in the company. The same applies correspondingly if the person, entity or consolidated group through acquisition becomes the owner of shares representing 50% or more of the votes in the company. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares which exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

Any person, entity or consolidated group that has passed any of the above mentioned thresholds in such a way as not to trigger the mandatory bid obligation, and has therefore not previously made an offer for the remaining shares in the company in accordance with the mandatory offer rules is, as a main rule, obliged to make a mandatory offer in the event of a subsequent acquisition of shares in the company.

10.10 COMPULSORY ACQUISITION

Pursuant to the Public Limited Companies Act and the Norwegian Securities Trading Act, a shareholder who, directly or through subsidiaries, acquires shares representing more than 90% of the total number of issued shares in a Norwegian public limited liability company, as well as more than 90% of the total voting rights, has a right, and each remaining minority shareholder of the company has a right to require such majority shareholder, to effect a compulsory acquisition for cash of the shares not already owned by such majority shareholder. Through such compulsory acquisition the majority shareholder becomes the owner of the remaining shares with immediate effect.

If a shareholder acquires shares representing more than 90% of the total number of issued shares, as well as more than 90% of the total voting rights, through a voluntary offer in accordance with the Securities Trading Act, a compulsory acquisition can, subject to the following conditions, be carried out without such shareholder being obliged to make a mandatory offer: (i) the compulsory acquisition is commenced no later than four weeks after the acquisition of shares through the voluntary offer, (ii) the price offered per share is equal to or higher than what the offer price would have been in a mandatory offer, and (iii) the settlement is guaranteed by a financial institution authorized to provide such guarantees in Norway.

A majority shareholder who effects a compulsory acquisition is required to offer the minority shareholders a specific price per share, the determination of which is at the discretion of the majority shareholder. However, where the offeror, after making a mandatory or voluntary offer, has acquired more than 90% of the voting shares of a company and a corresponding proportion of the votes that can be cast at the general meeting, and the offeror pursuant to Section 4-25 of the Public Limited Companies Act completes a compulsory acquisition of the remaining shares within three months after the expiry of the offer period, it follows from the Norwegian Securities Trading Act that the redemption price shall be determined on the basis of the offer price for the mandatory/voluntary offer unless specific reasons indicate another price.

Should any minority shareholder not accept the offered price, such minority shareholder may, within a specified deadline of not less than two months, request that the price be set by a Norwegian court. The cost of such court procedure will, as a general rule, be the responsibility of the majority shareholder, and the relevant court will have full discretion in determining the consideration to be paid to the minority shareholder as a result of the compulsory acquisition.

Absent a request for a Norwegian court to set the price or any other objection to the price being offered, the minority shareholders would be deemed to have accepted the offered price after the expiry of the specified deadline.

10.11 FOREIGN EXCHANGE CONTROLS

There are currently no foreign exchange control restrictions in Norway that would potentially restrict the payment of dividends to a shareholder outside Norway, and there are currently no restrictions that would affect the right of shareholders of a Norwegian company who are not residents in Norway to dispose of their shares and receive the proceeds from a disposal outside Norway. There is no maximum transferable amount either to or from Norway, although transferring banks are required to submit reports on foreign currency exchange transactions into and out of Norway into a central data register maintained by the Norwegian customs and excise authorities. The Norwegian police, tax authorities, customs and excise authorities, the National Insurance Administration and the Norwegian FSA have electronic access to the data in this register.

11. TAXATION

*This Section describes certain tax consequences in Norway for shareholders who are resident in Norway for tax purposes ("**Norwegian Shareholders**") and for shareholders who are not resident in Norway for tax purposes ("**Foreign Shareholders**"). The statements herein regarding taxation are based on the laws in force in Norway as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retrospective basis. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of shares. Investors are advised to consult their own tax advisors concerning the overall tax consequences of their ownership of shares. The statements only apply to shareholders who are beneficial owners of shares.*

Please note that for the purpose of the summary below, references to Norwegian Shareholders or Foreign Shareholders refers to the tax residency rather than the nationality of the shareholder. Furthermore, the summary only focuses on the shareholder categories explicitly mentioned below (Individual Shareholders and limited liability companies). It should be noted that the participation exemption applicable to Norwegian limited liability companies as described below will also apply to certain other legal entities such as savings banks, insurance companies and others.

Note that the Company assumes no responsibility for the withholding of taxes at the source.

11.1 TAX CONSEQUENCES RELATED TO THE OWNERSHIP AND DISPOSAL OF SHARES – NORWEGIAN SHAREHOLDERS

11.1.1 Taxation on dividends

Norwegian Corporate Shareholders (i.e. limited liability companies and similar entities) are comprised by the tax exemption method. According to this method, only 3% of the dividend income on shares in limited liability companies resident within the EEA shall be taxed as ordinary income (28% flat rate), implying that such dividends are effectively taxed at a rate of 0.84%.

Dividends distributed to Norwegian Individual Shareholders (i.e. other shareholders than Corporate Shareholders) are taxable under the Shareholder Model. According to the Shareholder Model, dividends distributed to individual shareholders are taxable as ordinary income (28% flat rate) to the extent the income exceeds a basic tax-free allowance. The tax-free allowance shall be computed for each individual shareholder on the basis of the cost price of each of the shares multiplied by a risk-free interest rate. The risk-free interest rate will be calculated every income year. Any part of the calculated allowance one year exceeding the dividend distributed on the share ("unused allowance") may be carried forward and set off against future dividends received on the same share. Any unused allowance will also be added to the basis of computation of the tax-free allowance on the same share the following year.

11.1.2 Taxation on capital gains on disposal of shares

According to the tax exemption method described above, only 3% of any (net) capital gains derived from realization of shares in limited liability companies resident within the EEA are taxed as ordinary income for Norwegian Corporate Shareholders, implying that such capital gains are effectively taxed at a rate of 0.84%. Corresponding losses are not tax deductible, but may be set off against dividends from and capital gains on such shares realized in the same income year. Costs incurred in connection with the purchase and realization of shares is deductible when calculating the taxable gain.

Norwegian Individual Shareholders are taxable in Norway for capital gains on the realization of shares, and have a corresponding right to deduct losses. This applies irrespective of how long the shares have been owned by the individual shareholder and irrespective of how many shares that are realized. Gains are taxable as ordinary income in the year of realization, and losses can be deducted from ordinary income in the year of realization. The current tax rate for ordinary income is 28%. Under current tax rules, gain or loss is calculated per share, as the difference between the consideration received and the tax base of the share. The tax base of each share is based on the individual shareholder's purchase price for the share. Unused allowance connected to a share may be deducted from a capital gain on the same share, but may not lead to or increase a deductible loss. Further, unused allowance may not be set off against gains from realization of the other shares.

If a Norwegian shareholder disposes of shares acquired at different times, the shares that were first acquired will be deemed as first sold (the "FIFO"-principle) upon calculating taxable gain or loss. Costs incurred in connection with the purchase and sale of shares may be deducted in the year of sale.

A Shareholder who ceases to be tax resident in Norway due to domestic law or tax treaty provisions may become subject to Norwegian exit taxation of capital gains related to shares in certain circumstances.

11.1.3 Net wealth tax

The value of shares is taken into account for net wealth tax purposes in Norway. The marginal tax rate is currently 1.1%. Norwegian limited liability companies and similar entities are exempted from net wealth tax.

Shares listed on Oslo Børs or on Oslo Axess are valued at the quoted value at 1 January in the assessment year.

11.2 TAX CONSEQUENCES RELATED TO THE OWNERSHIP AND DISPOSAL OF SHARES – FOREIGN SHAREHOLDERS

11.2.1 Taxation on dividends

Dividends paid from a Norwegian company to Foreign Shareholders are subject to Norwegian withholding tax at a rate of 25% unless the recipient qualifies for a reduced rate according to an applicable tax treaty or other specific regulations. Norway has entered into tax treaties with a number of countries. Norwegian withholding tax is set at 15% under the majority of these treaties, but there are treaties that apply higher and lower rates. The shareholder's home country may also have rules that will allow for a tax credit for the Norwegian withholding tax imposed on the dividend.

Foreign Corporate Shareholders (i.e. limited liability companies and similar entities) which are genuinely established and carry out genuine economic activities within the EEA are not subject to Norwegian withholding tax when the Foreign Corporate shareholder is the beneficial owner of the shares.

Foreign Individual Shareholders (i.e. other shareholders than Corporate Shareholders) resident within the EEA may apply to the Norwegian tax authorities for a refund if the tax withheld by the distributing company exceeds the tax that would have been levied according to the regulations described above in 11.1.1 for Norwegian Individual Shareholders.

In accordance with the present administrative system in Norway, a distributing company will generally deduct withholding tax at the applicable rate when dividends are paid directly to an eligible Foreign Shareholder, based on information registered with the VPS. Dividends paid to Foreign Shareholders in respect of nominee registered shares are not eligible for reduced treaty withholding tax rate at the time of payment unless the nominee, by agreeing to provide certain information regarding beneficial owner, has obtained approval for reduced treaty withholding tax rate from the Central Office for Foreign Tax Affairs.

Foreign Shareholders should consult their own advisers regarding the availability of treaty benefits in respect of dividend payments.

11.2.2 Taxation on capital gains / losses on disposal of shares

Gains from the sale or other disposal of shares by a Foreign Shareholder will not be subject to tax in Norway unless the Foreign Shareholder is holding the shares in connection with a business carried on or managed from Norway. Such taxation may be limited according to an applicable tax treaty.

11.2.3 Net wealth tax

Foreign Shareholders are not subject to Norwegian net wealth tax with respect to the Shares, unless the Shareholder is an individual, and the shareholding is effectively connected with a business which the shareholder takes part in or carries out in Norway.

11.3 TRANSFER TAXES ETC., VAT

No transfer taxes, stamp duty or similar taxes are currently imposed in Norway on purchase, disposal or redemption of shares. Further, there is no VAT on transfer of shares.

11.4 INHERITANCE TAX

Upon transfer of shares by way of inheritance or gift, the transfer may be subject to Norwegian inheritance or gift tax. However, such a transfer is not subject to Norwegian tax if the donor/deceased was neither a citizen nor resident of Norway for inheritance tax purposes.

In the case of listed shares, the basis for the tax calculation is the market value of the shares.

12. LEGAL MATTERS - DISPUTES

The estates of PetroMENA and Petrojack

Petrolia Services AS and Petrolia ASA are involved in two disputes regarding claw back claims presented by the bankruptcy estates of PetroMENA ASA and Petrojack ASA. Both claims are related to drilling equipment acquired from PetroMENA and Petrojack prior to the opening of bankruptcy. Both claims have been rejected.

In the dispute with the PetroMENA estate, Petrolia Services received a writ of summons from the estate on 15 December 2010 with a claim of up to NOK 245 million related to an agreement of 13 November 2008 regarding an acquisition by Petrolia Services of equipment from PetroMENA. The estate is seeking to invalidate the acquisition, alleging that it is not binding for the estate, that it can seize the equipment and/or that the NOK 245 million is to be considered a loan given by Petrolia Services to PetroMENA.

Petrolia dismisses the claim, but has accrued USD 1.7 million. However, the exposure for Petrolia Services is considerable.

In the dispute with the Petrojack estate, Petrolia ASA received a writ of summons on 8 March 2011 in which the estate submits a claim of up to NOK 32.9 million related to an agreement dated 31 July 2009 between Petrojack and Petrolia Services pursuant to which Petrolia Services purchased certain drilling equipment from Petrojack. The estate challenges Petrolia Services' acquisition based on its view that the transaction was in reality settlement for older debt Petrojack had to Petrolia, and alleges that the transferred drilling equipment is subject to claw back. The writ of summons is addressed to Petrolia ASA even though Petrolia Services was the purchaser of the equipment. Petrolia Services has earlier disputed the claim, but has impaired the equipment with USD 3.3 million.

If case the cases are lost, the equipment must be redelivered. Hearings are scheduled to be held in October before the Oslo court in both cases. There is no guarantee that out of court settlements will be reached.

Venture Drilling

The Company currently owns 100 % of the shares in Venture Drilling, but prior to 28 March 2011,the Company owned 50 % of the shares, cf. Section 5.7.3while the remaining shares were owned by Sinvest ASA ("Sinvest"). When Venture Drilling was created, Sinvest provided the bareboat agreement with the Russian state owned company Arktikmorneftegazrazvedka ("Arktik") for use of the drillship "Deep Venture", and Petrolia provided drilling equipment on the rig.

A dispute materialized with Arktik, and Russian courts concluded that the bareboat agreement with Venture Drilling AS is invalid. As a consequence, the drilling contract with Maersk was terminated early in April 2010. Arbitration has been ongoing between Venture Drilling AS and Arktik regarding early redelivery of the vessel. On 24 February 2011 an amicable settlement was achieved whereby (i) an agreement for early redelivery of the vessel to Artik and (ii) JSC Zarubezhneft, a Russian joint stock company, purchased from Venture Drilling AS (a) equipment and (b) the position against Artik in the arbitration for a total consideration of USD 138 million.

Consequently, Venture Drilling's relations with Arktik as well as with Maersk are terminated, and the disputes have been settled as far as Venture Drilling is concerned.

Otherwise than stated above, the Company and its subsidiaries have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past significant effects on the Company's and/or Group's financial position or profitability.

Deepwater Driller Ltd

Larsen Oil & Gas Limited and Deepwater Driller Ltd. were until recently involved in legal proceedings before The London Court of International Arbitration in connection with the termination of a technical and operational agreement. A final award was given by the court in May 2011 and in that connection Petrolia Invest AS had to pay USD 1,650,000 to Larsen Oil & Gas Limited. Payment has now been made, and the dispute is finally settled between the parties.

13. CAUTIONARY NOTES REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements.

In some cases, forward-looking statements can be identified by terminology such as "may", "will", "could", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "indicate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. These statements are only expectations. Actual events or results may differ materially. In evaluating these statements, prospective investors should specifically consider various factors, including the risks outlined in Section 2. These factors may cause the actual results to differ materially from any forward-looking statement. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement.

Except as required by law, the Company undertakes no obligation to update publicly any forward-looking statements for any reason after the date of this Prospectus to conform these statements to actual results or to changes in its expectations or publicly release the result of any revisions to these forward-looking statements which the Company may make to reflect events or circumstances after the date of this Prospectus or to reflect the occurrence of unanticipated events. Investors are advised, however, to consult any further public disclosures made by the Company.

14. ADDITIONAL INFORMATION

14.1 DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection at the Company's registered office during normal business hours from Monday to Friday each week (excluding public holidays) for a period of 12 months from the date of this Prospectus:

i. The Memorandum and Articles of Association of the Company;
ii. the historical financial information of the Company and its subsidiary undertakings for each of the three financial years preceding the publication of this Prospectus,
iii. stock exchange notices, including quarterly reports, distributed by the Company through Oslo Børs' information system after the submission of the application for listing.
iv. all reports, letters, and other documents and statements prepared by any expert at Company's request any part of which is included or referred to in the Prospectus

14.2 STATEMENT REGARDING SOURCES

The Company confirms that when information in this Prospectus has been sourced from a third party it has been accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

14.3 STATEMENT REGARDING EXPERT OPINIONS

This Prospectus does not refer to any expert opinions.

15. DEFINITIONS AND GLOSSARY OF TERMS

Appendix	A text added to the end of a book or an article, containing information that is important to, but is not the main idea of, the main text.
Articles of Association	The articles of association of Petrolia ASA
Board of Directors or Board	The Board of Petrolia ASA
Bond Loan	The loan described in Section 8.14.
Code	The Norwegian Code of Practice for Corporate Governance, as revised on 21 October 2010 and as issued by The Norwegian Corporate Governance Board (NUES)
Company	Petrolia ASA
COR	Certified Oilfield Rentals Ltd
Director	Elected or appointed member of the board who jointly oversee the activities of a company or organisation.
Drill Pipe	Known as Drill stem is hollow, thick-walled, steel piping that is used on drilling rigs to facilitate the drilling of a wellbore .
Finanstilsynet	Financial Supervisory Authority of Norway. Finanstilsynet is an independent government agency that builds on laws and decisions emanating from the Parliament (Stortinget), the Government and the Ministry of Finance and on international standards for financial supervision and regulation.
First Securities	First Securities AS, acting as Manager.
FOB	Free On Board, as defined by Incoterm standards. FOB specifies which party (buyer or seller) pays for which shipment and loading costs, and/or where responsibility for the goods is transferred.
Group	The Company and its subsidiaries (as defined by section 1-3 of the Norwegian Public Companies Act.
GDP	Gross Domestic Product, the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.
IEA	International Energy Agency
IFRS	International Financial Reporting Standards.
LOG AS	Larsen Oil & Gas AS, named CCB Logistics Services AS prior to 21 September 2004
LOG FZCO	Larsen Oil & Gas FZCO (Dubai)
LOG Ltd.	Larsen Oil & Gas Ltd. (Aberdeen)
LOG Pte Ltd	Larsen Oil & Gas Pte Ltd (Singapore)
Manager	First Securities AS

Money Laundering Act	The Money Laundering Act of 20 June 2003 no. 41 (“Hvitvaskingsloven”).
New Shares	Up to 50,629,837 new shares to be issued by the Company in the Offering.
NOK	Norwegian Kroner, the lawful currency in Norway
NUES	The Norwegian Corporate Governance Board
OECD	Organisation for Economic Co-operation and Development
Offering	Shall have the meaning ascribed to such term in Section 4.1.
OMR	Oil market review (quarerly report/database)
Order Form	The application form to be used by investors when ordering shares in the Offering.
Oslo Børs	Oslo Børs ASA (Oslo Stock Exchange
PMI	Purchaser Manager Index
Prospectus	This Prospectus dated 2 August 2011 prepared in connection with the Rights Issue.
Public Limited Companies Act	The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 (“Allmennaksjeloven”).
Record date	27 June 2011. Shareholders as of this date will receive Subscription Rights.
Rights Issue	Shall have the meaning ascribed to such term in section 1.11.
Securities Trading Act	The Norwegian Securities Act of 29 June 2007 no. 75 (in Norwegian: “Verdipapirhandelloven”)
Shares	Ordinary shares with par value of NOK 0.04 each in the capital of Petrolia ASA
Subscription Period	The period in which shares may be ordered, starting at 9 August 2011 and ending on 23 August 2011.
Subscription Price	NOK 0.50.
Test Tubing	A wellbore tubular used to produce reservoir fluids
USD	US dollars, the lawful currency of the United States of America
VAT	Value added tax. A tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the consumer.
VPS	The Norwegian Central Securities Depository, which organizes the Norwegian paperless securities registration system. In Norwegian: “Verdipapirsentralen”).
WEO	World Energy Outlook (annual report)

16. APPENDIX 1: ARTICLES OF ASSOCIATION FOR PETROLIA ASA

PETROLIA ASA

ARTICLES OF ASSOCIATION

(As of 17th December 2010)

§ 1

The name of the Company is Petrolia ASA. The Company is a public limited liability company.

§ 2

The registered office of the Company is in Oslo.

§ 3

The object of the Company is to carry out petroleum, shipping, offshore, transport, trade, industrial and financing activity and other related activities, and to participate as a shareholder or in other ways in other enterprises.

§ 4

The share capital is NOK 4.050.387,- divided on 101.259.675 shares of NOK 0,04 each. The shares of the Company are registered with Verdipapirsentralen (the Norwegian Central Securities Depository).

§ 5

The Board of Directors of the Company consists of 3 to 5 directors. The Company is bound by the signature of the Chairman of the Boad or by the joint signatures of two directors of the Board.

§ 6

The following issues will be considered and decided by the Annual General meeting :

a. Adoption of the profit and loss statement and balance sheet, including application of the profit for the year or coverage of the loss for the year.

b. Adoption of the consolidated profit and loss statement and balance sheet.

c. Election of directors of the Board of Directors.

d. Other issues which pursuant to law or the Articles of Association are to be decided by the Annual General Meeting.

Documents that shall be considered at the general meeting may be published on the Company's website. The same applies to documents that due to statutory requirements must be attached to or included in the calling notice to the general meeting. If the documents are published in such manner, the statutory requirements for distribution to the shareholders shall not apply. A shareholder may still request to get sent documents that shall be considered by the general meeting.

§ 7

The Company shall have a nomination committee. The committee shall present to the general meeting a proposal for candidates to be elected as members of the Board. The committee shall also propose to the general meeting the board members' remuneration.

The nomination committee shall consist of three members. The members of the nomination committee shall be elected by the company’s general meeting. The committee shall be independent of the Board and the management of the Company. The general meeting shall set the committee members' remuneration. The general meeting may adopt instructions for the nomination committee. The costs of the nomination committee shall be covered by the Company.

17. APPENDIX 2: UNAUDITED INTERIM FINANCIAL STATEMENTS FOR 1Q 2011

PETROLIA

1^{st} quarter

2011

Petrolia ASA charters and invests in drilling vessels for offshore oil and gas drilling. It is also involved in worldwide oilfield services related to rental of oilfield equipment, tubular running services and other related services. Through its affiliate, PetroResources Ltd, Petrolia ASA invests in oil & gas resources.

PETROLIA ASA (PDR) first quarter 2011 preliminary result

Summary of main events

- Total Comprehensive income for Q1 2011 was USD 17.1 million
- Revenue and operating profit before depreciation was USD 20.7 million and USD 4.1 million
- Shareholder's Equity per 31.03.2011 was USD 1.11 per share
- Kjetil Forland was appointed Managing Director (18 January 2011)
- All shares in Deepwater Driller Ltd have been sold for USD 34.5 million in cash (24 January 2011)
- Settlement has been achieved with the Russian owners Deep Venture (whereby the drillship has been redelivered and Venture Drilling AS has sold equipment related to the ship. The joint venture received USD138 million in cash (equipment sale and arbitration position) and distributed USD 31 million to each of the two joint venture parties. (24 February 2011 & 10 March 2011)
- Petrolia purchased remaining 50% of Venture Drilling AS for USD 34 million in cash and the company is now a 100% owned subsidiary (28 March 2011).

Financial information

Profit and loss

Activity in Q1 2011 has been in the Oilfield services division.

Book value of the rental drilling equipment as of 31 March 2011 was USD 83.0 million.

Total revenue in Q1 2011 was USD 20.7 million compared to USD 17.1 million in Q1 2010.

Operating profit before depreciation in Q1 2011 was USD 4.1 million compared to USD 5.5 million in Q1 2010.

Total operating expenses in Q1 2011 was USD 16.6 million compared to USD 11.6 in Q1 2010.

Operating loss in Q1 2011 was USD 5.7 million including USD 9.7 million in depreciation. Operating loss in Q1 2010 was USD 5.7 million, including USD 11.2 million in depreciations.

Result from Joint Venture in Q1 2011 was USD 10.1 million compared to USD 9.5 million in Q1 2010. Result from associated company in Q1 2011 was USD -0.0 million compared to USD 0.3 million in Q1 2010.

Net financial result was USD -8.0 in Q1 2011 compared to USD -6.2 in Q1 2010. The net result after-tax in Q1 2011 was USD 17.9 million compared to USD -2.2 in Q1 2010.

Tax assets of USD 21.4 million, which was not recognised as assets as of 31.12.2010, has been recognised as assets in Q1 and resulted in tax revenues of USD 21.4 million.

The USD/NOK exchange rate has changed from 5.86 as of 31 December 2010 to 5.51 as of 31 March 2011.

Cash flow

The cash flow in Q1 2011 is dominated by investing activities, primarily the sale of the shares in Deepwater Driller Ltd and the effect of purchasing the remaining 50% of the shares of Venture Drilling AS.

Cash flow from operations was USD -3.0 million in Q1 2011 compared to USD 1.1 million in Q1 2010. Cash flow from investments in Q1 2011 was USD 116.2 million compared to USD -2.4 million in Q1 2010. Cash flow from financing activities in Q1 2011 was USD -5.0 million compared to USD -1.6 million in Q1 2010.

Free cash as of 31 March 2011 was USD 118.0 million compared to USD 16.1 million in as of 31 March 2010.

Statement of financial position

As of 31 March 2011, total assets amounted to USD 294.7 million. Investment in drilling equipment had a book value of USD 83.0 million and total cash was USD 153.8 million.

As per 31 March 2011, net interest bearing bond loans amounted to USD 90.7 million, whereof USD 72.5 is recognised as a long term liability whilst USD 18.1 million is recognised at short term liability as it is due for payment in June 2011. In addition there is a financial leasing facility for rental equipment in the amount of USD 22.8 million.

Total equity was USD 112.3 million as per 31 March 2011, including a minority interest of USD 2.8 million. Book value of equity per share was USD 1.11 as per 31 March 2011, including minority interest of USD 0.03 per share.

Share information

As of 31 March 2011, the total number of shares outstanding in PDR equalled 101.259.675, each with a par value of NOK 0.04. The company has no outstanding or authorized stock options, warrants or convertible debt. As of 31 March 2011, the company held 525 003 (0.52 per cent) treasury shares.

The market and outlook

The Board of Directors remains cautious towards the general market outlook as the general financial uncertainty still remains higher than normal.

There are positive signs of improvement in the global market conditions. Still, as we have not seen the effect for the contractors, we see challenges in the pricing and duration of contracts.

In line with the mandate from the general meeting in December 2010, the process of relocating the head-office from Norway is on-going.

Related party transactions

Other than the transactions mentioned in the summary of main events, there have been no significant related party transactions.

About the company

Oilfield Service division:

Petrolia Services AS, a 100 per cent owned subsidiary of Petrolia ASA provides oilfield services worldwide. Rental of test tubing, drill pipe and associated handling and auxiliary equipment and casing/tubular running services are the main services provided.

Oil & Gas division:

Petrolia has increased its shareholding in Petroresources Ltd. to 43.78% and participated two smaller equity increases. Strategy is being developed and opportunities explored.

Drilling and Well division:

Venture Drilling AS:

The company is now a 100% subsidiary. The drillship has been redelivered to its owners and the company is marketing its remaining drilling equipment and seeking new opportunities. Since the level of activity in the company was insignificant at the transaction date, the purchase has been recorded as a purchase of assets and liabilities and not as a business combination. The transaction did not result in any goodwill.

Deepwater Driller Ltd:

All shares have been sold for a total cash consideration of USD 34.5 million. USD 3.0 million is placed in escrow (restricted cash).

Deepwater Driller Ltd and Larsen Oil & Gas Ltd. were until recently involved in arbitration proceedings before The London Court of International Arbitration for the termination of the technical and operational agreement. The parties settled the matter in May 2011 before the proceedings started.

Through a shareholders agreement the original shareholders of Deepwater Driller Ltd (Petrolia Invest AS had 30%) would have to hold the company harmless and cover any cost connected to the dispute. Petrolia, as a minority shareholder, objected to the termination since it found no legal basis for a termination and accrued USD 1.5 million in 2010. Payment of USD 1.65 million has been made in May 2011.

Key risks and uncertainty

Petrolia ASA has a bond loan of total NOK 500 million. NOK 100 million is due in June 2011 and NOK 400 million is due in June 2012. The activities and assets of the group are primarily in USD, including significant cash deposits. There is thus a significant 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 13th November 2008 whereby Petrolia Services AS purchased drilling equipment for USD 34.7 million from PetroMENA ASA. Petrolia dismisses the claim.

The Estate of Petrojack ASA (40% owned by Petrolia) is, through a writ of summons ("stevning"), seeking to invalidate an equipment purchase on 31 July 2009 whereby Petrolia Services AS purchased drilling equipment for USD 5.3 million from Petrojack ASA. Petrolia dismisses the claim.

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.

Board of Directors, Petrolia ASA, 30 May 2011

Financial report first quarter 2011 – preliminary

Consolidated Statement of Comprehensive Income

All figures in USD (1000)

	Q1 2011	YTD 2011	Q1 2010	YTD 2010
Operating revenues	20 668	20 668	17 087	17 087
Operating expenses	12 460	12 460	11 594	11 594
Operating profit before depreciation	8 208	8 208	5 493	5 493
Depreciation	9 749	9 749	11 201	11 201
Impairment	4 115	4 115	0	0
Operating profit (loss-)	-5 656	-5 656	-5 708	-5 708
Result from joint venture	10 106	10 106	9 522	9 522
Result from associated companies	-1	-1	256	256
Net financial income/expenses(-)	-7 967	-7 967	-6 210	-6 210
Profit before income tax	-3 518	-3 518	-2 140	-2 140
Tax	-21 379	-21 379	68	68
Profit for the year	**17 861**	**17 861**	**-2 208**	**-2 208**
Other comprehensive income				
Currency translation differences	-798	-798	158	158
Total other comprehensive income	**-798**	**-798**	**158**	**158**
Total comprehensive income for the year	**17 063**	**17 063**	**-2 050**	**-2 050**
Number of shares	101 259 675	101 259 675	101 259 675	101 259 265
Earnings per share, basic & diluted	**0.18**	**0.18**	**-0.02**	**-0.02**

Condensed Consolidated Statement of Financial Position

All figures in USD (1000)

Assets	**31.03.2011**	**Audited 31.12.2010**
Drilling equipment and other equipment	82 993	86 761
Land and buildings	2 135	2 245
Investments in joint venture	0	65 658
Investments in associates	3 281	2 674
Non-current assets held for sale	0	34 500
Other financial fixed assets	1 000	6
Total non-current assets	89 409	191 844
Inventory	1 955	1 121
Trade- and other current receivables	46 521	22 949
Financial asset at fair value through p/l	3 011	0
Other liquid assets	15	16
Free cash	118 029	16 053
Restricted cash	35 809	29 696
Total current assets	205 340	69 835
Total assets	**294 749**	**261 679**
Equity and liabilities	**31.03.2011**	**31.12.2010**
Share capital	749	93 568
Treasury shares	-4	-2 153
Share premium fund	45 232	45 232
Other equity	63 496	-44 253
Majority interest	109 473	92 394
Minority interest	2 838	2 854
Total equity	112 311	95 248
Bond loan	72 549	68 391
Retirement benefit obligations	286	307
Other long-term liabilities	12 022	15 582
Total non-current liabilities	84 857	84 208
Short-term portion of non-current liabilities	28 954	27 915
Accounts payable	15 964	16 545
Payable tax	11 884	-293
Other current liabilities	40 779	37 984
Total current liabilities	97 581	82 151
Total liabilities	182 438	166 431
Total equity and liabilities	**294 749**	**261 679**
Book equity per share (end of period shares)	1.11	0.94
Equity ratio	37 %	35 %

Par value of the shares has been reduced from NOK 5.00 to NOK 0.04 effective from 5 March 2011 when the change was recorded at www.brreg.no. The transaction does not affect total equity. Share capital and treasury shares are reduced while other equity increases.

Included in Restricted cash and in Other current liabilities is USD 21.2 million regarding the guarantee to Pemex regarding SS Petrolia. Once the guarantee is terminated, this cash will be release in favour of PetroMena Ltd (Cyprus). Also included in Restricted cash is USD 8.9 million on a Bond Loan interest security account.

Condensed Consolidated Statement of changes in Equity

All figures in USD (1000)

	YTD 2011	YTD 2010
Equity period start 01.01	95 248	179 040
Total comprehensive income/loss (-) for the period	17 063	-2 050
Total change of equity in the period	17 063	-2 050
Equity at period end 31.03	**112 311**	**176 990**

Condensed Consolidated Cash Flow Statement

All figures in USD (1000)

	Q1 2011	YTD 2011	Q1 2010	YTD 2010
Net cash flow from operating activities	-3 024	-3 024	1 070	1 070
Net cash flow from investing activities	116 151	116 151	-2 407	-2 407
Net cash flow from financing activities	-5 038	-5 038	-1 553	-1 553
Net change in cash and cash equivalents	108 089	108 089	-2 890	-2 890
Cash and cash equivalents at beginning of period	45 749	45 749	49 616	49 616
Exchange gain/loss (-)on cash and cash equivalents			-118	-118
Cash and cash equivalents at period end	**153 838**	**153 838**	**46 608**	**46 608**

The investment activities include several large transactions in Q1 2011.

Net effect from Venture Drilling AS transactions is USD 86.8 million and include received dividend of USD 31 million, share purchase of USD -34 million and consolidating cash of USD 89.8 million into the group accounts.

All shares in Deepwater Driller Ltd have been sold and USD 34.5 million has been received.

Other investment activities in Q1 2011 are: equipment investments of USD 2.5 million, receipts from equipment sales of USD 2.0 million, investment in associates of USD 0.6 million and investment in other shares of USD 4.0 million.

Notes to the unaudited condensed consolidated figures:

Note 1 Applied accounting principles

This first 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 was approved by the Board 30 May 2011 at 18:00 hours.

This first 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 (2010). 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 (2010) have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2010 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 31 March 2011:

All figures in USD (1000)	Drilling- and other equipment	Land and buildings	Total
Balance at 1 Jan 2011	86 761	2 245	89 006
Acquisition cost:			
Acquisition cost at 1 Jan 2011	233 787	2 464	236 251
Purchased tangibles in Q1 2011	2 540	0	2 540
Consolidation Venture Drilling AS	14 202	0	14 202
Disposal in Q1 2011	-18 192	0	-18 192
Acquisition cost at 31 March 2011	232 336	2 464	234 800
Depreciation/impairment:			
Balance at 1 January 2011	147 026	220	147 246
Depreciation in Q1 2011	9 736	13	9 749
Impairment in Q1 2011	4 115	0	4 115
Consolidating Venture Drilling AS	1 978	0	1 978
Disposal of depreciation in Q1 2011	-6 278	0	-6 278
Disposal of impairment in Q1 2011	-5 103	0	-5 103
Balance at 31 March 2011	151 474	233	151 707
Translation differences	2 131	-96	2 035
Carrying amount: Balance at 31 March 2011 Residual value	82 993	2 135	85 128

Note 3 Investments in associates

All figures in USD (1000) Investments in associates	Petroresources Ltd
Shareholding	28.57%
Business address	Limassol,Cyprus
Balance 1 January 2011	2 674
Investments (equity increase)	608
Share of result	-1
Balance at 31 March 2011	**3 281**

In April 2011 additional investments of USD 2.8 million have been made, primarily through an additional equity increase and the present ownership is 43.78%.

Note 4 Segment Information

Activities remain primarily in the oilfield services segment while the two other segments are updating their strategies and seeking opportunities.

Note 5 Legal disputes

The position in the arbitration between Venture Drilling AS and the Russian owners of the Drillship Deep Venture has been sold to another Russian company and the drillship has been redelivered to its owners.

The claw-back claims from the estates of PetroMENA ASA and Petrojack ASA remain open. Total contingent liability is NOK 278 million and Petrolia reject the claims.

Note 6 Events after the balance sheet date

There have not been any significant events after the balance sheet date.

18. APPENDIX 3: ANNUAL REPORT FOR 2008

PETROLIA DRILLING

Financial Statements 2008

Content:

DIRECTOR'S REPORT 2008 – PETROLIA DRILLING ASA

INTRODUCTION

Petrolia Drilling ASA is registered with business address in Oslo, Norway. The company is listed on Oslo Stock Exchange.

Petrolia Drilling ASA owns Petrolia Services (100%), an International Oilfield Service Company with presence in Norway, The Netherlands, Romania, Australia, New Zealand and Singapore. Petrolia Services main business activity is hiring out drilling equipment and test strings, including accessories, to oil companies, oil service companies and drilling contractors. Petrolia Services main product categories include tubing, drill pipe, casing and handling equipment as well as oilfield services.

Petrolia Drilling ASA also holds significant shareholdings in PetroMENA ASA (51.5%), Venture Drilling (50%), Petrojack ASA (39.95%) and Larsen Rig Ltd (30%).

STRATEGY

Petrolia Drilling ASA is directing its activities towards the offshore oil and gas market, drilling for oil and gas in shallow and deep waters, and providing equipment and services to clients. The object of the company is acquisition and operation of drilling vessels and everything that is connected herewith, including partnership in other companies.

The purpose of the company is to secure the shareholders competitive long-term return on the invested capital. In accordance with this purpose the board and the management shall actively develop and control the company and its possessions in order for the values to be made visible in the best way possible.

HIGHLIGHTS 2008

- Petrolia Drilling strengthened its exposure in the drilling market through participation in a private placement in PetroMENA ASA during the first half of 2008.
- SS Petrolia (owned by the subsidiary PetroMENA ASA) started operations under the 913 days contract with Pemex in the Gulf of Mexico in February 2008. Gross contract value of the Pemex contract is mUSD 269.
- PetroMENA ASA has three modern, semi submersible drilling rigs, (PetroRig I, II and III) under construction at the Jurong Shipyard in Singapore. The rigs are sixth generation units constructed for drilling in unsheltered areas in ultra-deep waters as

Brazil, the Mexican Gulf and West-Africa. Scheduled delivery of the rigs is April 2009, October 2009 and January 2010 respectively. PetroRig I and II have entered into five-year contracts with Petroleo Brasileiro S.A. at gross value of respectively mUSD 700 and mUSD 645. PetroRig III has entered into a five-year contract with Pemex at a gross value of mUSD 942. In order to take delivery of the rigs under construction, PetroMENA has to secure additional external financing. Petrolia Drilling is aware of the challenges regarding the remaining funding, and at present a sale of PetroRig I and PetroRig II seems the most likely alternative to secure shareholder values.

- Petrojack ASA has ordered two jack-up rigs at the Jurong Shipyard in Singapore. Petrojack II was delivered in March 2008 and accepted for operation by Saipem in April 2008. Petrojack II was sold to Saipem in January 2009 in order to finance the delivery of Petrojack IV. Petrojack IV was delivered from Jurong Shipyard in January 2009 and mobilised to Thailand to commence on a 5 years drilling contract with PTT Exploration and Production Public Company Limited. Total value of the contract is mUSD 275. Petrojack also owns 24.99% of Petrolia Drilling ASA and 42.2% of PetroProd Ltd. PetroProd is working on the engineering and construction of a CJ70 jack-up rig at Jurong Shipyard. In April 2009 the loan trustee, Norsk Tillitsmann, declared the bond loan in default and the Grand Court of the Cayman Islands ordered a provisional liquidator. PetroProd Ltd has on 21st of April 2009, received a notice of delisting from Oslo Stock Exchange.
- DS Deep Venture (50% controlled through Venture Drilling AS) 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 tax. Venture Drilling AS has agreed to a further 18 months contract with Maersk Oil Angola starting from the 25th of July 2009 at a dayrate of USD 495,000 after withholding tax. DS Deep Venture is performing well under the contract. Going forward Petrolia Drilling expect significant revenues to accrue to Petrolia Drilling from its holding in Venture Drilling AS.
- During 2008 Petrolia Services has increased its activities through significant investments in various drilling equipment for the oil and gas industry. The current activity in the oil service market provides a steady cash flow for the company, and Petrolia Services is expected to generate attractive return on its investment in the longer term.
- In 2008 Petrolia Drilling invested in Larsen Rig Ltd (30% owned). Larsen Rig Ltd 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.

MARKET

The market for deepwater semi submersible drilling rigs is firm. 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. However, the current credit crunch will make it difficult to secure funding of newbuilding programs, which again will effect the market.

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 recently.

The market for hiring out drilling equipment has been satisfactory in 2008.

ANALYSIS OF THE FINANCIAL STATEMENTS

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.

Financial information

Total revenues were mUSD 155.5 for the fiscal year 2008, whereof mUSD 73.7 came from SS Petrolia and mUSD 81.6 came from Petrolia Services. Total revenues for the fiscal year 2007 equalled mUSD 131.9.

Operating profit before depreciation and impairment for the group for the full year 2008 was mUSD 32.0. The expenses mainly relate to OPEX in connection with SS Petrolia, mobilisation of SS PetroRig I and the operations of the hiring out business.

Operating profit for the group amounts to mUSD -502.0 for 2008, after deduction of depreciation of mUSD 32.0 and impairment of construction contracts semi rigs of mUSD 502.1. Operating profit for the group for 2007 was mUSD 39.1 after deduction of mUSD 26.6 in depreciation.

Result after tax for the group amounts to mUSD -506.4, including negative result from investment in associates of mUSD 25.3 and impairment of investment in associates of mUSD 88.3. Share of result from Venture Drilling AS contributes positively with mUSD 28.5. Net financial items of mUSD 81.5 include unrealised currency gain on the group's bond loans nominated in NOK with mUSD 170.9. The USD has appreciated against NOK in 2008.

Per 31 December 2008 total assets of the group amounted to mUSD 1,027.1.
SS Petrolia has a carrying value of mUSD 28.3 reflecting historical cost, including upgrades, adjusted for depreciation. The value of the rig in today's market is higher.

Total assets also include three rigs under construction, PetroRig I, II and III. The rigs have suffered impairment in 2008. PetroRig I and II are valued at selling price less costs to sell and PetroRig III is valued at selling price according to received MoU. Book value of drilling equipment in Petrolia Services as of 31 December 2008 is mUSD 119.5.

The 39.95% ownership in Petrojack ASA is carried at a value of NOK 2.93/USD 0.42 per share, equivalent to the stock market price per 31.12.2008. Impairment of the Petrojack shares amounts to mUSD 59.3. Third parties valuations indicate a value of the Petrojack shares far above market value.

The 30% ownership in Larsen Rig Ltd is booked at mUSD 21.

Carried equity of the group amounts to mUSD 58.7 per 31.12.2008, including a minority interest of mUSD 43.1. Carried equity 31.12.2007 was mUSD 554.2 including a minority interest of mUSD 202.1.

Per 31 December 2008, the total number of shares outstanding in Petrolia Drilling ASA was 1,012,596,745, each with par value NOK 0.50.

The group has achieved positive cash flow from the operations of the year of mUSD 31.6 compared to mUSD 112.3 in 2007. Cash flow from investments in 2008 was mUSD -405.3 mainly related to instalments paid to Jurong and investment in Petroresources Ltd and Larsen Rig Ltd. Cash flow from investments in 2007 amounted to mUSD 224.9. Cash flow from financing activities in 2008 was mUSD -104.6 mainly related to shares issued in PetroMENA and repayment and interest on bond loans. Cash flow from financing activities in the same period in 2007 was mUSD 256.6. Total cash position year end 2008 was mUSD 127.8 compared to mUSD 612.3 year end 2007.

The revenue of the parent company for the same period amounts to mUSD 0.0 compared to mUSD 6.1 in 2007. Total operating expenses for 2008 amounts to mUSD 5.3, no depreciations. In 2007 total operating expenses were mUSD 4.3, depreciations made mUSD 1.3. Net finance in 2008 is negative by mUSD 188.5 mainly due to impairment of shares. The PetroMENA shares were impaired to stock market price 31.12.2008 of NOK 1.42/USD 0.20 due to the current financial situation in the company. The Petrojack shares have also been impaired to stock market price per 31.12.2008 of NOK 2.93/USD 0.42 per share. Net finance in 2007 was mUSD -29.6.

Result after tax for the parent company is mUSD -205.0 compared to mUSD 0.3 in 2007. Carried equity has been reduced to mUSD 216.2 per 31.12.08 compared to mUSD 421.9 in 2007. Cash flow from operations in 2008 was mUSD -7.5 compared to mUSD -14.3 in 2007. Cash flow from investments was mUSD -63.6 in 2008 mainly related to investments in PetroMENA ASA and Petrolia Invest AS. Cash flow from investments in 2007 amounted to mUSD 8.4. Cash flow from financing activities in 2008 was mUSD 93.5 mainly due to refinancing of bond loan of mNOK 500 and funding from the subsidiary Petrolia Rigs. Cash flow from financing activities in the same period in 2007 was mUSD 1.7. Total cash position year end 2008 was 15.2 compared to mUSD 1.1 year end 2007.

FINANCIAL AND LIQUIDITY RISK

In December 2007 PetroMENA established a mUSD 200 bank financing facility for each of the rigs with Lloyds TSB Bank ("Lloyds"), equalling the maximum amount of First Priority Debt allowed under the Bond Loan Agreements.

However, the undrawn mUSD 200 credit facilities for each of the new buildings will not be sufficient to fully fund each rig; consequently there is a funding gap to bring the units into operation.

PetroMENA has discussed with Lloyds and another bank to jointly provide the requested amount needed to take delivery of Petrorig I and get the rig into operation. The banks provided the Company with an indicative term sheet for a new mUSD 300 credit facility related to Petrorig I, but would not finalize the loan facility, unless consent from Bondholders regarding certain issues was given. Such consent was not given by the Bondholders, in stead PetroMENA has received default notices from Norsk Tillitsmann, the loan trustee for all bond loans in the PetroMENA group. PetroMENA reject that any default exist, and hence no change has been made in classification of bond loans in relation to the above. Due to the default notice from Norsk Tillitsmann Lloyds has withdrawn the loan commitment of mUSD 600.

PetroMENA has received memorandum of understanding (MOUs) related to sale of all rigs under construction. Any such sale is subject to Bondholder approval. The Company is of the opinion that, due to the default notices from Norsk Tillitsmann, the preferred alternative for both creditors and current shareholders is sale of PetroRig I and PetroRig II.

A Memorandum of Understanding ("MOU") has been signed for PetroRig I at mUSD 450 and PetroRig II at mUSD 425. A potential sale of PetroRig I and PetroRig II requires early redemption of the 9.75% bond loan and partial redemption of the 10.85 % bond loan. Larsen Oil & Gas is entitled to a sales commission equal to 4 % of total consideration in the event of sale of PetroRig I or PetroRig II.

Based on the assumption that the MOU for rig I and II leads to a sale of these rigs, and that bondholders approves such a sale and accept full redemption of the 9.75 % bond loan and acceptance of partial redemption of the 10.85 % bond loan, PetroMENA will not require external financing before delivery of PetroRig III in January 2010.

The Board is aware of the challenges and uncertainties regarding the remaining funding, and irrespective of a sale of PetroRig I and II is completed, PetroMENA will have a significant unfunded construction program related to PetroRig III. Such new funding is subject to acceptance from the bondholders in the loan related to PetroRig III. PetroMENA will work actively towards selling PetroRig III if not able to secure additional financing in order to take delivery of PetroRig III and bring the unit into operation. The Company will seek to establish financing for the remaining instalments related to construction of PetroRig III from Lloyds and/or other banks in order to take delivery of PetroRig III and recover shareholder values through future cash flow from the five year drilling contract entered into with Pemex, representing a total value of mUSD 942. Possible funding alternatives are to secure similar bank debt structures as the new PetroRig I facility or to sell the rig. Alternatively, the Company could issue new equity at term acceptable to current shareholders if the market allows for that going forward.

At present the alternative described above seems the most realistic avenue to secure future operations of PetroMENA ASA.

GOING CONCERN ASSUMPTION

The Board of Directors and the Managing Director are of the opinion that the financial statements should be based on the going concern assumption.

Please be advised that PetroMENA has not secured complete financing for the construction program with Jurong and whether such financing is obtained or not is highly uncertain. The group has received MOU regarding sale of PetroRig I and PetroRig II, and subject to bondholder approval of certain changes in redemption profile of bonds, PetroMENA will be able to sell PetroRig I and PetroRig II with net positive proceeds. Following a potential sale of PetroRig I and PetroRig II, PetroMENA will be able to continue its efforts to secure financing for PetroRig III in order to take delivery and bring the unit into operations. Please be aware that the outcome of the group's efforts to conclude a sale of PetroRig I and PetroRig II is highly uncertain.

The group has made impairments of its rigs under construction in connection with submission of the annual accounts. The impairments were based on the MOU's received regarding sale of the rigs under construction, which reflects what the group could obtain, at the balance sheet date from disposal of the Rigs. If bondholders will not accept sale of PetroRig I and PetroRig II, and early redemption at terms described herein, the potential loss for PetroMENA may exceed the impairments recognized as of 31 December 2008.

For the avoidance of any doubt, please be aware that the groups liabilities, including bonds and commitments with regards to the construction contracts entered into with Jurong mainly lies in the subsidiary PetroMENA ASA, in which the Petrolia Drilling ASA holds 51.5% of outstanding shares. Petrolia Drilling ASA has no obligation to increase its investments in PetroMENA through participation in future possible share issues or through issuance of new bonds or through loans to secure that PetroMENA can take delivery of the rigs under construction. Petrolia Drilling ASA's assets, including Petrolia Services, Venture Drilling and Petrojack ASA among other will not be affected by a potential default on the bondloan agreements in PetroMENA ASA.

If PetroMENA is not able to secure financing for the rigs under construction or complete the contemplated sale of PetroRig I and PetroRig II, the group will not be able to take delivery of PetroRig I and PetroRig II. In such an event Jurong may sell the rigs under construction at the risk of PetroMENA ASA and its bondholders. In the event that PetroMENA is not able to take delivery of the rigs under construction PetroMENA will be exposed to a potential loss equal to the total instalments paid to Jurong.

Petrolia Drilling ASA's (and the group's liabilities excluding liabilities in PetroMENA) long term liabilities mainly consist of the mNOK 500 bond and leasing liability of mUSD 30.4. Petrolia Drilling expects significant revenues from both Petrolia Services and Venture Drilling going forward and is of the opinion that the Company will be able to service its liabilities through operational cashflow from its assets and businesses.

WORKING ENVIRONMENT AND PERSONNEL

Petrolia Drilling ASA has no employees of its own.

Management of the Company is attended to through a management agreement with Larsen Oil & Gas AS and Larsen Oil & Gas Ltd. Larsen Oil & Gas AS is to carry out administration, accounting and budgeting.

LOG Ltd shall be acting as manager on project management and operation until otherwise arranged.

In total the group has 218 employees through the IOT group in respectively Norway, Holland, Romania, Australia and New Zealand, including 41 women. Total number of man-labour years was 217.5. As far as The Board of Directors are aware, there have not been any serious damages or accidents in 2008.

Total absence due to sickness has been 2.2% during the accounting year.

Petrolia Drilling's Board of Directors consists of 3 men and 2 women.

ENVIRONMENT REPORTING

The company has as objective that all activities that are performed are to be carried out without damage on people or surroundings. The company's activities this year have not caused pollution of the environment in defiance of demands made by the prevailing authorities.

EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date Petrojack has taken delivery of the Petrojack IV, which commenced a drilling contract with PTT Exploration & Production Public Company Limited shortly after delivery. In order to secure financing for the last instalment regarding the construction of Petrojack IV, Petrojack II was sold to Saipem (Portugal) Comercio Maritimo S.U. LDA. Following the sale of the Petrojack II, the Company redeemed bonds in accordance with the amended loan agreements in the Bond Loans, approved on the bondholders meetings on 19 November 2008. The net proceeds after redemption of bonds were used to pay the final yard instalment for Petrojack IV.

After the balance sheet date, PetroMENA (subsidiary of Petrolia Drilling) has actively been working to secure additional financing and/or solutions for the rigs under construction.

In connection with financing of PetroRig I, PetroMENA has held various bondholder meetings to reach acceptance to increase the carve-out for First Priority Debt related to PetroRig I from mUSD 200 to mUSD 300 in order to secure financing for the remaining instalments and mobilisation of PetroRig I. The bondholders' meetings regarding the 9.75% and the 10.85% bond loans approved the proposal, however with certain conditions.

Further PetroMENA has in a bondholders meeting proposed to defer the required equity increase of mUSD 50 in the rig owning entity PetroRig III according to the bond loan agreement due to the fact that the yard has accepted postponement of the mUSD 105 instalment until delivery in January 2010. Such approval has not been given.

As the bondholders and PetroMENA have not reached a final agreement regarding the conditions for the First Priority Debt, the company has not been able to secure complete financing for PetroRig I, and has received notice of default for bond loans from Norsk Tillitsmann, the loan trustee for bond loans in PetroMENA group. The company reject that any default exist. Due to the default notice from Norsk Tillitsmann, Lloyds has withdrawn the loan commitment of mUSD 600.

PetroMENA has received a MOU for sale of all the rigs under construction. Due to the financial situation in the group, sale of PetroRig I and PetroRig II seems the most likely alternative.

The company has recently filed preliminary injunctions both in Singapore and Norway against enforcement actions initiated by Norsk Tillitsmann on behalf of the bondholders. Singapore court has decided that the case shall be fully argued after 20 May 2009. Pending further hearing SS PetroRig I is not to be taken out of Singapore without prior notice to the court. Oslo court (Oslo Byfogdembete) has dismissed PetroMENA's filing for preliminary injunction. Based on the court decisions the company will continue its efforts to secure the companies values for the creditors and its shareholders, hereunder its claim for damages against the bondholders.

Oslo/Bergen, 28 April 2009

Klaus P. Tollefsen Chairman of the Board	Terje O. Hellebø Board member	Gun Marit Stenersen Board member
Leif Holst Board member	Unni F. Tefre Board member	Lars Moldestad Managing Director

Petrolia Drilling ASA
CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)

	Note	Group 2008	Group 2007
Revenue	1	155 484	131 927
Wage cost	2	11 376	7 586
Depreciation	7	31 961	26 604
Impairment of construction contract semi rigs	7	502 059	0
Other operating expenses	3	112 097	58 614
Operating result		-502 009	39 123
Result from investment in joint venture	9	28 451	12 760
Result from associated companies	10	-113 669	-12 476
Interest income	23	6 185	4 243
Financial income	23	143 066	54
Interest expenses	23	43 348	22 005
Financial expenses	23	24 405	11 882
Result before taxes		-505 729	9 817
Tax on result	5	-641	-2 524
Result of the year		-506 370	7 292
Attributable to:			
Shareholders		-327 044	7 610
Minority interests		-179 326	-318
		-506 370	7 292
Earnings per share for the result attributable to the shareholders of the company during the year (USD per share)			
Earnings per share	4	-0,50	0,01
Earnings per share fully diluted	4	-0,50	0,01

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA
CONSOLIDATED BALANCE SHEET

(Amounts in USD 1 000)

ASSETS	Note	As at 31 December Group 2008	2007
Non-current assets			
Intangible assets	6	17 344	23 090
Deferred income tax assets	5	3 694	11 223
Drilling units	7	28 262	28 615
Construction contracts Semi-Rigs	7	541 118	733 933
Drilling equipment and other equipment	7	119 509	105 071
Land and buildings	7	2 705	3 116
Investments in joint venture	9	76 827	62 431
Investment in associated companies	10	34 756	100 425
Total non-current assets		824 213	1 067 904
Current assets			
Inventory		327	0
Trade- and other current receivables	12	73 795	53 968
Financial assets at fair value through profit and loss	11	871	3 483
Investment in money market fund	13	83	101
Bank deposits	14	127 812	612 275
Total current assets		202 888	669 827
TOTAL ASSETS		1 027 102	1 737 731

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA
CONSOLIDATED BALANCE SHEET PER. 31.12.

(Amounts in USD 1 000)

		As at 31 December	
		Group	
EQUITY AND LIABILITIES	Note	2008	2007
Equity			
Share capital	15	93 568	93 568
Own shares		-2 153	-1 464
Share premium fund		123 119	283 552
Other equity not recognised through profit and loss	24	-16 253	-7 524
Uncovered loss		-182 695	-16 084
		15 587	352 049
Minority interests		43 067	202 146
Total equity		58 654	554 194
Liabilities			
Non-current liabilities			
Bond loans	16	418 400	908 027
Pension liability	21	433	485
Other non-current liabilities	17	27 282	10 084
		446 115	918 595
Current liabilities			
Short term portion of non-current liabilities	18	438 261	163 969
Trade payables	20	22 964	15 405
Payable tax		173	76
Other current liabilities	20	60 936	85 490
		522 334	264 941
Total liabilities		968 448	1 183 536
TOTAL EQUITY AND LIABILITIES		1 027 102	1 737 731

The accompanying notes are an integrated part of the financial statements.

Oslo, 28 April 2009

Klaus P. Tollefsen
Chairman of the Board

Terje Hallebe
Board member

Unni F. Tefre
Board member

Leif Holst
Board member

Gunn Marit Stenersen
Board member

Lars Moldestad
Managing director

Petrolia Drilling ASA Group

Consolidated statement of changes in equity
(Amounts in USD 1 000)

	Share Capital	Own shares	Share premium fund	Other equity not recognised through profit and loss	Uncovered loss	Minority interests	Total equity
	Equity attributable to the company's shareholders						
Equity 1 January 2007	78 485		197 496	303	-17 482		258 801
Capital increase through contribution in kind	15 083		86 362				101 443
Issue expenses covered by share premium fund			-306				-306
Remeasurement of shares in associated company				3 699			3 699
Addition minority share through acquisition						202 490	202 490
Purchase/sale of own shares		-1 464			-6 543		-8 007
Currency translation differences				-3 457	322	-26	-3 162
Available for sale financial assets				-187			-187
Result of the year to equity					7 610	-318	7 292
Equity 31 December 2007	93 568	-1 464	283 552	-7 524	-16 084	202 146	554 194
Equity 1 January 2008	93 568	-1 464	283 552	-7 524	-16 084	202 146	554 194
Capital increase in subsidiary						23 149	23 149
Issue expenses in subsidiary				-485		-648	-1 133
Remeasurement of shares in subsidiary				4 053		-2 132	1 921
Purchase/sale of own shares		-689					-689
Result of the year to equity			-160 433		-166 611	-179 226	-506 270
Currency translation differences				-12 691		-22	-12 713
Equity 31 December 2008	93 568	-2 153	123 119	-16 253	-182 695	43 067	58 654

Per 31 December 2007 the company owns [illegible] own shares. The shares have been purchased at an average purchase cost of NOK 2.29 per share.
Per 31 December 2008 the company owns [illegible] own shares. The shares have been purchased at an average purchase cost of NOK 2.21 per share.

The accompanying notes are an integrated part of the financial statements.

Petrolia Drilling ASA

Consolidated cash flow statement

(Amounts in USD 1 000)	Note	Year ended 31 December Group 2008	2007
Cash flows from operating activities			
Result before taxes		-505 729	9 817
Prepaid taxes in the period		842	70
Gain from sale of equipment		-2 934	-156
Loss/gain from sale of current assets		-70	0
Depreciation	7	31 961	26 604
Impairment of rigs	1,7	502 059	0
Change in net pension liability		58	448
Change in trade receivables		-10 990	-11 994
Change in trade payables		7 558	8 108
Accruals and items classified as financing/investment		41 554	31 617
Result from investment in joint venture	9	-28 451	-12 760
Result from investment in associated companies	10	113 669	12 476
Dividend from joint venture	9	12 424	0
Unrealised foreign currency loss/gain		-130 310	48 051
Net cash generated from operating activities		31 641	112 280
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	7	4 610	1 193
Purchase of operating equipment	7	-357 214	-157 245
Cash flow from acquisition		4 239	378 976
Proceeds from sale of shares and investments in other companies		-283	1 151
Investment in shares in associated companies	10	-47 999	
Investment in shares in other companies		-8 702	-55 982
Proceeds from sales of liquid reserves		18	0
Purchase of liquid reserves		0	56 808
Net cash used in investing activities		-405 331	224 901
Cash flows from financing activities			
Proceeds from bond loan		94 609	328 344
Proceeds from short-term loan		6 979	-7 656
Repayment of long-term loans		-139 898	-4 031
Interest paid on bond loans		-48 731	-42 449
Purchase of own shares/issue costs		-690	-1 810
Payment of debt financing costs	6	-5 238	-10 218
Increased capital through subsidiaries (minority)		23 049	0
Repayment of long term/short term borrowings		-33 754	-5 540
Net cash used in financing activities		-104 582	256 570
Net cash flow of the period		-478 273	593 751
Cash and cash equivalents at the beginning of the period	14	612 275	18 524
Exchange gains (loss) on cash and cash equivalents		-6 190	0
Cash balance at December 31	14	127 812	612 275
Specification of cash and cash equivalents at period end			
Bank deposits	14	127 812	612 275
Whereof restricted bank accounts is	14	97 769	384 910

The accompanying notes are an integrated part of the financial statements.

Accounting policies and general information

General Information

Petrolia Drilling ASA was established 13 March, 1997. The consolidated financial statements for the accounting year 2008 comprise the company and its subsidiaries (together referred to as "the group") and the group's share of a joint venture and associated companies.
Through the shareholding of 51.5% in PetroMENA ASA the group owns the semi submersible drilling rig SS "Petrolia" and has another three semi submersible drilling rigs under construction.
Through its shareholding of 39.95% in the associate Petrojack, the group has exposure to the jack-up segment. Also the group owns a 50% share of the joint venture Venture Drilling AS.
The group's activities are directed towards investments in and charter of drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Further on, the company is hiring out drilling equipment and test strings, including accessories, to oil companies, oil service companies and drilling contractors.

Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The annual financial statements were adopted by the Board of Directors on 28 April 2009.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Petrolia Drilling ASA have been prepared in compliance with International Financial Reporting Standard (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention with the following modification: Financial assets recognised at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed below.

The accounting year follows the calendar year. The income statement is by nature.

Interpretations effective in 2008

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the group's operations:

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'

Interpretations effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are considered not relevant to the group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them and they are not expected to have any material impact on the group's financial statements.

- IFRS 8 'Operating segments'
- IAS 23 (Amendment), 'Borrowing costs'
- IAS 1 (Revised), 'Presentation of financial statements'
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'
- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IFRS 3 (Revised), 'Business combinations'
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures')
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7)
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 38 (Amendment), 'Intangible assets'
  IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IAS 16 (Amendment), 'Property, plant and equipment'.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations.
The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations:

- IFRS 2 (Amendment), 'Share-based payment'
- IAS 19 (Amendment), 'Employee benefits'
- IAS 20 'Accounting for government grants and disclosure of government assistance'

- IAS 29, 'Financial reporting in hyperinflationary economies'
- IAS 40, 'Investment property'
- IAS 41, 'Agriculture'
- IFRIC 15, 'Agreements for construction of real estates'

Consolidation principles

(i) Subsidiaries
Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement at the time of acquisition.

Summary of the companies of the group: Per 31.12.2008 the consolidated companies are presented in the balance sheet as follows:

Owner	Share-holding	Objective, activity, business office
Shares owned directly by the parent company		
Petrolia Drilling II AS	100%	Holding company for Petrolia Rigs AS and Petrolia Services AS. The company is registered and domiciled in Norway.
Petrolia Drilling Ltd.	—	A company registered on Virgin Island. The shares are controlled by a trust in Jersey. Petrolia Drilling ASA is "beneficial owner" of the trust.
Petrolia Invest AS	100%	Owner of shares in the associate Larsen Rig Ltd. The company is registered and domiciled in Norway.
PetroMENA ASA - group	51.3%	Owner of the rig SS "Petrolia" and has three semi submersible rigs under construction at the Jurong shipyard in Singapore. The company is registered and domiciled in Norway.
Shares owned by PetroMENA ASA:		
PetroRig I Pte Ltd	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
PetroRig II Pte Ltd	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
PetroRig III Pte Ltd	100%	Building one semi-submersible at Jurong Shipyard Pte Ltd in Singapore. The company is registered and domiciled in Singapore.
Petromena Ltd	100%	Owner of the second generation drilling unit SS "Petrolia".
Shares owned by PDR II AS:		
Petrolia Rigs AS	100%	Sold the drilling rig SS Petrolia to PetroMENA in 2007. The company is registered and domiciled in Norway.
Petrolia Services AS	100%	Owner of drilling equipment. The company is registered and domiciled in Norway.
Shares owned by Petrolia Services AS:		
Independent Oil Tools AS	100%	Hiring out- and service of drilling equipment. The company is registered and domiciled in Norway.
Shares owned by Independent Oil Tools AS		
Independent Tool Pool AS	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway.
Premium Casing Services Pty Ltd	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Australia.
SM Industriservice AS, merged with IOT AS in 2008	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway.
Independent Oil Tools BV	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
Shares owned by IOT BV		
Independent Oil Tools Dosco BV	51%	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland.
Independent Oil Tools Dosco Srl	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in Romania.
Caspian Oilfield Services	51%	Hiring out- and service of drilling equipment The company is registered and domiciled in Azerbaijan.
Shares owned by Premium Casing Services		
Premium Casing Services Pty Ltd	100%	Hiring out- and service of drilling equipment The company is registered and domiciled in New Zealand.

Petrolia Drilling ASA
Notes to the consolidated financial statements 2008

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(ii) Joint venture and associates
By joint venture is meant financial activity controlled through agreement between two or more parties who jointly control the activity. Joint venture implies that no party alone has controlling influence. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint venture and associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investments in joint venture and associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its joint venture's/ associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in a joint venture or an associate equals or exceeds its interest in the joint venture/associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture/associate.

Unrealised gains on transactions between the group and its joint venture/associates are eliminated to the extent of the group's interest in the joint venture/associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture/associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in joint venture/associates are recognised in the income statement.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical market (segment) is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The group operates within two business segments, hiring out of drilling vessels (Drilling) and hiring out of drilling equipment (Oilfield services). The drilling units are offered for contract spread on several geographical markets. Oilfield services is hiring out drilling equipment and manpower from offices in Australia, New Zealand, Netherlands, Romania, Dubai and Singapore among others.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Petrolia Drilling ASA has with effect from 01.01.2008 changed presentation currency from NOK to USD. All comparative figures have been converted and presented in USD for information purposes.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within 'financial income/ financial expense'.

Group companies
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Rigs and drilling equipment
Rigs and drilling equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Periodical maintenance is recognised in the balance sheet as part of the drilling unit and depreciated straight-line over the period till next maintenance, normally after 60 months. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on rigs and drilling equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on sales and disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'revenue' in the income statement.

Construction contracts
Construction contracts are recognised net in the balance sheet, i.e. paid yard instalments are recognised in the balance sheet as payments are made. Settled instalments are classified as non-current asset in the balance sheet.

Construction expenses are carried and classified as non-current assets. Construction expenses include contractual expenses and expenses involved in supervision in the construction period. Contract expenses include expenses that can be related to the project for the period from entering into the contract till final completion of the ordered work. Net interest for construction debt financing in the contract period is also included.

The construction and financing contracts are subject to the contracts and delivery of rigs taking place to company domiciled in Singapore.

Intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Borrowing costs
Success fee related to the establishment of loan commitments is recognised as an asset for the period from the loan commitment is granted and till the loan is drawn. When the loan is drawn, the success fees are reflected as an acquisition cost and net against the carrying amount of the loan. Subsequently, this amount is recognized as interest expense using the effective interest rate over the term of the loan.

Carrying amount is subject to annual impairment test and recognised at acquisition cost.

Impairment of non-financial assets
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non

financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets
Classification
The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The group does not make use of hedging accounting according to IAS 39, therefore all financial derivates are recognised at fair value when changes in value are recognised in the income statement.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other current receivables, investment in money market fund and bank deposits in the balance sheet.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within "financial income/financial expenses", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of financial income when the group's right to receive payments is established.

Other change in recognised value of monetary securities and value changes of equity instruments classified as available for sale are recognised directly against equity. When securities classified as

available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity through profit or loss are included in the income statement as 'financial income/financial expenses'.

Fair value of quoted investments is based on current bid price.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For shares classified as available-for-sale, a significant or prolonged decline in the fair value below purchase cost is considered as an indicator that the share is impaired. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on shares and corresponding instruments are not reversed through the income statement.

Trade receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other operating expenses'. When a trade or other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the income statement.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital and premium
Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Accrued interest expenses are classified as current portion of non-current liabilities.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Leases
Finance leases
The group is reporting finance leases as assets and liabilities in the financial statements, equivalent to the cost price of the asset or, if the lower, the present value of the cash flow of the lease. By calculation of present value of the lease the implicit interest expense in the lease is applied, when determinable. If not determinable the company's marginal market borrowing rate is used. Direct expenses connected to the leases are included in the cost price of the asset. Monthly lease amounts are split in an interest element and a repayment element. The interest expense is allocated to various periods so that the interest rate is the same for all periods.

The asset that is included in a finance lease is depreciated. Depreciation period is consistent for corresponding assets owned by the group. If there is uncertainty whether the company will take over the asset at expiration of the lease contract the asset is depreciated over the shorter of the term of the lease contract and depreciation period for corresponding assets owned by the group.

If a "sale and back-lease" transaction results in a finance lease, a possible profit will be deferred and recognised over the period of the lease.

Operational leases
Leases where the main risk is on the hand of the contracting party, are classified as operational leases. Lease payments are classified as operational expense and recognised in the income statement over the contract period.

In case that a "sale and back-lease" transaction should result in an operational lease and it is evident that the transaction has been carried out at fair value, a possible profit or loss will be recognised in the income statement as the transaction is accomplished. Should the selling price be below fair value a possible profit or loss will be recognised directly, except for the situation that this involves future lease payments below market price. In that case the profit/loss is amortised over the period of the lease. If the selling price is above fair value, the excess price will be amortised over estimated period of use for the asset.

Current and deferred income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pension obligations
The pension schemes of the group are funded through payments to insurance companies, determined by periodic actuarial calculations. The group has both defined contribution plans and defined benefit plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets adjusted for not recognised actuarial gains and losses and not recognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognised income and expense in the period in which they arise.

Changes in the pension benefits are recognised immediately as expense or income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Contingencies and allocations
Contingencies and allocations are recognised when there is a valid claim (legal or expected) as a consequence of previous events and it can be made probable (more than 50%) that a settlement will take place owing to the debt and the debt may be measured reliably. Contingencies and allocations are estimated at each balance sheet date and the recognized amount reflects best estimate of the liability.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for rental of drilling units and drilling equipment. The revenue is recognised on the basis of day rates and actually accrued time. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Mobilization expenses
Mobilisation income and expense are distributed over the mobilisation period. If the expenses exceed the income in the mobilisation period, expenses corresponding to the income in the mobilisation period are recognised in the income statement. Excess expenses are recognised in the balance sheet and distributed over the duration of the contract.

Related-party transactions
Information as to which persons and companies that are considered as related parties has been stated in note to the consolidated financial statements. Agreements, transactions and outstanding accounts with related parties are described in the same note.

Cash flow statement
The cash flow statement has been prepared according to the indirect method. The indirect method involves reporting gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash and cash equivalents comprise bank deposits and other current, liquid investments which immediately and at insignificant exchange rate risk can be converted into known cash amounts and with due dates of less than three months from purchase date.

Earnings per share
Earnings per share are calculated by dividing the result of the group on a time weighed average number of ordinary shares for the period.

Events after the balance sheet date
New information about the position of the group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 25.

Financial risk management

Financial risk factors
The group uses financial instruments as bond loans, forward contracts, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the group's activity. Further on the group has financial instruments like trade receivables, prepayments and trade payables which are directly connected to the current operations of the group. The group does not use derivative financial instruments to hedge certain risk exposures. In periods the group invests liquid assets in available-for sale financial assets and financial assets at fair value through profit and loss.

The group's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The group is subject to a balances exposure through income and expenses in USD and NOK and financing in USD and NOK. In addition the group is subject to a balanced exposure through fixed and floating rate of interest from its financing which limits the liquidity risk. The credit risk which the company is exposed to is acceptable.

Credit risk
The group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments to yard for construction of rigs. The maximum risk exposure is represented by the carrying value of rigs under construction referred to in note 7 and carrying value of trade receivables and other receivables referred to in note 12.

The group has few customers as the rigs are on hire on long term contracts with fixed day-rates. SS Petrolia entered into a 913 days contract with Pemex Produción y Exploración, the Mexican state owned petroleum company. Pemex is the one of the world's largest producers of crude oil. The equipment in the oilfield services segment is mainly on rental through Certified Oilfield Rentals throughout the world. In 2009 Petrorig I will start a 5 year contract with Petrobras, the largest listed company in South America. The group's revenues are limited to a number of transactions and customers and therefore credit risk is transparent.
The group has credit risk related to its customers including outstanding receivables to arise from the contract and committed transactions. Management does not expect any losses from non-performance by its debtors.

Interest rate risk
The group is exposed to interest rate risk through its financing activities (cf. note 16 and 17). Part of the interest-bearing liabilities is based on floating rates which implies that the group is exposed to changes in the interest rate level.

The group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. Per 31.12.2008 approximately 70% of the group's borrowings were based on fixed rate of interest.

The table below illustrates the group's volatility related to potential changes in the interest rate level. The calculation includes all interest-bearing instruments and elucidates the volatility in result and equity to changes in interest rate level assuming the same capital structure throughout the year as capital structure at the end of the accounting year.

Sensitivity for changes in interest rate level			
(amounts in USD 1000)	Changes in interest rate level in basic items	Impact on result before tax	Impact on equity
2008	50	-763	-549
2007	50	1 251	901

Further information regarding the interest rate conditions of the group's financing is given in note 16.

Liquidity risk
Liquidity risk is the risk that the group is not able to meet its financial liabilities as they fall due. The group's strategy of handling credit risk is to have sufficient liquidities at all times to pay any liability on maturity, in both normal and extraordinary circumstances.

Unused part of bond loan issued in connection with the construction of PetroRig III is deposited on suspense account for the financing of instalments on the construction contract. The group has placed the capital from issuance of bonds in NOK and USD while the settlements for the rigs are nominated in USD and SGD.

In December 2007 the Group established a mUSD 200 bank financing facility for each of the rigs with Lloyds TSB Bank ("Lloyds"), equalling the maximum amount of First Priority Debt allowed under the Bond Loan Agreements.

However, the undrawn mUSD 200 credit facilities for each of the new buildings will not be sufficient to fully fund each rig; consequently there is a funding gap to bring the units into operation. PetroMENA has at length explored various alternatives to meet this funding requirement. The bank financing market has been extremely challenging for months, as banks are generally unable or unwilling to assume new commitments.

PetroMENA has discussed with Lloyds and another bank to jointly provide the requested amount needed to take delivery of Petrorig I and get the rig into operation. The banks provided the Company with an indicative term sheet for a mUSD 300 credit facilities related to Petrorig I, but would not finalize the loan facility, unless consent from both Bondholders was given. Such consent was not given by the Bondholders, instead PetroMENA has received default notices from Norsk Tillitsmann, the loan trustee for all bond loans in PetroMENA group. PetroMENA rejects that any default exists, and hence no change has been made in classification of bond loans in relation to the above. Due to the default notice from Norsk Tillitsmann, Lloyds has withdrawn the loan commitment of mUSD 600.

PetroMENA has received memorandums of understanding (MOU's) related to sale of all rigs under construction. The Company is of the opinion that the preferred alternative for both creditors and current shareholders is sale of SS PetroRig I and SS PetroRig II.

Meanwhile, a Memorandum of Understanding ("MOU") has been signed for SS PetroRig I for mUSD 450 and SS PetroRig II for mUSD 425 respectively. A potential sale of SS PetroRig I and SS PetroRig II requires early redemption of the 9.75 % bond loan and partial redemption of the 10.85 % bond loan. In the event of sale of SS PetroRig I and SS PetroRig II PetroMENA shall redeem the 9.75 % bond loan at a price equal to 107 % of par value. In the event of sale of SS PetroRig I or SS PetroRig II, PetroMENA shall redeem mUSD 60 for each rig sold, in total mUSD 126 at a price equal to 105 % of par value.

The last payment to Jurong regarding SS PetroRig I equals mUSD 233 and regarding SS PetroRig II equals mUSD 243. In addition PetroMENA will incur various expenses in connection with a potential sale of SS PetroRig I and SS PetroRig II. Larsen Oil & Gas is entitled to a sales commission equal to 4 % of total consideration in the event of sale of SS PetroRig I or SS PetroRig II.

Total net proceeds from a possible sale of PetroRig I and PetroRig II following redemption according to bond loan agreements is set forth below:

(amounts in MUSD 1 000)	PetroRig I	PetroRig II	Total
Offer price	450	425	875
Last payment to Jurong	-233	-243	-476
Sales commission	-18	-17	-35
Early redemption 9.75 % bond	-153	-153	-306
Early redemption 10.85 % bond	-63	-63	-126
Net proceeds	-17	-51	-68

The gross proceeds from a possible sale of SS PetroRig I and SS PetroRig II at mUSD 450 and mUSD 425 respectively will not cover payments to Jurong, early redemption according to bond loan agreements, other expenses and sales fee to Larsen Oil & Gas. In order to reach an acceptable solution for shareholders and bondholders, the Board and the Managing Director will ask for approval by bondholders to accept full redemption of the 9.75 % bond at a price equal to 100% of par value, and redemption of in total mUSD 40 of the 10.85 % bond at a price equal to 100 % of par value. If bondholders accept the solution described above, PetroMENA will receive estimated net proceeds of mUSD 38 excluding various expenses from the sale of PetroRig I and II. For the avoidance of doubt, please be aware that the solution described above is subject to approval by bondholders and whether such approval is given or not is uncertain.

Total expected net proceeds based on redemption as described in the section above is set fourth below:

(amounts in MUSD 1 000)	PetroRig I	PetroRig II	Total
Offer price	450	425	875
Last payment to Jurong	-233	-243	-476
Sales commision	-18	-17	-35
Early redemption 9.75 % bond	-143	-143	-286
Early redemption 10.85 % bond	-20	-20	-40
Net proceeds	36	2	38

Based on the assumption that the MOU for rig I and II leads to a sale of these rigs, and that bondholders approves such a sale and accept full redemption of the 9.75 % bond loan and partial redemption of the 10.85 % bond loan, PetroMENA will not require external financing before delivery of PetroRig III in January 2010.

The Board is aware of the challenges and uncertainties regarding the remaining funding, and irrespective of whether a sale of PetroRig I and II is completed, PetroMENA will have a significant unfunded construction program related to PetroRig III. PetroMENA will work actively towards selling PetroRig III if not able to secure additional financing in order to take delivery of PetroRig III and bring the unit into operation. The Company will seek to establish financing for the remaining instalments related to construction of PetroRig III from Lloyds and/or other banks in order to take deliver of PetroRig III and recover shareholder values through future cash flow from the five year drilling contract entered into with Pemex, representing a total value of MUSD 942. Possible funding alternatives are to secure similar bank debt structures as the new PetroRig I facility or to sell the rig. Alternatively, the Company could issue new equity at terms acceptable to current shareholders if the market allows for that going forward.

Assuming a sale of SS PetroRig I and SS PetroRig II, the Company estimates that the next capital requirement will be in connection with the delivery of SS PetroRig III in January 2010. The Company will work actively towards selling SS PetroRig III if required to avoid significant dilution of shareholders value.

Please be advised that PetroMENA has not secured complete financing for the construction program with Jurong. If PetroMENA is not able to secure required funding from banks or from other sources of external financing, PetroMENA will not be able to service its liabilities as described in the Director's Report.

The table below states maturity profile of financial liabilities recognised per 31.12.2008:

Amounts in USD 1000

Per 31 December 2008	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	22 964				22 964
Interest	14 533				14 533
Bond loans	420 159	129 600	112 875	187 172	849 806
Other long-term debt	7 940	13 811	13 471		35 222
Other current liabilities	61 109				61 109

Retirement benefit obligations have been exempted in the above profile.
In addition there are payments to the yard of the last instalments of the construction program, cf. note 7.

Per 31 December 2007	< 1 year	1-2 years	2-5 years	>5 years	Total
Trade payables	15 405				15 405
Bonds	133 025	26 400	309 193	572 434	1 041 052
Interest	28 091				28 091
Other long term liabilities	2 854		10 084		12 938
Other current liabilities	85 566				85 566

Retirement benefit obligations have been exempted in the above profile.

Further information regarding non-current loan and liabilities in connection with financial lease contracts is stated in note 16 and 17.

Foreign exchange risk
The foreign exchange risk exposure mainly relates to the program of new constructions of the group. The new construction program has been contracted in USD and parts of the financing are nominated in NOK. The group has reduced the foreign exchange risk by the capital collected through issuance of bond loan nominated in NOK for the financing of the new construction program, partly being invested in USD. As of 31 December 2008 and 2007, the group had mNOK 4,100 in bond loans nominated in NOK.

The group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the group has mainly income and operating expenses in USD while parts of the financing is nominated in NOK. Future revenues and expenses connected to the rigs will be nominated in USD and net cash flow in NOK will depend on future exchange rate of USD.

Rigs under construction are also exposed to exchange rate changes as the secondary market trading of rigs normally is executed in USD. Changes in foreign exchange rates will have an impact on the company's liquid reserves after redemption of bond loans connected to possible sale of rigs.

As of 31 December 2008, the group had mUSD 544.8 net debt nominated in NOK, while the corresponding figure for 2007 was mUSD 470.4. Consequently the NOK exchange rate exposure has been increased during the year as illustrated in the table below.

The table below states impact of fluctuations in the exchange rate of NOK on financial instruments in NOK at the end of the accounting year.

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2008	5 %	27 239	19 612
	-5 %	-27 239	-19 612
2007	5 %	23 522	16 936
	-5 %	-23 522	-16 936

Capital structure and equity
The main objectives of the group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satisfactory debt ratio the group is supporting the current operations and maximizing the value of the group's shares accordingly.

The group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present short- and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital or issuing new shares.

(amounts in USD 1 000)	2008	2007
Total liabilities	968 448	1 183 536
Equity of majority	15 587	352 049
Debt ratio	62.13	3.36

Fair value estimation
The following of the group's assets have been assessed at fair value: "Financial assets at fair value through profit and loss".

Fair value of financial assets classified as "at fair value through profit and loss" has been assessed with reference to the quoted price at the balance sheet date.

Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as established at normal terms.

Fair value of non-current liabilities is assessed by means of quoted market prices, last available selling price or the use of interest terms for liabilities with similar repayment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer Association assessment of value for tax purpose yearend 2008, available on the website http://www.nfmf.no/.

Below is a comparison of book values and fair values of the financial instruments of the group:

	2008		2007	
(amounts in USD 1000)	Book value	Fair value / quoted price	Book value	Fair value / quoted price
Financial assets				
Cash and cash equivalents	127 895	127 895	612 376	612 376
Trade receivables	35 084	35 084	24 094	24 094
Investments of fair value through profit and loss	871	871	3 483	3 483
Investment in associates- quoted shares 1)	10 866	10 866	100 425	85 381
Investment in associates non-quoted shares 2)	23 890	23 890	0	0
Financial liabilities				
Trade payables	22 964	22 964	15 405	15 405
Interest bearing liabilities				
Bonds	834 188	246 453	1 039 463	1 072 316
Liabilities from financial leasing contracts	30 392	30 392	12 160	12 160
Borrowing element in forward contract	0	0	20 260	20 260

1) Fair value is based on quoted price per 31.12.08, cf. note 10.
2) The investments in non quoted shares have been impaired in 2008 to estimated fair value based on uncertainties with regards to the current situation in the financial markets, cf. note 10.

Financial instruments by category

31.12.2008	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
Assets as per balance sheet				-
Trade and other receivables excluding prepayments 1)	53 095			53 095
Financial asset at fair value through profit or loss		871		871
Money market fund	83			83
Bank deposits	127 812			127 812
Total	180 990	871	-	181 861

1) Prepayments of 20 700 are excluded from the trade and other receivables balance as this analysis is required only for financial instruments.

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		834 189	834 189
Finance lease liabilities 2)		30 392	30 392
Other non-current liabilities		4 830	4 830
Trade and other payables excluding statutory liabilities 3)		83 569	83 569
Total	-	952 980	952 980

2) the categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
3) Public duties are excluded from the trade payables balance, as this is required only for financial instruments.

31.12.2007	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
Assets as per balance sheet				-
Trade and other receivables excluding prepayments 1)	37 264			37 264
Financial asset at fair value through profit or loss		3 483		3 483
Money market fund	101			101
Bank deposits	612 275			612 275
Total	649 640	3 483	-	653 123

1) Prepayments of 16 704 are excluded from the trade and other receivables balance as this analysis is required only for financial instruments.

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		1 039 523	1 039 523
Finance lease liabilities 2)		12 160	12 160
Other non-current liabilities		1 183	1 183
Trade and other payables excluding statutory liabilities 3)		100 567	100 567
Total	-	1 153 433	1 153 433

2) the categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
3) Public duties are excluded from the trade payables balance, as this is required only for financial instruments.

Petrolia Drilling ASA

Notes to the consolidated financial statements 2008

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Estimated impairment of goodwill
The group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cashgenerating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

ii) Income taxes
The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

iii) Impairment of rigs, construction contracts and intangible assets
The group tests annually whether the rigs, drilling equipment, construction contracts and intangible assets have suffered any impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

iv) Impairment of investments in joint venture and associates
The group tests annually whether its investments in joint venture and associates have suffered any impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Petrolia Drilling ASA
INCOME STATEMENT

(Amounts in USD 1 000)

	Note	Parent company 2008	2007
Revenue		0	6 127
Total revenue		**0**	6 127
Depreciation			1 322
Operating expenses	1	5 295	2 940
Total operating expenses		**5 295**	4 262
Operating result		**-5 295**	1 865
Interest income from group companies	6	8 828	6 309
Interest income		1 292	1 278
Financial income		83 313	897
Impairment of non-current financial assets	3,5	304 650	876
Impairment of current financial assets	8	2 612	0
Interest expense to group companies	6	5 164	74
Interest expenses		10 532	13 733
Financial expenses		58 946	5 633
Result before taxes		**-193 766**	-9 967
Tax on result	2	11 279	-10 265
Result of the year		**-205 045**	299
Attributable to:			
Transferred to/from other equity/uncovered loss		0	299
Transferred from share premium fund		-160 433	0
Transferred from other equity		-44 612	0
		-205 045	299

Petrolia Drilling ASA
BALANCE SHEET PER 31.12.

(Amounts in USD 1 000)

	Note	Parent company 2008	Parent company 2007
ASSETS			
Non-current assets			
Intangible assets			
Deferred income tax assets	2	11 210	22 489
		11 210	22 489
Financial non-current assets			
Investments in subsidiaries	3	203 759	246 200
Investments in joint venture	4	52 553	56 025
Investments in associated companies	5	10 866	105 313
Loan to group companies	6	74 244	109 648
		340 421	517 186
Total non-current assets		351 631	539 675
Current assets			
Debtors			
Loan to joint venture	7	29 764	6 000
Other debtors	7	62	360
		29 826	6 360
Investments			
Market based investment shares	8	871	3 483
Investment in money market fund	9	12	14
		883	3 497
Bank deposits	10	15 178	1 141
Total current assets		45 887	10 998
TOTAL ASSETS		397 518	550 672

Petrolia Drilling ASA
BALANCE SHEET PER 31.12.

(Amounts in USD 1 000)

	Note	Parent company 2008	Parent company 2007
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	11	93 568	93 568
Own shares	12	-486	-319
Share premium fund	12	123 119	283 553
		216 201	376 802
Retained earnings			
Other equity	12	0	45 134
			45 134
Total equity	12	216 201	421 935
Liabilities			
Non-current liabilities			
Bond loans	13	69 855	0
Loan from group companies	6	99 285	1 934
		169 140	1 934
Current liabilities			
Short term portion of long term liabilities			95 436
Trade creditors		1 426	183
Public duties payable		18	25
Other current liabilities	15	10 733	31 138
		12 177	126 803
Total liabilities		181 317	128 737
TOTAL EQUITY AND LIABILITIES		397 518	550 672

Bergen/Oslo, 28 April 2009

Klaus P. Tollefsen
Chairman of the Board

Terje Hallobe
Board member

Leif Holst
Board member

Gun Marit Stenersen
Board member

Unni F. Tefre
Board member

Lars Moldestad
Managing director

Petrolia Drilling ASA

Cash flow statement

(Amounts in USD 1 000)		Parent company 2008	Parent company 2007
Cash flows from operating activities			
Result before taxes		-193 766	-9 967
Taxes paid in the period		0	0
Loss/gain from sale of non-current assets		0	-6 075
Loss/gain from sale of current assets		-38	0
Depreciation		0	1 322
Impairment of non-current financial assets		204 650	0
Impairment of current financial assets		2 612	876
Change in trade creditors		1 243	-378
Change in other provisions		-8 142	-496
Currency translation differences		-13 989	447
Net cash generated from operating activities		-7 462	-14 271
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		0	6 422
Proceeds from sale of shares and investments in other companies and liquidity reserves		2 614	57 931
Investment in shares in other companies		-2 858	-55 982
Investment in shares in subsidiaries		-63 319	0
Net cash used in investing activities		-63 563	8 371
Cash flows from financing activities			
Proceeds from bond loan		94 609	2 666
Current liabilities from purchase of shares in other companies		-11 992	-8 851
Change in loan to group companies		115 468	9 700
Repayment of bond loan		-103 898	
Purchase of own shares/issue costs		-690	-1 819
Net cash used in financing activities		93 497	1 696
Net cash flow of the period		22 472	-4 204
Cash and cash equivalents at the beginning of the period		1 140	5 344
Exchange gain (loss) on cash and cash equivalents		-8 435	0
Cash balance at 31 December	10	15 178	1 140
Specification of cash and cash equivalents at period end:			
Bank deposits	10	15 178	1 140
Whereof restricted bank account is	10	6 646	0
Specification of cash and cash equivalents at period end:			
Bank deposits	10	15 178	1 140
Whereof suspense bank account is	10	6 646	0

Accounting policies and general information

Introduction
Petrolia Drilling ASA was established 13 March, 1997. The company owns, charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling.
Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The financial statements per 31 December were passed by the Board of Directors on 28 April 2009.

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

Investments in subsidiaries, joint venture and associates
Subsidiaries, joint venture and associates are valued at cost in the financial statements. The investment is assessed at acquisition cost of the shares unless impairment has been necessary.

Group contribution to subsidiary, with the deduction of tax, is recognised as increased cost price for the shares.

Dividends/group contributions are recognised in the income statement in the same year as allocated in the subsidiary/joint venture. If dividends/group contributions materially exceed the share of retained earnings after the acquisition the excess part is considered as refund of invested capital and deducted the value of the investment in the balance sheet.

Share capital
Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the company purchases treasury shares (the company's equity share capital), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Borrowing expenses
Expenses involved in the raising of bond loan are capitalised and charged as expense over the term of the loan.

Policies for recognition of revenue and expenses
Income is recognised as earned and expenses are recognised in the same period as belonging income. Income and expenses related to activities that last after the turn of the year are accrued according to number of days that the activity lasts before and after the balance sheet date.

Impairment of non-current assets
Whenever events or changes in circumstances indicate that the carrying amount of a non-current asset exceeds recoverable amount, the asset is reviewed for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If carrying amount exceeds both net realizable value and recoverable amount (present value

from continued use/ownership) impairment is made to the higher of net realizable value and recoverable amount. Previous impairments are reversed to the extent that the basis of the impairment is no longer present.

The use of estimates
In connection with the preparation of the financial statements in accordance with generally accepted accounting principles and standards it will be necessary to use estimates and assumptions that have impact on the financial statements. Actual amounts may differ from these estimates. The impact of change of accounting estimates are recognised in the period that the estimate is changed.

Change of accounting policies
The impact of changes of accounting policies and correction of errors in previous years' financial statements are recognised directly against equity.

Classification of balance sheet items
Assets determined for permanent possession or use are classified as non-current assets. Other assets are classified as current assets. Receivables that are to be repaid within one year is in any case classified as current assets. By classification of liabilities analogue criteria are used.

Accounts receivable
Trade receivables and other receivables are recognised at nominal value after deduction of provision for bad debt. Provision for bad debt is made on the basis of an individual assessment of each receivable.

Foreign currency
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. Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

Taxes
The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

Related parties
Information as to which persons and companies that are considered as related parties is stated in note 15 to the accounts. Agreements, transactions and outstanding accounts with related parties are described in the same note.

Statement of cash flow
The statement of cash flow is prepared according to the indirect method. The indirect method involves reporting of gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash in hand and cash equivalents comprise cash, bank deposit and interest bearing investments in fund.

Contingencies
Contingencies are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other contingencies, if any, are referred to in note.

Conditional profits
Conditional profits and earnings are not recognised.

Events after the balance sheet date
New information about conditions existing at the balance sheet date regarding the accounting period has been taken into the account in the financial statements according to standard estimation principles. Events related to circumstances that have taken place after the balance sheet date are referred to in note.

PRICEWATERHOUSECOOPERS

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To the Annual Shareholders' Meeting of Petrolia Drilling ASA

Auditor's report for 2008

We have audited the annual financial statements of Petrolia Drilling ASA as of December 31, 2008, showing a loss of USD 305 045 085 for the parent company and a loss of USD 506 369 011 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31,2008 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of December 31, 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Without qualifying our opinion above we emphasise that there is significant uncertainty as to the ability to continue operations. In a possible liquidation cost will incur which are not provided for and there is significant risk that a realisation of the company's and group's assets will cause losses above the write-downs made in the financial statements.

We also emphasise that creditors in subsidiaries in 2009 have declared substantial parts of the group's debt as default and have taken legal possession of the shares in subsidiaries. The company contests the realisation of the security and a final outcome can not yet be established.

We refer to further remarks about the issues above in the financial statements and the Annual Report.

Bergen, April 30, 2009
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2008 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Bergen/Oslo, 28 April 2009

Klaus P. Tollefsen Chairman of the Board	Gun Marit Stenersen Board member	Terje O. Hellebø Board member
Leif Holst Board member	Unni F. Tefre Board member	Lars Mo[illegible] Managing Director

PETROLIA
DRILLING

Principles for Corporate Governance
for
Petrolia Drilling ASA

Adopted by the Board of Directors on 28 April 2008.

1. Principles for corporate governance

1.1 Introduction

Petrolia Drilling ASA ("PDR" or the "Company") is dedicated to maintaining high standards of Corporate Governance. Corporate Governance addresses the interaction between the shareholders, the Board of Directors and the Executive Management. The purpose of this document is to summarize the key principles of Corporate Governance of Petrolia Drilling. The Board of Directors has also formulated a Code of Ethics.

PDR believes that maintaining high standards of Corporate Governance will improve the quality of discussions and work to be carried out by the corporate bodies. A sound Corporate Governance practice will strengthen confidence in the Company among shareholders, the capital market and other interested parties and thus contribute to value creation for the shareholders.

1.2 Relevant codes of practice

Being incorporated in Norway and listed on the Oslo Stock Exchange, PDR is subject to the Norwegian Code of Practice for Corporate Governance of 8 December 2005. Adherence to the Code of Practice is based on a "comply or explain" principle, whereby companies will be expected to either comply with the Code of Practice or explain why they have chosen an alternative approach.

1.3 Relevant legislation

The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 governs the incorporation and management of Norwegian public limited companies. Further, PDR is under numerous obligations provided for in relevant Norwegian and other jurisdictions' laws in respect of the business operations carried out by the Company and its subsidiaries.

2. Business and object

PDR's business is clearly defined in the Company's Articles of Association, as follows:

> *"The object of the company is to own and operate drilling rigs, investments in vessels, and everything that is connected herewith."* (office translation)

PDR's objective and principal strategies for its business is related to activities in the deepwater market, drilling for oil and gas in ultra deep waters. PDR's priority area of activity is connected to this segment.

The Companies basic value is to secure the shareholders competitive return for the invested capital in the longer term. In accordance with this purpose the board and the management shall actively develop and control the company and its possessions in order for the values to be made visible in the best way possible.

3. Equity and dividends

PDR shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile.

The Board of Directors' principal policy as regards the payment of dividends is to maximize returns on equity primarily in terms of increase in the share price. Dividend payments will be dependent on PDR's earnings, financial situation and cash flow; possibilities for further value creation through investments taken into account.

Authorizations granted to the Board of Directors to increase PDR's share capital or to purchase own shares shall as a general rule be restricted to defined purposes. At each Annual General Meeting, the shareholders shall have the opportunity to evaluate and consider the board authorizations granted. Thus, the authorizations should be limited in time to no later than the date of the next Annual General Meeting. All authorizations not in compliance with these guidelines should be accounted for in the Annual Report.

4. Equal treatment of shareholders, transactions with close associates

PDR has one class of shares, and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable.

No shareholders shall be treated on unequally unless in the Company's and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase of PDR's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

Any transactions carried out by PDR in its own shares shall be made either through the stock exchange or, if carried out in any other way, at prevailing stock exchange prices. If there is limited liquidity in the Company's shares, the Company should consider other ways to ensure equal treatment of all shareholders.

In the event of any not immaterial transactions between the Company and its shareholders, directors, members of the Executive Management or close associates of any such parties, the Board of Directors shall arrange for valuation to be obtained from an independent third party. The same shall apply to transactions between companies within the PDR group where any of the companies involved have minority shareholders. All such transactions shall be reported by the Board of Directors in the Annual Report.

The Company has established and operates guidelines to ensure that members of the Board of Directors and the Executive Management promptly notify the Board of Directors if they have any significant direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares
No form of restriction on negotiability is or will be included in the Articles of Association of PDR.

6. General Meetings
Through the General Meeting the shareholders exercise the highest authority in PDR.

General Meetings are convened by written notice to all shareholders with known addresses with a minimum of 14 days notice. All shareholders are entitled to submit items to the agenda, meet, speak and vote at the General Meetings.

Proposed resolutions and supporting information shall be distributed to shareholders no later than the date of the notice. In order to ensure that the General Meeting is an effective forum for the views of the shareholders and the Board of Directors, the Board shall see that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings in PDR, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The Board of Directors shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting.

The General Meetings shall be organized in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the auditor (and, if any, the nomination committee) are present at all General Meetings. Also, the Board of Directors shall make arrangements to ensure an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman.

The Minutes of the General Meetings shall be made available on PDR's web site.

7. Nomination committee
Due to the size of the Company, PDR has chosen not to elect a nomination committee. However, a continuous evaluation is carried out of whether or not a nomination committee should be laid down in the Articles of Association and elected.

8. The Board of Directors
The Board of Directors has the overall responsibility for the management of the Company, including responsibility to supervise and exercise control of the Company's activities.

The Board of Directors of PDR shall consist of 3 - 5 directors elected by the General Meeting.

In order to give shareholders an opportunity to re-evaluate the members of the Board, term of office for members of the Board of Directors of PDR is two years. Directors may and should be re-elected so that the entire Board of Directors is not replaced at the same time (save for in extraordinary situations). However, when re-electing members of the Board, the value of continuity should be balanced against the need for renewal, the Board's independence of the Executive Management taken into consideration. The existing directors shall be presented in the Annual Report and on the Company's web site. All proposed directors will be introduced in detail minimum two weeks prior to the General Meeting.

The Chairman of the Board of Directors shall always be elected by the General Meeting.

The composition of the Board of Directors shall always ensure that the Board can attend to the common interests of all shareholders and meet the Company's need for expertise, capacity and diversity.

Attention should be paid that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. At least half of the members of the Board shall be independent of the Company's Executive Management and material business contacts. At least two of the directors shall be independent of the Company's main shareholder(s).

Members of the Board of Directors, or persons closely connected with them, shall not be consultants for any Company in the PDR group, not be employed by or have any other agreements of economic significance with any such companies. The PDR group cannot without the approval of the Board of Directors of PDR buy consultancy services from companies in which any director is an owner, employee or otherwise has an interest. This extends to any Company that according to the Public Limited Companies Act § 1-3 is in the same group of companies.

All the directors are encouraged to hold shares in PDR, however not to an extent which can encourage a short-term approach which is not in the best interest of PDR and its shareholders over the longer term.

PDR does not have more than 200 employees, and therefore, no corporate assembly has been elected.

9. The work of the Board of Directors

The proceedings and responsibilities of the Board of Directors have been laid down in written guidelines adopted by the Board of Directors.

The main responsibilities of the Board of Directors are to:

- Lead PDR's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis;
- Ensure that all instructions given by the Board of Directors are complied with;
- Ensure that the Board of Directors are well informed about the Company's and the group's financial position.
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's Executive Management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the Executive Management and the Board of Directors.
- Agree on dividend policy;
- Annually evaluate its work, performance, composition and expertise and that of the Chief Executive Officer (the "CEO"). The evaluation of the Board's work should, in case a nomination committee is being established, be made available to such committee; and
- The Board of Directors shall carry out an annual review of the most important areas of risk exposure, including risks and controls related to financial reporting. In that connection, the Board shall ensure that an appropriate system of direction, risk management and internal control is established and maintained. Such system shall ensure that the Company group activities are conducted in accordance with all rules and regulations applicable to the group, PDR's Articles of Association, its corporate values and its ethical guidelines, as well as authorizations and instructions approved by the General Meeting. The internal control arrangements must address the organization and implementation of the Company's financial reporting. The Board must provide information in the Annual Report on how the Company's internal control procedures are organized.

- Adopt guidelines for the frequency and policy for external financial reporting.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organized.

The Board of Directors will elect a deputy chairman who takes chair in the event that the Chairman of the Board cannot or should not lead the work of the Board, including in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors may appoint board committees, for instance in order to help ensure thorough and independent preparation of matters relating to financial reporting and compensation paid to the members of the Executive Management. The Board of Directors of PDR has currently not appointed any committees. If the Board of Directors should choose to appoint board committees, the Board of Directors shall adopt guidelines for the activities and responsibilities of such Board committees and account for details in the Annual Report on all committees appointed. Membership of board committees should be restricted to directors who are independent of the Executive Management.

The CEO is responsible for the day-to-day management of the Company. Further, the CEO is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are monthly managed.

The CEO is appointed by the Board of Directors and reports to the Board of Directors. His or her powers and responsibilities are defined in more detailed instructions adopted by the Board of Directors.

10. Remuneration of the Board of Directors

The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of PDR. As the directors are encouraged to own shares in the Company, consideration should be given in this respect to arrange for members to invest part of their remuneration in such shares at market price.

The remuneration is not linked to the Company's performance. No directors have been granted or will be granted share options and no directors are parts in incentive programs available for the Executive Management and/or other employees.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included.

following announcement of the bid. Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

14. Guidelines for the auditors and associated persons' non-auditing work
The auditor is elected by the General Meeting and shall report to the General Meeting.

Too much non-auditing work being assigned to the auditor may jeopardize this position and diminish the public confidence in the auditor's integrity and independence of PDR. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards.

The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the Executive Management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present.

The Board of Directors of PDR has adopted guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company.

The Board of Directors must report the remuneration paid to the auditor at the Annual General Meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

* * * * *

11. Remuneration of the Executive Management
The CEO's remuneration shall be determined by a convened meeting of the Board of Directors.

Remuneration for the other members of the Executive Management is determined by the CEO in accordance with guidelines provided by the Board of Directors. The guidelines are annually communicated to the General Meeting and included in the Annual Report together with i. a. detailed information on all elements of the remuneration. The information to the General Meeting shall pay particular attention to any changes made during the last year.

PDR does not have share option schemes or other arrangements to award shares to employees, as other kinds of bonus schemes or incentives are being preferred. Any incentives provided to members of the Executive Management shall be in accordance with the principles set out in the Guidelines for Remuneration of Executive Management.

12. Information and communication
PDR will ensure that the shareholders receive accurate, clear, relevant and timely information related to all matters of significance to shareholders. The medium used for publication will be selected to ensure simultaneous and equal access for all equity shareholders to the information:

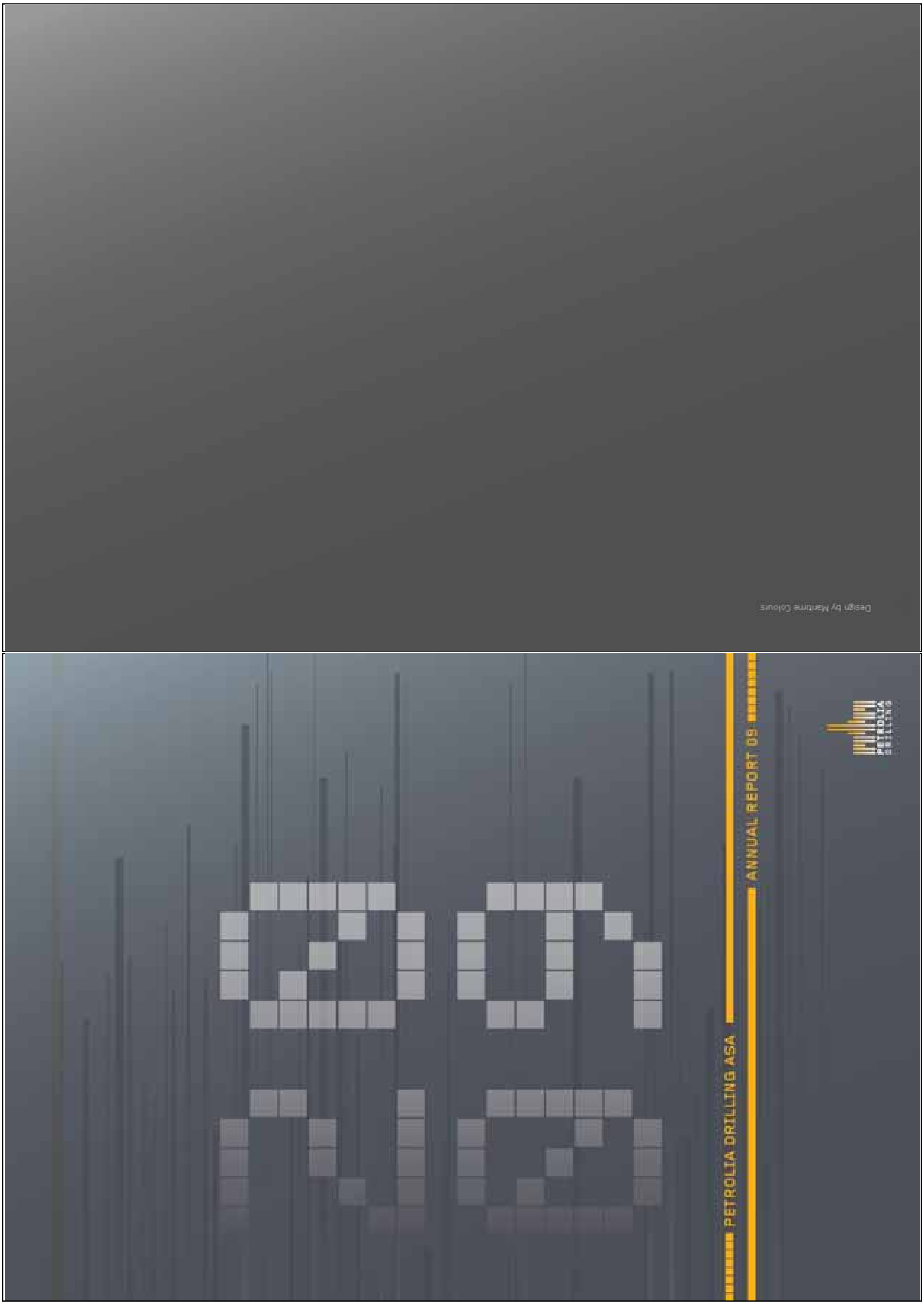
- Each year, PDR publishes an overview of the dates for major events.
- All information distributed to PDR's shareholders is published on www.petrolia.no at the same time as it is sent to shareholders.
- When publishing annual and interim reports, the Company holds public presentations that are simultaneously broadcast over the world wide web.
- All information is available in English.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law.

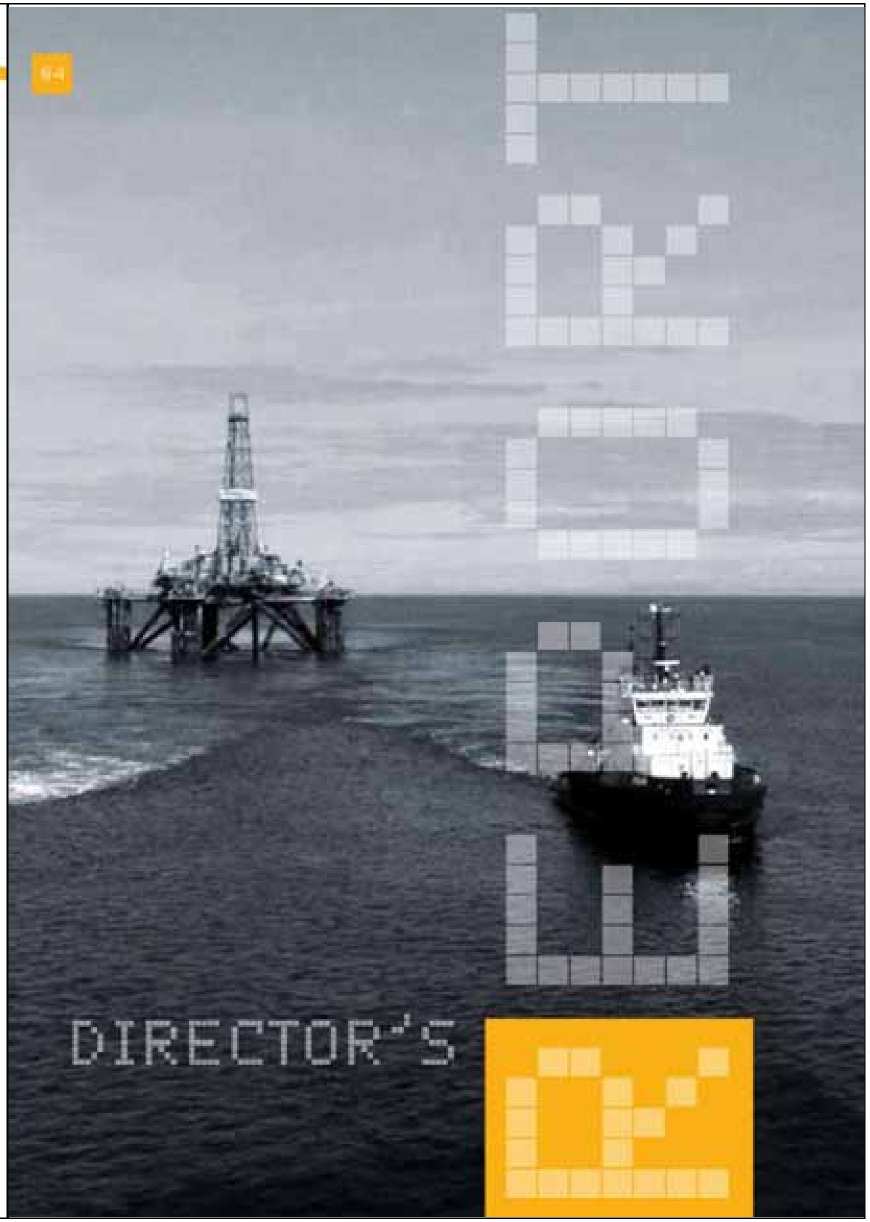
The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

13. Take-Overs
The Board of Directors and the Executive Management will not seek to hinder or obstruct take-over bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting

19. APPENDIX 4: ANNUAL REPORT FOR 2009



CONTENT



DIRECTOR'S REPORT

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FINANCIAL AND LIQUIDITY RISK

GOING CONCERN ASSUMPTION

WORKING ENVIRONMENT AND PERSONNEL

The company operates in many countries and is focused on discrimination related to religion, culture, ethnicity, disability or other areas not to occur.

The company is actively and goal-oriented to encourage equality and to prevent discrimination.

Total absence due to sickness has been 2.2% during the accounting year.

Petrolia Drilling's Board of Directors consisted of 3 men and 2 women at year-end.

ENVIRONMENT REPORTING

The company has as objective that all activities that are performed are to be carried out without damage on people or surroundings. The company's activities this year have not caused pollution of the environment in defiance of demands made by the prevailing authorities.

EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date Petrojack ASA is declared bankrupt.

In March 2010 the bankruptcy estate of Petrojack ASA sold its 24.99 % shares in Petrolia Drilling ASA to Larsen Oil & Gas AS, controlled by Berge Gerdt Larsen. The sale price for 253 000 000 shares was mUSD 31.

1 January 2010 Petrolia Drilling ASA employed its CEO directly.

The business manager agreement with Larsen Oil & Gas AS was terminated in January 2010. The termination period is six months.

Maersk Oil Angola has informed that the present operations with the DS Deep Venture will continue until late April. The contract runs until 25 January 2011. The Parties to the contract have after negotiations agreed that Maersk will redeliver the vessel at the end of April against an early termination fee of mUSD 64.

On 16 April 2010 Petrolia Drilling ASA's daughter company Petrolia Invest AS together with the other shareholders in Deepwater Driller Ltd entered into a strategic agreement with Songa Offshore. Songa Offshore provides Deepwater Driller Ltd mUSD 50 in new equity against 31.25 % ownership in the company. Petrolia Invest AS ownership in Deepwater Driller Ltd is thereby reduced to 25.5 %. Consequential to the agreement Songa Offshore takes over the management agreements for the rig.

19 April 2010 a new Board of Directors was elected at an extraordinary general assembly. The Board of Directors consists of 3 members, 2 men and 1 woman.

20 April the Board of Directors chose to terminate the CEO's contract due to strategic reasons. The Board of Directors has temporarily appointed a new CEO.

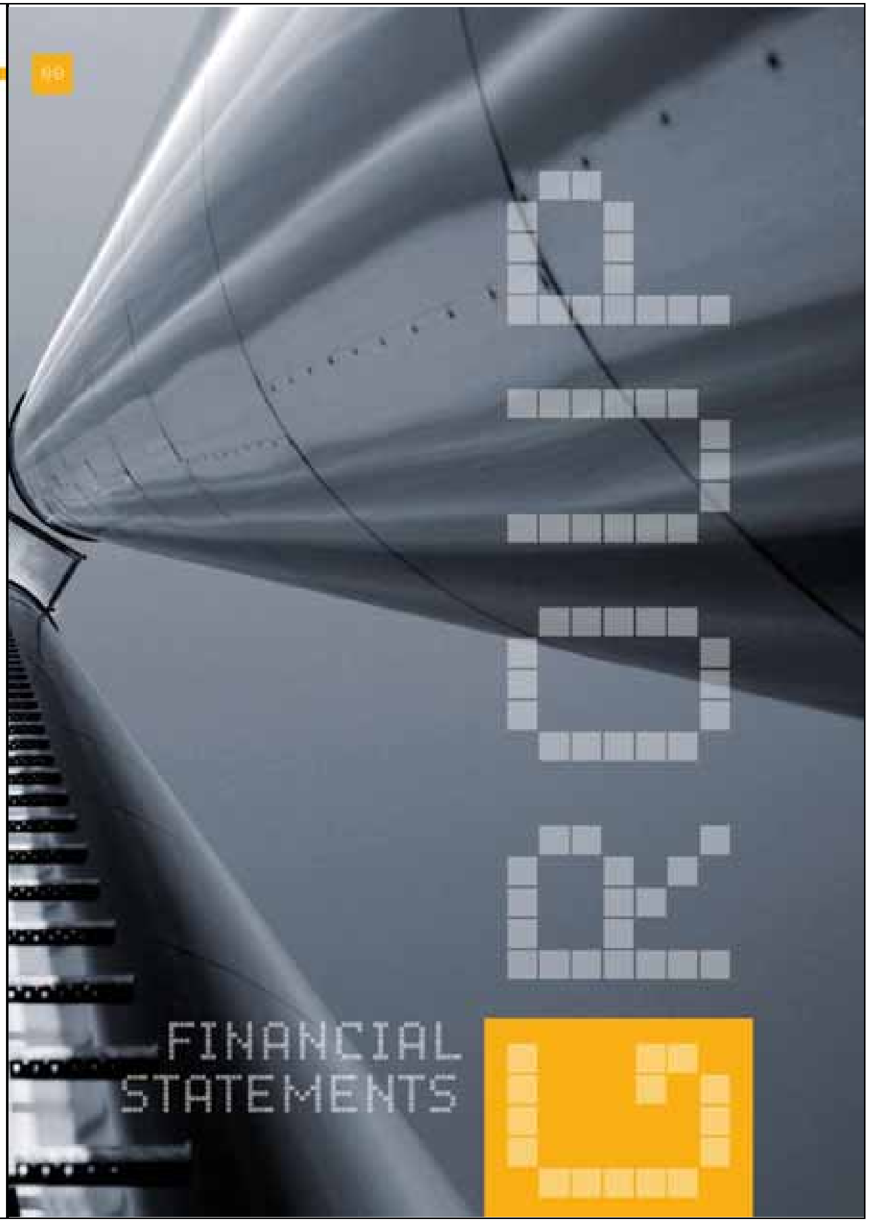
Bergen/Oslo, 29 April 2010

Berge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Ørnulf Vendel
Managing Director



FINANCIAL STATEMENT

Petrolia Drilling ASA - Group

CONSOLIDATED INCOME STATEMENT

Continuing operations (amounts in USD 1 000)	Note	2009	2008
Revenue	1	72,740	91,835
Rigs cost	2	15,861	11,376
Depreciation	7	49,371	29,197
Impairment of fixed assets	7	9,400	0
Other operating expenses	3	35,323	47,163
Operating result		**-24,307**	**-905**
Result from investment in joint venture	8	30,954	29,431
Result from associated companies	10	304	-113,686
Interest income	24	834	3,888
Financial income	24	343	70
Interest expenses	24	12,292	11,323
Financial expenses	24	1,354	16,940
Result before income taxes		**-5,919**	**-110,451**
Tax on result	5	-4,653	641
Result from the year from continuing operations		**-10,572**	**-111,093**
Discontinued operations			
Profit for the year from discontinued operations	8	118,413	-395,278
Result for the year		**107,841**	**-506,370**
Attributable to:			
Shareholders		148,460	-327,044
Minority interests		-40,619	-179,326
		107,841	**-506,370**
Consolidated statement of comprehensive income			
Result for the year		**107,841**	**-506,370**
Other comprehensive income			
Currency translation differences	16	12,545	-12,115
Total comprehensive income for the year		**120,386**	**-518,485**
Attributable to:			
Owners of the parent		162,949	-339,137
Minority interest		-42,563	-179,348
Total comprehensive income for the year		**120,386**	**-518,485**

Continuing operations (amounts in USD 1 000)	Note	2009	2008
Earnings per share from continuing and discontinued operations attributable to the equity holders of the company during the year (USD per share)			
Basic earnings per share			
From continuing operations	4	-0.01	-0.11
From discontinued operations	4	0.12	-0.39
		0.11	**-0.50**

The accompanying notes are an integrated part of the financial statements.

CONSOLIDATED BALANCE SHEET PER 31.12

ASSETS	Note	2009	2008
Non-current assets			
Intangible assets	6	20,395	17,344
Deferred income tax assets	5	0	3,694
Drilling units	7	0	28,282
Construction contracts Sevan rigs	7	0	541,118
Drilling equipment and other equipment	7	121,869	119,509
Land and buildings	7	2,305	2,705
Investments in joint venture	9	86,955	76,827
Investment in associated companies	10	41,080	34,758
Other financial fixed assets		430	0
Total non-current assets		**273,133**	**824,213**
Current assets			
Inventory		1,478	327
Trade- and other current receivables	12	42,280	73,795
Financial assets at fair value through profit and loss	11	620	871
Investment in money market fund	13	15	83
Bank deposits	14	49,616	127,812
Total current assets		**94,017**	**202,888**
TOTAL ASSETS		**367,150**	**1,027,102**

The accompanying notes are an integrated part of the financial statements.

CONSOLIDATED BALANCE SHEET PER 31.12

EQUITY AND LIABILITIES	Note	2009	2008
Equity			
Share capital	15	83,568	53,508
Own shares		-2,153	-2,153
Share premium fund		85,350	123,119
Other equity	16	-3,764	-16,253
Uncovered loss		**-6,468**	**-182,695**
		176,536	**15,587**
Minority interests		**2,504**	**43,067**
Total equity		**179,040**	**58,654**
Liabilities			
Non-current liabilities			
Bond loans	17	85,143	418,400
Pension liability	22	562	433
Other non-current liabilities	18	25,992	27,282
		111,697	**446,115**
Current liabilities			
Short term portion of non-current liabilities	19	11,106	438,251
Trade payables	21	11,858	22,964
Payable tax		125	173
Other current liabilities	21	53,230	60,936
		76,413	**522,334**
Total liabilities		**188,111**	**968,448**
TOTAL EQUITY AND LIABILITIES		**367,150**	**1,027,102**

The accompanying notes are an integrated part of the financial statements.

Bergen/Oslo, 29 April 2010

Berge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Ørnulf Sandal
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the company's shareholders

(Amounts in USD 1 000)	Share capital	Own shares	Share premium fund	Other reserves	Uncovered loss	Minority interests	Total equity
Equity 1 January 2008	**93,568**	**-1,464**	**283,552**	**-7,524**	**-16,084**	**202,146**	**554,195**
Comprehensive income							
Profit or loss			-160,434		-166,610	-179,326	-506,370
Other comprehensive income							
Currency translation differences				-12,093		-22	-12,115
Totalt comprehensive income			**-160,434**	**-12,093**	**-166,610**	**-179,348**	**-518,485**
Transactions with owners							
Capital increase in subsidiary						23,049	23,049
Issue expenses in subsidiary				-688		-648	-1,336
Remeasurement of shares in subsidiary				4,053		-2,132	1,921
Purchase of own shares		-690					-690
Total transactions with owners		**-690**		**3,365**		**20,269**	**22,944**
Equity 31 December 2008	**93,568**	**-2,153**	**123,119**	**-16,253**	**-182,695**	**43,067**	**58,654**
Equity 1 January 2009	**93,568**	**-2,153**	**123,119**	**-16,253**	**-182,695**	**43,067**	**58,654**
Comprehensive income							
Profit or loss			-27,767		176,227	-40,619	107,841
Other comprehensive income							
Currency translation differences				12,489		56	12,545
Totalt comprehensive income			**-27,767**	**12,489**	**176,227**	**-40,563**	**120,386**
Equity 31 December 2009	**93,568**	**-2,153**	**95,352**	**-3,764**	**-6,468**	**2,504**	**179,040**

Per 31 December 2008 the company owns 3,250,024 own shares. The shares have been purchased at an average purchase cost of NOK 2.21 per share.

Per 31 December 2009 the company owns 3,250,024 own shares. The shares have been purchased at an average purchase cost of NOK 2.21 per share.

The accompanying notes are an integrated part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT - GROUP
YEAR ENDED 31 DECEMBER

(Amounts in USD 1 000)	Note	2009	2008
Cash flows from operating activities			
Result before taxes		107,841	-505,729
Prepaid taxes in the period		-53	842
Gain from sale of equipment		0	-2,934
Loss/gain from sale of current assets		0	-70
Profit from discontinued operations	6	-116,413	0
Depreciation	7	40,371	31,061
Impairment of drilling equipment	17	8,468	0
Impairment of rigs	17	0	302,059
Change in net pension liability		129	59
Change in inventory		-1,151	-927
Change in trade receivables		1,167	-10,060
Change in trade payables		-11,008	7,665
Accruals and items classified as financing/investment		-11,803	41,354
Result from investment in joint venture	9	-30,854	-26,431
Result from investment in associated companies	10	-304	113,699
Dividend from joint venture	9	20,926	12,424
Unrealised foreign currency loss/gain		12,720	-130,310
Cash flows from discontinued operations	6	855	0
Net cash generated from operating activities		**18,813**	**31,641**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	7	0	4,610
Purchase of operating equipment	7	-15,939	-357,214
Cash flow from acquisition		0	4,239
Proceeds from sale of shares and investments in other companies		0	283
Investment in shares in associated companies	10	-6,004	-47,999
Investment in shares in other companies		0	-8,702
Proceeds from sales of liquid reserves		88	18
Purchase of liquid reserves		0	0
Cash flows from discontinued operations	6	-21,790	0
Net cash used in investing activities		**-43,645**	**-405,331**

(Amounts in USD 1 000)	Note	2009	2008
Cash flows from financing activities			
Proceeds from bond loan		1,535	94,000
Proceeds from short-term loan		0	6,070
Repayment of long-term loans		0	-139,899
Interest paid on bond loans		-9,825	-48,731
Purchase of own shares/lease costs		0	-690
Payment of debt financing costs	8	0	-5,238
Increased capital through subsidiaries (minority)		0	23,043
Repayment of long term/short term borrowings		-455	-33,754
Cash flows from discontinued operations	8	-46,398	0
Net cash used in financing activities		**-54,393**	**-104,582**
Net cash flow of the period		-79,825	-478,273
Cash and cash equivalents at the beginning of the period	14	127,812	612,275
Exchange gains (loss) on cash and cash equivalents		1,629	-6,190
Cash balance at December 31	**14**	**49,616**	**127,812**
Specification of cash and cash equivalents at period end			
Bank deposits	14	49,616	127,812
Whereof restricted bank accounts is	14	35,435	57,765

The accompanying notes are an integrated part of the financial statements.

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia Drilling ASA - Group

GENERAL INFORMATION

Petrolia Drilling ASA was established 13 March, 1997. The consolidated financial statements for the accounting year 2009 comprise the company and its subsidiaries (together referred to as "the group") and the group's share of a joint venture and associated companies.

The group's activities are directed towards investments in and charter of drilling vessels for oil and gas exploration in the offshore sector. Further on, the company is hiring out drilling equipment and test strings, including accessories, to oil companies, oil service companies and drilling contractors. The group owned a 30% share of Deepwater Driller Ltd per 31.12.2009, in April 2010 the share has been reduced to 25.6%.

Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The annual financial statements were adopted by the Board of Directors on 29 April 2010.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated financial statements of Petrolia Drilling ASA have been prepared in compliance with International Financial Reporting Standard (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared under the historical cost convention with the following modification: Financial assets recognised at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are discussed below.

The accounting year follows the calendar year. The income statement is by nature.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards adopted by the group.

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

- IFRS 7 'Financial instruments - Disclosures' (amendment) - effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The change in accounting policy does not impact earnings per share or disclosures of segments.

- IAS 1 (revised), 'Presentation of financial statements' - effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them:

- IFRIC 17 'Distribution of Non-cash Assets to Owners'
- IAS 27 'Consolidated and Separate Financial Statements' (revised)
- IFRS 3 'Business Combinations' (revised)
- IAS 38 'Intangible Assets' (amendment)
- IFRS 5 'Measurement of non-current assets (or disposal group) classified as held-for-sale' (amendment)
- IAS 1 'Presentation of Financial Statements' (amendment)
- IFRS 2 (amendments) 'Group Cash-settled and Share-based Payments Transactions'
- IFRS 9, Financial Instruments (effective for accounting periods on or after 1 January 2013) replaces the measurement methods in IAS 39 for financial assets
- IAS 24 'Related Party Disclosures' (revised)
- IAS 32 Financial Instruments: Presentation (amendment)
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

CONSOLIDATION PRINCIPLES

(i) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement at the time of acquisition.

Summary of the companies of the group:

Per 31.12.2009 the consolidated companies are presented in the balance sheet as follows:

Owner	Shareholding	Objective, activity, business office
Shares owned directly by the parent Company		
Petrolia Drilling II AS	100%	Holding company for Petrolia Rigs AS and Petrolia Services AS. The company is registered and domiciled in Norway
Petrolia Drilling Ltd	—	A company registered on Virgin Island. The shares are controlled by a trust in Jersey. Petrolia Drilling ASA is "beneficial owner" of the trust
Petrolia Invest AS	100%	Owner of shares in the associate Deepwater Driller Ltd (former Larsen Rig Ltd). The company is registered and domiciled in Norway
Shares owned by PDR II AS:		
Petrolia Rigs AS	100%	Former owner of the drilling rig SS Petrolia. The company is registered and domiciled in Norway
Petrolia Services AS	100%	Owner of drilling equipment. The company is registered and domiciled in Norway
Shares owned by Petrolia Services AS:		
Independent Oil Tools AS	100%	Hiring out and service of drilling equipment. The company is registered and domiciled in Norway
Shares owned by Independent Oil Tools AS		
Independent Tool Pool AS	100%	Hiring out and service of drilling equipment The company is registered and domiciled in Norway
Premium Casing Services Pty Ltd	100%	Hiring out and service of drilling equipment The company is registered and domiciled in Australia
Independent Oil Tools BV	100%	Hiring out and service of drilling equipment The company is registered and domiciled in Holland
Shares owned by IOT BV		
Independent Oil Tools Disco BV	51 %	Hiring out and service of drilling equipment The company is registered and domiciled in Holland
Independent Oil Tools Disco Srl	100%	Hiring out and service of drilling equipment The company is registered and domiciled in Romania
Shares owned by IOT Disco BV		
Caspian Oilfield Services	51 %	Hiring out and service of drilling equipment The company is registered and domiciled in Azerbaijan
Shares owned by Premium Casing Services		
Premium Casing Services Pty Ltd	100%	Hiring out and service of drilling equipment The company is registered and domiciled in New Zealand

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(ii) Joint ventures and associates
By joint venture is meant financial activity controlled through agreement between two or more parties who jointly control the activity. Joint venture implies that no party alone has controlling influence. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint venture and associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investments in joint venture and associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its joint ventures'/associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the group's share of losses in a joint venture or an associate equals or exceeds its interest in the joint venture/associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture/associate.

Unrealised gains on transactions between the group and its joint venture/associates are eliminated to the extent of the group's interest in the joint venture/associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture/associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in joint venture/associates are recognised in the income statement.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the top decision maker. The company's top decision maker, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as CEO and the Board of Directors.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the company's functional and the group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within "financial income/ financial expense".

Currency impact on non-monetary items (both assets and liabilities) are included as part of the assessment of fair value. Exchange differences on non-monetary items, such as shares at fair value through profit or loss is recognised as part of the total gains and losses. Exchange differences on equities classified as available for sale, included in the change in value are recognised directly in enhanced performance.

Group companies
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates
- all resulting exchange differences are recognised in the statement of comprehensive income and as a separate component of equity

Currency translation differences on net investment in foreign operations and financial instruments designated as hedges of such investments are recorded as part of the comprehensive income and as a separate item in equity. The sale of all or part of foreign operations reclassified the related exchange differences from the expanded result and the result as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

RIGS AND DRILLING EQUIPMENT

Rigs and drilling equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when

it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on rigs and drilling equipment is calculated using the straight-line method to allocate their cost or residual amounts to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on sales and disposals are determined by comparing the proceeds with the carrying amount and are recognised within "revenue" in the income statement.

INTANGIBLE ASSETS

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Borrowing costs
Success fee related to the establishment of loan commitments is recognised as an asset for the period from the loan commitment is granted and till the loan is drawn. When the loan is drawn, the success fee are reflected as an acquisition cost and net against the carrying amount of the loan. Subsequently, this amount is recognised as interest expense using the effective interest rate over the term of the loan.

Carrying amount is subject to annual impairment test and recognised at acquisition cost.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

FINANCIAL ASSETS CLASSIFICATION

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other current receivables, investment in money market fund and bank deposits in the balance sheet.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

RECOGNITION AND MEASUREMENT

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in

the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "financial income/financial expenses", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of financial income when the group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "financial income/financial expenses".

Fair value of quoted investments is based on current bid prices.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

TRADE RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

SHARE CAPITAL AND PREMIUM

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Accrued interest expenses are classified as current portion of non-current liabilities.

LEASES

Finance leases

The group is reporting finance leases as assets and liabilities in the financial statements, equivalent to the cost price of the asset or, if the lower, the present value of the cash flow of the lease. By calculation of present value of the lease the implicit interest expense in the lease is applied, when determinable. If not determinable the company's marginal market borrowing rate is used. Direct expenses connected to the leases are included in the cost price of the asset. Monthly lease amounts are split in an interest element and a repayment element. The interest expense is allocated to various periods so that the interest rate is the same for all periods.

The asset that is included in a finance lease is depreciated. Depreciation period is consistent for corresponding assets owned by the group. If there is uncertainty whether the company will take over the asset at expiration of the lease contract the asset is depreciated over the shorter of the term of the lease contract and depreciation period for corresponding assets owned by the group.

If a "sale and lease-back" transaction results in a finance lease, a possible profit will be deferred and recognised over the period of the lease.

Operational leases

Leases where the main risk is on the hand of the contracting party, are classified as operational leases. Lease payments are classified as operational expense and recognised in the income statement over the contract period.

In case that a "sale and back-lease" transaction should result in an operational lease and it is evident that the transaction has been carried out at fair value, a possible profit or loss will be recognised in the income statement as the transaction is accomplished. Should the selling price be below fair value a possible profit or loss will be recognised directly, except for the situation that this involves future lease payments below market price. In that case the profit/loss is amortised over the period of the lease. If the selling price is above fair value, the excess price will be amortised over estimated period of use for the asset.

CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

PENSION OBLIGATIONS

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

PROVISIONS

The group recognises provisions when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Contingent liabilities and allocations are reassessed at each balance sheet date and the size of the recognised provision reflects best estimate of the obligation.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received for the sale of goods and services net of value-added tax. Sales within the group are eliminated.

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the group reduces the carrying amount to its recoverable amount. The recoverable amount is the estimated future cash flow discounted at the original effective interest rate. Interest income on impaired loans is recognised using the original effective interest rate.

MOBILISATION INCOME AND -EXPENSE

Mobilisation income and expense are distributed over the mobilisation period. If the expenses exceed the income in the mobilisation period, expenses corresponding to the income in the mobilisation period are recognised in the income statement. Excess expenses are recognised in the balance sheet and distributed over the duration of the contract.

RELATED-PARTY TRANSACTIONS

Information as to which persons and companies that are considered as related parties has been stated in note to the consolidated financial statements. Agreements, transactions and outstanding accounts with related parties are described in the same note.

CASH FLOW STATEMENT

The cash flow statement has been prepared by the indirect method. The indirect method involves reporting gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash and cash equivalents comprise bank deposits and other current, liquid investments which immediately and at insignificant exchange rate risk can be converted into known cash amounts and with due dates of less than three months from purchase date.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the result of the group on a time weighted average number of ordinary shares for the period.

EVENTS AFTER THE BALANCE SHEET DATE

New information about the position of the group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 25.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The group uses financial instruments as bond loans, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the group's activity. Further on the group has financial instruments like trade receivables, prepayments and trade payables which are directly connected to the current operations of the group. The group does not use derivative financial instruments to hedge certain risk exposures. In periods the group invests liquid assets in available-for sale financial assets and financial assets at fair value through profit and loss.

The group's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The group is subject to a balanced exposure through income and expenses in USD and NOK and financing in USD and NOK. In addition the group is subject to a balanced exposure through fixed and floating rate of interest from its financing which limits the liquidity risk. The credit risk which the company is exposed to is acceptable.

Credit risk

The group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments for equipment.

The maximum risk exposure is represented by the carrying value of trade receivables and other receivables referred to in note 12 and receivable from Venture Drilling of mUSD 7.

The company has few customers. The equipment in the oilfield services segment is mainly on rental through Certified Oilfield Rentals Ltd (COR Ltd) throughout the world. COR Ltd acts on behalf of the Petrolia group. COR Ltd conducts credit rating of new customers and transfer funds to Petrolia after receiving payment from the customers. The group's revenues are limited to a number of transactions and customers and therefore credit risk is transparent.

The group has credit risk related to its customers including outstanding receivables to arise from the contract and committed transactions. Management does not expect any losses from non-performance by its debtors.

Larsen Oil & Gas Ltd is technical and operational manager and drilling contractor for the Deep Venture owned by Venture Drilling AS. Larsen Oil & Gas Ltd has withheld cash from the operations of the Deep Venture. Venture Drilling AS has taken legal steps in Scotland to get the actual amounts released. The Managing Director and the Board of Directors does not expect any losses and is awaiting ruling from Scotland.

Interest rate risk

The group is exposed to interest rate risk through its financing activities (cf. note 17 and 18). Part of the interest-bearing liabilities is based on floating rates which implies that the group is exposed to changes in the interest rate level.

The group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. Per 31.12.2009 the group's bond loan has fixed interest, while the lease obligation is subject to floating rate of interest.

The table below illustrates the group's volatility related to potential changes in the interest rate level. The calculation includes all floating interest-bearing instruments and illustrates the volatility in result and equity to changes in interest rate level assuming the same capital structure throughout the year as capital structure at the end of the accounting year.

Sensitivity for changes in interest rate level (amounts in USD 1000)	Changes in interest rate level in basis meas	Impact on result before tax	Impact on equity
2009	50	84	46
2008	50	-763	-549

Further information regarding the interest rate conditions of the group's financing is given in note 17.

Liquidity risk

Liquidity risk is the risk that the group is not able to meet its financial liabilities as they fall due. The group's strategy of handling credit risk is to have sufficient liquidities at all times to pay any liability on maturity, in both normal and extraordinary circumstances.

The table below states maturity profile of financial liabilities recognised per 31.12.2009.

Per 31 December 2009	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	11 959	0	0	0	11 959
Bond loans	293	16 605	68 536	0	85 432
Other long-term debt	10 817	8 474	19 318	0	38 609
Other current liabilities	33 350	0	0	0	33 350
Per 31 December 2008	**< 1 year**	**1-2 years**	**2-5 years**	**> 5 years**	**Total**
Trade payables	22 964	0	0	0	22 964
Bond loans	40 813	264 747	308 010	187 031	848 721
Other long-term debt	7 940	13 811	13 471	0	35 222
Other current liabilities	41 109	0	0	0	41 109

Retirement benefit obligations have been excepted in the above profiles.

Larsen Oil & Gas Ltd is manager and drilling contractor for Deep Venture, owned by Venture Drilling. As the manager during the second half of 2009 have withheld income from operations, Venture Drilling has taken legal steps in Scotland. The management does not expect any losses and is awaiting the ruling in the case. Until the case has been ruled upon, Petrolia Drilling ASA will have less cash contribution than previous from Venture Drilling AS. Long term the agreement with Venture Drilling AS will ensure a good contribution for continued operations.

Further information regarding non-current loan and liabilities in connection with financial lease contracts is stated in note 17 and 18.

See also the review on the claims of Venture Drilling AS section of credit that has significance for liquid assets.

As stated under Credit risk (above), the receivable from Venture Drilling AS of mUSD 7 also has effect on the group's liquid assets.

The group's long term financing is mainly related to bond loan of mNOK 300 which falls due in June 2012. According to the loan agreement Petrolia Drilling ASA has to maintain a ratio of total assets to total debt of 2.0 on each reporting date. Total assets are defined as (i) the market value of Petrolia Drilling's shares in listed companies (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. By the end of 2009 Petrolia Drilling is in compliance with the terms in the bond loan agreement.

Foreign exchange risk
The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NOK. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the group has mainly income and operating expenses in USD while parts of the financing is nominated in NOK. Future revenues and expenses connected to the rental of equipment or dividends from joint venture and associates will mainly be nominated in USD and net cash flow in NOK will depend on future exchange rate of USD.

As of 31 December 2009 the group had mNOK 300 in bond loan nominated in NOK compared to mNOK 4,100 per 31 December 2008. The change is due primarily of deconsolidating of PetroMENA ASA/discontinued operations.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. The revenues and the operating costs in the offshore services segment are mainly in USD and the leasing debt raised to finance the equipment is therefore also nominated in USD.

As of 31 December 2009, the group had mUSD 52.7 net debt nominated in NOK, while the corresponding figure for 2008 was mUSD 544.8. Consequently the NOK exchange rate exposure has been reduced during the year as illustrated in the table below. The change is due primarily of deconsolidating of PetroMENA ASA/discontinued operations.

The table below states impact of fluctuations in the exchange rate of NOK on financial instruments in NOK at the end of the accounting year:

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2009	5 %	4 637	3 338
	-5 %	-4 637	-3 338
2008	5 %	27 239	19 612
	-5 %	-27 239	-19 612

CAPITAL STRUCTURE AND EQUITY
The main objectives of the group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satisfactory debt ratio the group is supporting the current operations and maximizing the value of the group's shares accordingly.

The group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present short- and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital or issuing new shares.

(amounts in USD 1 000)	2009	2008
Total liabilities	188 111	909 446
Equity of majority	176 536	19 612
Debt ratio	1.07	62.13

FAIR VALUE ESTIMATION
The following of the group's assets have been assessed at fair value: "Financial assets at fair value through profit and loss".

Fair value of financial assets classified as "at fair value through profit and loss" has been assessed with reference to the quoted price at the balance sheet date.

Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as established at normal terms.

Fair value of non-current liabilities is assessed by means of quoted market prices, last available selling price or the use of interest terms for liabilities with similar repayment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer association assessment of value for tax purpose year-end 2009, available on the website http://www.nfmf.no/

Below is a comparison of book values and fair values of the financial instruments of the group:

(amounts in USD 1000)	2009 Book value	2009 Fair value / quoted price	2008 Book value	2008 Fair value / quoted price
Financial assets				
Cash and cash equivalents	49 831	49 831	127 895	127 895
Trade receivables	33 807	33 807	35 084	35 084
Investments at fair value through p/l	620	620	871	871
Investment in associates - quoted shares 1)	0	8 118	10 608	10 608
Investment in associates - non quoted shares	41 310	41 310	23 000	23 000
Financial liabilities				
Trade payables	11 958	11 958	22 964	22 964
Interest bearing liabilities				
Bonds 1)	45 143	41 113	834 188	248 453
Liabilities from financial leasing contracts	38 808	38 808	30 392	30 392

1) Fair value is based on quoted price per 31.12.09, cf. note 13. the investment is impaired to USD 0 in the accounts due to the bankruptcy as of March 2010.

FINANCIAL INSTRUMENTS BY CATEGORY

Following principles for subsequent measurement of financial instruments have been applied for financial instruments in the balance sheet

12/31/2008	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
Assets as per balance sheet				
Trade and other receivables excluding prepayments 1)	35,225			35,225
Financial asset at fair value through profit or loss		620		620
Money market fund	15			15
Bank deposits	49,616			49,616
Total	**84,856**	**620**	**-**	**85,476**

1) [illegible]

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		95,143	95,143
Finance lease liabilities 2)		36,809	36,809
Other non-current liabilities		-	-
Trade and other payables excluding statutory liabilities 3)		54,779	54,779
Total	**-**	**186,731**	**186,731**

2) [illegible]
3) [illegible]

12/31/2008	Loans and receivables	Assets at fair value through the p/l	Available for sale	Total
Assets as per balance sheet				
Trade and other receivables excluding prepayments 1)	53,095			53,095
Financial asset at fair value through profit or loss		871		871
Money market fund	83			83
Bank deposits	127,812			127,812
Total	**180,990**	**871**	**-**	**181,861**

1) [illegible]

	Liabilities at fair value through the p/l	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities) 2)		834,185	834,185
Finance lease liabilities 2)		30,392	30,392
Other non-current liabilities		4,830	4,830
Trade and other payables excluding statutory liabilities 3)		83,569	83,569
Total	**-**	**952,980**	**952,980**

2) [illegible]
3) [illegible]

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Estimated impairment of goodwill
The group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

ii) Income taxes
The group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

iii) Impairment of drilling equipment and intangible assets
The group tests annually whether the drilling equipment and intangible assets have suffered any impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

iv) Impairment of investments in joint venture and associates
The group tests annually whether its investments in joint venture and associates have suffered any impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES -GROUP

to the consolidated financial statements

NOTE 1 SEGMENT INFORMATION

PER 31 DECEMBER 2009 THE GROUP IS OPERATING WITHIN TWO MAIN SEGMENTS:

1. OILFIELD SERVICES Petrolia Services' main product categories include tubing, drill pipe and handling equipment as well as oilfield services. Oilfield services is hiring out drilling equipment and manpower from offices in Norway, Netherlands, Romania, Australia, New Zealand, Singapore and Dubai, among others.

2. DRILLING Petrolia Drilling's major line of business in the drilling segment has been the 33.3% owned subsidiary PetroMENA ASA. PetroMENA ASA went bankrupt 21 December 2009 and has therefore been de-consolidated in the accounts for 2009 and also in the comparative result figures for 2008. Petrolia Drilling's drilling segment has therefore changed substantially in 2009 due to the bankruptcy in PetroMENA ASA. The result for PetroMENA ASA is presented as result from discontinued operations and is thus no longer part of any business segment.

SHARE OF DS "DEEP VENTURE"

In 2006 Venture Drilling AS entered into an agreement on lease of DS "Deep Venture", formerly DS "Valentin Shashin", for a period of five years with option on another 5 two-year periods. Venture Drilling AS has entered into a management agreement with Larsen Oil & Gas Ltd on technical and operational management of DS "Deep Venture". On behalf of Venture Drilling AS Larsen Oil & Gas Ltd has entered into a contract for the drilling vessel with ExxonMobil for a 19 month assignment in West Africa. Deep Venture commenced this contract June 30 2007. The contract was extended, and DS Deep Venture was engaged for Maersk Oil Angola until July 25 2009, at a day rate of USD 425,000 after withholding tax. Venture Drilling agreed to a further 18 months contract with Maersk Oil Angola at a day rate of USD 495,000 after withholding tax. The rates are base rates, i.e. minimum rates, depending on where the drilling will operate under the contract. Venture Drilling AS and Maersk have reached an agreement whereupon Maersk will redeliver the vessel against an early termination fee of EURO 54.

The vessel is expected to be redelivered within end of May 2010, cf. Note 25.

UNALLOCATED

During 2008 and 2009, the group has been engaged in oil and minerals exploration through its share in the associate Petroresources Ltd. The group's primary reporting format is business segments.

THE SEGMENT RESULTS FOR 2009 ARE AS FOLLOWS:

	Drilling		Oilfield services		Unallocated		Total	
(amounts i USD 1 000)	YTD 09	YTD 08	YTD 09	YTD 08	YTD 09	YTD 08	YTD 09	YTD 08
Operating revenue	0	0	75,746	81,554	0	277	75,746	81,831
EBITDA	0	0	26,749	34,007	-2,218	-5,715	24,531	29,292
EBIT	0	0	-22,091	4,911	-2,219	-5,715	-24,307	-804
EBITDA %	0%	0%	36%	42%	0%	-2063%	33%	35%
EBIT %	**0%**	**0%**	**-31%**	**6%**	**0%**	**-2063%**	**-34%**	**-1%**
Net finance expenses							-12,869	-24,329
Share of result from joint venture	30,954	28,451					30,954	28,451
Share of result from associates	**434**	**-110,559**			**-130**	**-3,110**	**304**	**-113,669**
Profit before income taxes							-5,619	-110,450
Tax charge							-4,953	-641
Profit for the year from continuing operations							**-10,572**	**-111,091**

OTHER ITEMS INCLUDED IN THE SEGMENT RESULTS OF NOTE 1 ARE:

	01.01 - 31.12 2009				01.01-31.12 2008			
(amounts i USD 1 000)	Drilling	Oilfield services	Unallocated	Group	Drilling	Oilfield services	Unallocated	Group
Depreciation	0	40,271	0	40,271	0	29,197	0	29,197
Impairment of drilling equipment	0	8,488	0	8,488	0	0	0	0

Segment assets consist primarily of property, plant and equipment, intangible assets, trade receivables, other receivables and cash and cash equivalents.

Capital expenditure comprises additions to property, plant and equipment (note 7) and intangible assets (note 6), including additions resulting from acquisitions.

SEGMENT ASSETS AND LIABILITIES AT 31 DECEMBER 2009 AND CAPITAL EXPENDITURE FOR THE YEAR THEN ENDED

	01.01 - 31.12.2009				01.01-31.12.2008			
(amounts i USD 1 000)	Drilling	Oilfield services	Unallocated	Group	Drilling	Oilfield services	Unallocated	Group
Assets	123,711	198,693	42,742	367,150	785,184	190,295	52,643	1,027,122
Liabilities	0	70,210	117,901	188,111	717,680	98,735	82,033	898,449
Capital expenditure (note 7)	0	25,539	0	25,539	311,823	70,685	0	382,508

THE GROUP'S TWO BUSINESS SEGMENTS OPERATE IN THE FOLLOWING MAIN GEOGRAPHICAL AREAS:

Revenue (amounts in USD 1 000)	2009	2008
Norway	8,328	11,361
Europe outside Norway	22,267	20,306
Asia and Australia	15,340	47,113
Other countries	23,812	2,281
Total	**78,746**	**81,031**

Assets (amounts in USD 1 000)	2009	2008
Norway	2,943	3,371
Europe outside Norway	15,236	57,020
Asia and Australia *)	35,889	597,504
Gulf of Mexico (SS Petrolia)	0	28,422
Other countries	70,203	4,677
Total	**124,274**	**691,584**

*) Hired rigs under construction amount to TUSD 341 139 in 2008

NOTE 2 WAGES AND REMUNERATIONS ETC.

Wage costs (amounts in USD 1 000)	2009	2008
Wages	8,784	9,279
Payroll tax	1,357	862
Pension costs	798	625
Other contributions	261	610
Total	**10,891**	**11,376**

Average number of man-labour years of the group has been 211 in 2009. The group has employees through the subsidiary Independent Oil Tools AS (group).

There are no employees in the remaining companies of the group. No loan or guarantees have been granted to the Board of Directors, employees or other related parties.

The Managing Director of Petrolia Drilling ASA was employed in Larsen Oil & Gas AS. Effective from 1. January the Managing Director is employed directly in Petrolia Drilling ASA.

BOARD OF DIRECTORS' FEE

The following fee has been paid to the members of the board (amounts in USD 1 000)	2009	2008
Klaus P. Tollefsen - Chairman of the board	55	192
Terje Hellebø - Board member	47	192
Leif Holst - Board member	47	192
Unni Tefre - Board member	47	34
Gun Marit Stenersen - Board member	47	34
Total	**243**	**645**

Directors' fees for 2009 have been paid in 2009 in accordance with ordinary resolution.

In accordance with established policy in the joint venture Venture Drilling AS, each of the owners are responsible for remuneration of its board members.

Lars Mossefinn (former Managing Director of Petrolia Drilling ASA) and Terje Hellebø through Scandinavian Consulting Group AS has each received TUSD 62.5 in 2009.

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1 000)	2009	2008
Audit	450	510
Certification services	4	7
Tax assistance	14	131
Other services	80	86
Total auditor's fee	**548**	**734**

The amounts are exclusive of value added tax.

NOTE 3 SPECIFICATION OF OTHER OPERATING EXPENSES

Other operating expenses comprise the following main items (amounts in USD 1 000)	2009	2008
Fees to external advisors, lawyers, auditors	2,518	2,425
Management services	1,671	3,707
Cost of goods sold	20,754	31,483
Other operating expenses	10,382	4,548
Total operating expenses	**35,323**	**42,163**

NOTE 4 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earnings per share)	2009	2008
Average no. of shares	1 012 595 745	1 012 595 745
No. of shares at period end	1 012 595 745	1 012 595 745
Fully diluted no. of shares	1 012 595 745	1 012 595 745
Basic earnings per share		
From continuing operations	-0.01	-0.11
From discontinued operations	0.12	-0.39
	0.11	**-0.50**

NOTE 5 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1 000)	2009	2008
Result before tax charges	5,919	-105,729
Tax calculated at domestic tax rates applicable to profits in respective countries (28% for parent company)	125	173
Non-taxable impairment	9,042	104,259
Tax on non-deductible differences	1,134	-10,733
Change deferred tax asset, included in not recognised in the balance sheet	-5,643	-93,037
Tax charge	**4,653**	**841**

There is no time limit for the use of carry forward loss

Calculation of deferred tax asset (amounts in USD 1 000)	2009	2008
Non-current assets	3,085	-4,455
Current assets	308	-411
Non-current liabilities	1,412	4,616
Pension	41	47
Profit and loss account	62,505	66,316
Net temporary differences	66,747	71,113
Carry forward loss	-141,504	-257,201
Basis for deferred tax asset	-74,757	-186,088
Deferred tax asset at nominal tax rates	20,930	52,105
Not recognised in the balance sheet	-20,932	-48,411
Deferred tax asset in the balance sheet	**0**	**3,694**

For the Norwegian companies the tax obligation is nominated and calculated in NOK and then converted to USD.

The Norwegian tax authorities notified the company in 2006 of a tax audit for Petrolia Drilling ASA and it's subsidiaries Petrolia Drilling II AS, Petrolia Rigs AS and Petrolia Services AS for the period from the formation of the companies in 1997 until the accounting year 2005. The companies have, as of today, not received notice of any changes affecting the tax position of the companies.

NOTE 6 INTANGIBLE ASSETS

(amounts in USD 1 000)	Goodwill	Debt financing	Total
Accounting year 2008			
Book value per 01.01.08	17,930	5,180	23,090
Addition	0	2,738	2,738
Acquisition of subsidiary	2,482	0	2,482
Expensed in 2008	0	-7,918	-7,918
Translation differences	-3,068	0	-3,068
Book value per 31.12.08	**17,344**	**0**	**17,344**
Per 31 December 2008			
Acquisition cost	17,344	0	17,344
Accumulated depreciation and impairment	0	0	0
Book value per 31.12.08	**17,344**	**0**	**17,344**
Accounting year 2009			
Book value per 01.01.09	17,344	0	17,344
Addition	0		0
Acquisition of subsidiary	0		0
Translation differences	3,051		3,051
Book value per 31.12.09	**20,395**	**0**	**20,395**
Per 31 December 2009			
Acquisition cost	20,395	0	20,395
Accumulated depreciation and impairment	0	0	0
Book value per 31.12.09	**20,395**	**0**	**20,395**

The debt financing is expenses accrued in connection with debt financing of construction projects. For 2008 this was expensed as financial cost related to the uncertain future of financing of the construction projects.

Impairment test for goodwill
Goodwill is allocated to the Group's cash-generating units identified for each business segment. Goodwill is in its entirety allocated to the segment offshore services.

Impairment test for cash-generating units is based on estimated present value of future cash flows and estimated fair value less costs to sell. The estimated present value assume a discount rate of 12% and a growth rate of 2,5%, with a terminal value after 3 year. The present value of future cash flows is based on the 2010 budget. The impairment test did not call for impairment of goodwill in 2009.

NOTE 7 PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

(amounts in USD 1 000)	SS "Petrolia" incl.equipment	Periodical maintenance	Drilling equipment	Rigs under construction	Land and buildings	Other equipment	Total
Per 1 January 2008							
Acquisition cost	62,937	7,633	127,301	733,933	3,143	49	935,185
Accumulated depreciation	-40,590	-1,365	-22,278	0	-27	-1	-64,450
Book value 01.01.08	**22,347**	**6,268**	**105,023**	**733,933**	**3,116**	**48**	**870,735**
Accounting year 2008							
Book value 01.01.08	22,347	6,268	105,023	733,933	3,116	48	870,735
Translation differences			-21,065		-338		-21,403
Addition included leased equipment	2,344	28	70,892				73,264
Instalments yard/project expenses				246,450			246,450
Net construction loan interest				62,794			62,794
Impairment of construction contracts				-502,059			-502,059
Disposal at book value			-6,227				-6,227
Depreciation of the year			-29,124		-73		-29,197
Discontinued operations	-914	-1,811	-28			-10	-2,763
Book value 31.12.08	**23,777**	**4,485**	**119,471**	**541,118**	**2,705**	**38**	**691,594**
Per 31 December 2008							
Acquisition cost	65,281	7,661	170,901	541,118	2,805	49	808,014
Accumulated depreciation	-40,590	-1,365	-51,402	0	-100	-1	-113,657
Discontinued operations	-914	-1,811	-28	0	0	-10	-2,763
Book value 31.12.08	**23,777**	**4,485**	**119,471**	**541,118**	**2,705**	**38**	**691,594**
Accounting year 2009							
Book value 01.01.09	23,777	4,485	119,471	541,118	2,705	38	691,594
Translation differences			20,986		-341		20,645
Addition included leased equipment			25,539				25,539
Disposal at book value			-2,284				-2,284
Depreciation of the year			-40,312		-59		-40,371
Impairment of equipment *			-8,468				-8,468
Discontinued operations	-23,777	-4,485	7,037	-541,118		-38	-562,381
Book value 31.12.09	**-0**	**-0**	**121,969**	**-0**	**2,305**	**0**	**124,274**
Per 31 December 2009							
Acquisition cost	65,281	7,661	206,674	541,118	2,464	49	943,446
Accumulated depreciation	-41,504	-3,176	-91,742	0	-159	-11	-156,791
Discontinued operations	-23,777	-4,485	7,037	-541,118	0	-38	-562,381
Book value 31.12.09	**-0**	**-0**	**121,969**	**-0**	**2,305**	**0**	**124,274**
Remaining useful life	14 year						
Depreciation period	15 year	5 year	5 year		33 year	3 year	
Residual value			0			3	
Construction year	**1976/1995/2006**						

*) Write down based on external valuation

PetroMENA ASA has been deconsolidated in the accounts in 2009. The result and the profit on disposal of assets is presented as result for the year from discontinued operations. See note 8 for further details regarding the discontinued operations.

LEASED EQUIPMENT (INCLUDED IN DRILLING EQUIPMENT ABOVE)

Drilling equipment acquired through financial leases amounts to: (amounts in USD 1 000)	
Per 1 January 2008	
Acquisition cost - financial leases	51,010
Accumulated depreciation	-20,557
Book value per 31.12.2008	**30,453**
Accounting year 2008	
Book value 01.01.2008	14,589
Addition	25,294
Depreciation of the year	-7,576
Translation differences	-1,853
Book value per 31.12.2008	**30,453**
Accounting year 2009	
Book value 01.01.2009	30,453
Addition	19,857
Depreciation of the year	-12,842
Translation differences	7,057
Book value 31.12.2009	**44,525**
Acquisition cost - financial leases	77,924
Accumulated depreciation	-33,399
Book value 31.12.2009	**44,525**

The equipment is pledged as security for the leasing obligation.

NOTE 8 DISCONTINUED OPERATIONS

PetroMENA ASA (51.5% owned) went bankrupt 21 December 2009 and has therefore been deconsolidated in the accounts for 2009.

The result from PetroMENA ASA is presented as profit for the year from discontinued operations. This comprises the total of the post-tax profit (loss) in PetroMENA ASA for the period 1 January until 21 December 2009 and the gain recognised on the disposal of the assets in PetroMENA per 21 December 2009.

The equipment is pledged as security for the leasing obligation.

Analysis of the result of discontinued operations	2009	2008
Operating revenue	84,296	73,653
Operating expenses	82,997	574,757
Operating profit	**1,299**	**-501,104**
Net financial income/expenses (-)	-99,812	105,825
Result before tax of discontinued operations	**-98,514**	**-395,278**
Tax	3,694	0
Result after tax for discontinued operations	**-102,207**	**0**
Gain recognised on discontinued operations (*)	220,620	0
Result for the year from discontinued operations	**118,413**	**-395,278**

Included in:
(-) deferred income related to the sale of DS "Petrolia" to Petrolia [illegible] in 2007
(*) consolidated negative equity from PetroMENA in Petrolia Drilling group on date of bankruptcy

The pre-tax gain recognised on discontinued operations in 2009 includes [illegible] with USD [illegible] million mainly related to Petrolia Services.

Cash flows from discontinued operations	2009	2008
Operating cash flows	953	759
Investing cash flows	-21,780	-322,471
Financing cash flows	-46,356	7,766
Total cash flows	**-67,183**	**-313,946**

NOTE 9 INVESTMENT IN JOINT VENTURE

Venture Drilling AS is a joint venture cooperation between Sinvest AS and Petrolia Drilling ASA with business address in Kristiansand, Norway. Petrolia Drilling ASA's shareholding in the company is 50%.

(amounts i USD 1 000)	2009	2008
Book value 01.01	76,827	62,431
Share of result of the year	33,232	28,451
Depreciation of value added/Gain on sale of equipment within the group	-2,279	-1,631
Dividends	-20,825	-12,424
Book value 31.12	**86,955**	**76,827**

Key figures for Venture Drilling AS (amounts in USD 1 000)	2009	2008
Balance sheet		
Non-current assets	118,273	123,799
Current assets	81,954	59,112
Equity	135,498	98,932
Non-current liabilities	15,529	20,049
Current liabilities	49,198	63,241
Income statement		
Operating income	176,471	152,665
Operating expenses (including depreciations)	73,893	74,411
Net financial items	-848	-1,032
Tax	28,117	21,622
Result of the year	**67,607**	**55,600**

The annual accounts for 2009 has per date not been adopted by the Board of Venture Drilling.

[illegible]

NOTE 10 INVESTMENT IN ASSOCIATED COMPANIES

PETROJACK ASA
The Board of Directors in Petrojack ASA resolved to file for bankruptcy proceedings 8 March 2010.

DEEPWATER DRILLER LTD (FORMER LARSEN RIG LTD)
Petrolia Drilling has invested mUSD 48 in Deepwater Driller Ltd and controlled 30 % of the company per 31.12.2009. In 2008 the shares in Deepwater Driller Ltd were impaired due to uncertainty with respect to future financing requirements and going concern assumption. In 2009 part of the impairment was reversed, cf. note 23.

PETRORESOURCES LTD
Petrolia Drilling has invested mUSD 6 in Petroresources Ltd and controlled 29.57 % of the company per 31.12.2009.

Calculation of values in the balance sheet (amounts in USD 1 000)	Petrojack ASA	Deepwater Driller Ltd	Petro-resources Ltd	Total
Book value per 1.1.2008	**100,425**	**0**	**0**	**100,425**
Transfers from subsidiary	0	0	1	1
Addition of the year	0	42,000	5,999	47,999
Share of result of the year	-24,759	-452	-110	-25,320
Impairment of shares	-59,271	-20,548	-3,000	-82,819
Depreciation/impairment of value added	-5,530	0	0	-5,530
Book value per 31.12.2008	**10,866**	**21,000**	**2,890**	**34,756**
Addition of the year	0	6,000	0	6,000
Share of result of the year	-42,349	-1,788	-130	-44,278
Reversal of impairment of shares	32,297	13,099	0	45,396
Gain on sale of equipment within the group	-815	0	0	-815
Book value per 31.12.2009	**0**	**38,300**	**2,760**	**41,060**

Company	Incorporated in	Assets	Liabilities	Revenue	Profit (Loss)	Shareholding
Petrojack ASA	**Oslo, Norway**					
2008		439,786	383,821	34,219	-124,736	39.95 %
2009		Bankrupt	Bankrupt	Bankrupt	10,888	39.95 %
Deepwater Driller Ltd (former Larsen Rig Ltd)	**Cayman Island**					
2008		139,166	2,671	0	-8,205	30.00 %
2009		256,559	106,836	0	11,300	30.00 %
Petroresources Ltd	**Limassol, Cyprus**					
2008		21,440	821	0	-385	29.57 %
2009		20,751	384	0	-130	29.57 %

NOTE 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Company (amount in USD 1 000)	No. of share	Cost price	Market value	Book value 2009	Book value 2008
Island Oil & Gas Plc	5 129 209	4,432	820	820	871
Total				**820**	**871**

The company is quoted on the London Stock Exchange. The fair value of the shares is based on their current bid prices in an active market.

NOTE 12 TRADE- AND OTHER CURRENT RECEIVABLES

Other current receivables (amount in USD 1 000)	2009	2008
Trade receivables	33,897	35,084
Prepaid expenses and value added tax owing	7,094	8,550
Mobilisation expenses prepaid in 2007/2008	0	11,150
Receivable from joint venture	0	1,424
Receivable Larsen Oil & Gas (ltd 1)	0	15,274
Other current receivables	1,298	1,312
Total	**42,288**	**73,795**

1) Related to trade receivables to Pemex. LOG Ltd is manager and responsible for collecting payments from Pemex

Recognised value of the Group's trade receivables and other receivables per foreign currency (amount in USD 1 000)	2009	2008
USD	25,789	58,236
GBP	0	0
EUR	8,157	12,627
AUD	3,801	2,474
NOK	3,492	457
Total	**42,288**	**73,795**

Aging of accounts receivables	< 3 months	4 - 6 months	> 6 months	Total
Accounts receivables	29,862	3,549	486	33,897
Other current receivables	33	1,246	48	1,327
Total	**29,895**	**1,246**	**48**	**35,224**

Prepaid expenses has been exempted in the above profile

NOTE 13 INVESTMENT IN MONEY MARKET FUND

(amounts in USD 1 000)	2009	2008
Holberg Likviditet – money market fund	15	83
Total	**15**	**83**

Investments in cash unit trust are assessed at fair value at the balance sheet date.

NOTE 14 BANK DEPOSITS

(amounts i USD 1 000)	2009	2008
Bank deposits	**49,616**	**127,812**
Horsef deposit on suspense account for use as instalments on construction contract for rig I, II and III		
Bank deposit in NOK translated to USD	0	35,116
Bank deposit in USD	0	1,374
Security in Lloyds bank for Pemex contract regarding Petrolia III	0	22,410
Security in Handelsbanken for Pemex contract regarding SB Petrolia	26,993	26,903
Restricted capital from not earning account for Pemex contract regarding SB Petrolia	0	3,003
Security in DnB for the bond loan in PDR ASA	8,248	4,846
Employees' tax deduction	169	114
Total restricted capital	**35,409**	**93,769**
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash an bank deposits in NOK	13,881	54,015
Cash an bank deposits in USD	32,117	68,461
Cash an bank deposits in SGD	2,028	130
Cash an bank deposits in GBP	85	453
Cash an bank deposits in EUR	2,959	3,254
Cash an bank deposits in AUD	1,557	1,304
Total	**49,616**	**127,812**

NOTE 15 SHARE CAPITAL

Share capital of Petrolia Drilling ASA per 31.12.2009	Number	Nominal value	Book value 2009	Book value 2008
Shares	**1,012,596,745**	**NOK 0.50**	**USD 93 568**	**USD 93 568**

Per 31 December 2009 Petrolia Drilling ASA holds 5 250 024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA. Per 31 December 2009 Petrolia Drilling ASA holds 5 250 024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia Drilling ASA had a total of 6 452 shareholders per 31.12.09. The table below shows the company's 20 largest shareholders per 31 December 2009 according to the VPS (shares with nominal value NOK 0.50).

Shareholders		No. of shares	Shareholding
1	Petrojack ASA	253,000,000	24.99%
2	Independent Oil & Resources ASA	213,000,000	21.04%
3	DNO Invest AS	23,499,385	2.32%
4	Bloomcorn Industries	18,100,000	1.80%
5	Øyvind Halvorsen	14,000,000	1.38%
6	Odin Offshore	8,000,000	0.79%
7	Citibank N.A. New York	6,436,093	0.64%
8	Danske Bank A/S	5,830,289	0.58%
9	Askeladden Invest	5,300,300	0.52%
10	Jacob Haugen	5,000,000	0.49%
11	Increased Oil Recovery AS	4,350,000	0.43%
12	Roar Charles Pedersen	4,000,000	0.40%
13	Thor Eder Pedersen	3,702,000	0.37%
14	Bio Bio AG account	3,480,830	0.34%
15	Trygve Einvaker	3,400,000	0.34%
16	Thor Inge Bilfuhsen	3,390,000	0.33%
17	A/S Byggentreprenør v/ Bjørn Ekberg	3,200,000	0.32%
18	Thore Pedersen	3,000,000	0.30%
19	Hedfun Invest AS	3,000,000	0.30%
20	T Lien Holding AS	3,000,000	0.30%
	Others	419,582,364	41.44%
Total no. of shares before treasury shares		1,007,346,721	99.48%
Treasury shares		5,250,024	0.52%
Total no. of shares		**1,012,596,745**	**100.00%**

Larsen Oil & Gas AS purchased 253,000,000 shares in Petrolia Drilling ASA on 18 March 2010, from the Petrojack ASA bankruptcy estate, corresponding to 24.99% of the share capital in PDR ASA. For further details, see note 25 Events after balance sheet date.

SHARES OWNED BY MEMBERS OF THE BOARD AND OTHER PRIMARY INSIDERS

The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 0.50).

Name	12/31/2009
Members of the board and managing director per 31.12.2009:	
Claus P. Tollefsen, Chairman of the Board 4)	0
Unni F. Tefre, Board member	0
Gun Marit Stenersen, Board member	0
Terje O. Hefteke, Board member	3,424
Leif Holst, Board member 1)	674,792
Bernt Skeie, CEO of Petrolia Drilling ASA	1,000,000
New member of the Board and Managing director in 2010:	
Erik Johan Frydenlund, Board member	20 000
Berge Gerdt Larsen, Chairman of the Board 2)	
Ørnulf Samdal, CEO of Petrolia Drilling ASA	0
Other primary insiders per 31.12.2009:	
Petrojack ASA, Terje O. Hefteke is CEO of the company	253,000,000
Independent Oil & Resources ASA, Unni F. Tefre is Board member, Berge G. Larsen has indirectly ownership 3)	213,000,000
DNO Invest AS, Berge G. Larsen is Chairman of the Board	23,499,385
Increased Oil Recovery AS, Berge G. Larsen controls the company and is Chairman of the Board 2)	4,350,000
Time Critical Petroleum Resources AS, Berge G. Larsen is owner of the company and Chairman of the Board 2)	2,038

1) 674 792 shares are owned by Neumann Invest AS where Leif Holst is General Manager. Neumann Invest AS also owns 2 088 000 shares in Independent Oil & Resources ASA.

2) Berge G. Larsen indirectly owns 4 352 038 shares through Increased Oil Recovery AS and Time Critical Petroleum Resources AS. Increased Oil Recovery AS owns 100 % in Larsen Oil & Gas AS.

3) Increased Oil Recovery AS owns 36.20 % of Independent Oil & Resources ASA.

4) Claus Tollefsen hire through his company Tollefsen Energy AS the premises manager Larsen Oil & Gas AS. At the termination of management agreement in June, Petrolia Drilling ASA may enter into a separate agreement with Tollefsen Energy AS for the premises to be retained.

NOTE 16 OTHER EQUITY

(amounts in USD 1 000)	Currency translations	Remeasurement of share in other companies	Total
At 1 January 2008	**-3,536**	**-3,989**	**-7,525**
Remeasurement of shares in subsidiary	0	4,203	4,203
Issue expenses in subsidiary	0	-838	-838
Currency translation differences in 2008	-12,093	0	-12,093
At 31 December 2008	**-15,629**	**-624**	**-16,253**
Currency translation differences in 2009	12,489		**12,489**
At 31 December 2009	**-3,140**	**-624**	**-3,764**

NOTE 17 BOND LOANS

PER 31 DECEMBER THE GROUP HAD THE FOLLOWING BOND LOANS

Bond Loans (amounts in USD 1 000)		Average interest rate	Effective interest rate	2009	2008
Bond loan (mNOK 500)	ISIN: NO 001044025.6 - 12% Petrolia Drilling ASA	12.00%	13.27%	85,143	69,855
Bond loan (mNOK 1 600)	ISIN: NO 001035294.4 - FRN PetroRig III Pte Ltd	12.00%	13.83%	0	224,044
Bond loan (mUSD 300)	ISIN: NO 001038578.3 - 10.85% PetroMENA ASA	10.85%	12.53%	0	124,501
Book value 31.12.				**85,143**	**418,399**

Split between long term and short term portion of bond loan 31.12.2009	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	85,143	0	85,143
Book value 31.12.	**85,143**	**0**	**85,143**

Split between long term and short term portion of bond loan 31.12.2008	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	69,855	0	69,855
Bond loan (mNOK 2 000)	0	281,388	281,388
Bond loan (mNOK 1 600)	224,044	0	224,044
Bond loan (mUSD 300)	124,501	134,400	258,901
Book value 31.12.	**418,400**	**415,788**	**834,188**

Due to the bankruptcy in PetroMENA ASA, the book value of bond loans is reduced from 2008 as the company has been deconsolidated in 2009.

Bond loan mNOK 500, book value reflects expenses directly attributable to the raising of the loan by mNOK 12.5 whereof mNOK 2.5 is recognised as financial expense in 2009.

BOOK VALUE OF MORTGAGE

Bond loan mNOK 500 is subject to security in bank deposit	2009	2008
Bond loan mNOK 500		
Suspense bank account	8,249	6,646
Total book value of mortgage	**8,249**	**6,646**
Bond loan mNOK 2 000		
Rigs under construction, rig I and II	0	284,745
Total book value of mortgage	**0**	**284,745**
Bond loan mNOK 1 600		
Rigs under construction, rig III	0	256,373
Suspense bank account	0	36,690
Total book value of mortgage	**0**	**293,063**
Bond loan mUSD 300		
SS Petrolia incl. drilling equipment	0	217,431
Suspense bank account	0	5,000
Total book value of mortgage	**0**	**222,431**

Maturity structure bond loans	2011	2012	Total
Instalment	100,000	400,000	500,000
Interest	60,000	30,000	90,000
Total	**160,000**	**430,000**	**590,000**

BORROWING TERMS

Bond loan mNOK 500 in Petrolia Drilling ASA

Petrolia Drilling has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 20 June 2009 till 19 June 2010	104.50%
Redemption in the period 20 June 2010 till 19 June 2011	103.50%
Redemption in the period 20 June 2011 till the expiry of the term of the loan	103.25%

Bond borrowing is recognised at amortised cost and not fair value adjusted. Change in time value on options for future redemption are consequently not recognised.

According to the borrowing agreement Petrolia Drilling can not incur mortgage debt, encumbrances, guarantees, right of retention or any other type of mortgage for present or future assets or give any guarantee or compensation, exemptions may, however, be made provided it is in compliance with normal market practice.

Covenants
Petrolia Drilling can not, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 30% of the group's profit after taxes the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petrolia Drilling is responsible that the company (parent) maintains a coverage ratio (ratio of total assets to total debt) of 2.0 or higher on each Balance Sheet Reporting Date, which is every quarter.

Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts. There is no breach in the borrowing terms per 31.12.2009.

NOTE 18 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2009	2008
Liability connected to financial leasing of drilling equipment	25,992	22,452
Other non-current liabilities	0	4,830
Total other non-current liabilities	**25,992**	**27,282**

FINANCIAL LEASING LIABILITY DRILLING EQUIPMENT

The payment schedule is (amounts in USD 1 000)	2009	2008
Falling due within 1 year	10,817	7,940
Falling due between 1 and 5 years	25,992	22,452
Total	**36,809**	**30,392**

Interest rate is 3 month LIBOR + p.t. 1.65 % margin. Cf note 7. Book value of assets financed through financial leasing amounts to mUSD 44.3.

Petrolia Drilling ASA has given surety towards the leasing company at a value of mUSD 65.5.

NOTE 19 SHORT TERM PORTION OF NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2009	2008
Accrued interest on bond loan mNOK 500	289	238
Accrued interest on bond loan mNOK 2 000, mNOK 15.1 2008	0	2,786
Accrued interest on bond loan mNOK 1 800, mNOK 58.3 in 2008	0	8,326
Accrued interest on bond loan mUSD 300	0	3,183
Next year installment on debt, bond loan mUSD 300	0	14,400
Short term portion of leasing liability	10,817	7,940
Next year installment on bond loan mUSD 300 and mNOK 2,000 in the event of sale of Petrolia I and Petrolia II	0	401,389
Short term portion of long term liabilities	**11,106**	**438,262**

NOTE 20 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia Drilling ASA has issued a security for leasing equipment in Independent Tool Pool AS (100% owned by Petrolia Services AS) of mUSD 65.5.

Petrolia Drilling ASA and Sinvest AS guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 21 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables (amounts in USD 1 000)	2009	2008
Trade payables	11,958	22,964
Total trade payables	**11,958**	**22,964**
Other current liabilities		
Public duties	405	331
Accrued expenses	995	7,684
Liabilities to related parties (note 23)	45,830	35,926
Other current liabilities	6,000	16,995
Total other current liabilities	**53,230**	**60,936**
Total trade payables and other current liabilities	**65,188**	**83,900**

Recognised value of debt per foreign exchange	2009	2008
USD	42,472	64,350
NOK	21,685	12,090
SGD	0	989
GBP	345	521
EUR	686	3,905
AUD	0	1,845
Total	**65,188**	**83,900**

DISPUTED ITEMS NOT ACCRUED FOR:

Petrolia Services AS purchased drilling equipment in 2008 from PetroMENA ASA. PetroMENA ASA is bankrupt and it is disputed whether or not items of MUSD 1.9 will have to be returned to the bankrupted estate. Furthermore, Larsen Oil & Gas Ltd has claimed MUSD 0.2 related to man-hours and refurbishment. Larsen Oil & Gas AS has presented a request for additional management fee of MNOK 8.8. Settlement for outstanding costs is expected to take place in connection with final termination settlement by the parties. Certified Oilfield Rentals Ltd, the administrator of rental of the equipment, has made a claim of MUSD 1.5 towards Petrolia Services AS for equipment for which the company claims not to have received payment.

NOTE 22 PENSIONS

The group has a pension scheme related to the subsidiary IOT AS. The scheme includes 20 active and 1 retired persons and entitles to defined future benefits. These are mainly based on contribution time, wage level at reached retirement age and the size of the payments from the National Insurance.

Pension benefits (amounts in USD 1 000)	2009	2008
Carried liability is calculated as follows:	**Secured**	**Secured**
Present value of funded obligations	1,122	922
Fair value of plan assets	-919	-763
Unrecognised effects of actuarial gains/ losses	330	257
Payroll tax	29	17
Net pension obligation per 31.12	**562**	**433**
Change in defined benefit obligation over the year		
Pension obligation per 01.01	981	1,927
Obligations taken over from acquisition	0	0
Present value of contributions by plan participants	-10	0
Current service cost	54	58
Interest expense	37	46
Change in pensions plan	0	-729
Actuarial gains and losses	-14	-83
Foreign exchange effect	135	-271
Benefits paid	-18	-19
Pension obligation per 31.12	**1,121**	**922**
Change in fair value of plan assets of the year		
Pension plan assets per 01.01	763	1,302
Assets from acquisitions	0	0
Expected return on plan assets	48	34
Employee contributions	10	117
Change in pension plans	0	-349
Actuarial gains and losses	-45	-58
Foreign exchange effect	163	-224
Benefits paid	-18	-19
Plan assets per 31.12	**920**	**763**

TOTAL PENSION EXPENSE INCLUDED IN THE INCOME STATEMENT

[amounts in USD 1 000]	Secured	Secured
Current service cost	73	57
Interest cost	37	44
Expected return on plan assets	-45	-32
Recognized actuarial gains/losses	43	32
Change in pension plans	0	58
Payroll tax	8	9
Total, included in wage costs	**110**	**149**
The following principal actuarial assumptions have been used:		
Discount rate	4.50%	3.80%
Expected return non plan assets	5.70%	5.90%
Annual salary increase	4.50%	4.00%
Annual pension increase	4.25%	3.75%
Annual regulation of the National Insurance Basic Amount	4.25%	3.75%

NOTE 23 RELATED PARTIES

Shareholding of related parties is discussed in note 13. Some persons and companies will have several positions in relation to the company and may, independent of the circumstances, have different interests as regards the Petrolia Drilling group. In the company's opinion this applies to:

A) BERGE GERDT LARSEN

Berge G. Larsen is Chairman of the Board of DNO Invest AS, Time Critical Petroleum Resources AS, Increased Oil Recovery AS and of Larsen Oil & Gas AS.

B) LARSEN OIL & GAS AS

The company is 100% controlled by Berge G. Larsen. The group has entered into a Business Administration Agreement with Larsen Oil & Gas AS (LOG AS) in 1997. The company is 100 % owned by Increased Oil Recovery AS (IOR AS). For these services LOG AS shall receive an annual compensation of mNOK 3 as per year 2000. In 2009 mNOK 3 has been expensed. The parties are in dispute on the actual costs to be recovered, cf. note 21.

The management agreement was terminated in January 2010 with six months termination. Settlement for outstanding costs is expected to take place in connection with final termination settlement by the parties.

C) LARSEN OIL & GAS LTD (LOG LTD) ABERDEEN, SCOTLAND

The company is 100 % controlled by Berge G. Larsen. The company is drilling contractor for the DS "Deep Venture". LOG Ltd is also technical and operational manager for DS "Deep Venture" and Deepwater Driller Ltd.

Venture Drilling AS (50% owned by Petrolia Drilling ASA) has entered into a management agreement for technical and operational management of the rig DS "Deep Venture". The agreed fee is USD 10 000 per day when the rig is under drilling contract, USD 6 000 per day during reactivating and USD 2 000 per day if the rig is not in operation or is moved without being under drilling contract. Manager may earn a bonus of up to USD 1 000 000 in connection with the reactivating, provided certain demands are met. Effective from November 2000 and until the day rate increased to USD 10 000 per day in October 2008, Petrolia Drilling ASA was committed to render an annual fee of mNOK 3 to LOG Ltd in connection with the management agreement between Venture Drilling AS and LOG Ltd to secure a satisfactory profit from the agreement for LOG Ltd. In connection with operations in countries in West Africa for DS Deep Venture, LOG branches/companies have been set up to support local matters. The expenses involved are included in the operation expenses.

Deepwater Driller Ltd entered into a management agreement for technical and operational management of the drilling rig Larsen Rig in June 2008. The agreed fee is USD 3,000 per day during the contract period. The technical and operational agreement was terminated in February 2010 with six months termination. Termination fee is mUSD 5. From the time written termination notice is given by the owner, and until the expiry of the agreement, the termination fee shall be the only fee to be paid by the owner and the manager shall not be entitled to receive any daily management fee for this period.

D) LARSEN OIL & GAS PTE LTD (LOG PTE), SINGAPORE

The company is 100% owned by Larsen Oil & Gas FZCO in Dubai. LOG Ltd in Aberdeen owns 45% of Larsen Oil & Gas FZCO. Deepwater Driller Ltd entered into an agreement of project management and yard supervision with Larsen Oil & Gas Pte Ltd in June 2008. Annual supervision fee is mUSD 3.6. The agreement has been terminated in February 2010 with six months termination.

E) INDEPENDENT OILFIELDS RENTALS LTD.

Berge G. Larsen is indirectly minority shareholder. In 2005 the Group purchased drilling equipment from the company worth mUSD 2.0. The equipment was in its entirety used as part of contribution in kind at the establishment of Venture Drilling AS. The amount is recognised in the balance sheet as other current liability per 31.12.09.

Independent Oilfield Rentals Ltd and its subsidiary NET AS granted Petrolia Services AS a loan of total mNOK 25. The loans are unsecured and prescribed interest rate is 16% p.a. The amount is recognised in the balance sheet as other current liability per 31.12.09. The loans are repaid fully in March 2010.

F) INDEPENDENT OIL & RESOURCES ASA (IOAR)

Berge G. Larsen is indirectly minority shareholder. IOLR ASA has granted Independent Tool Pool AS a short term loan of mUSD 12.2. The loan is calculated at an interest of 6%.

G) PETROMENA LIMITED

Petromena Limited is a wholly owned subsidiary of PetroMENA ASA of which Petrolia Drilling ASA own 51.5 %. PetroMENA ASA went bankrupt 21 December 2009.

Petrolia Rigs AS has a deposit in Handelsbanken on behalf of Petromena Ltd which is security for the contract SB Petrolia has with Pemex of mUSD 170. The amount was settled when Petromena Ltd acquired the rig in 2007 and the amount is therefore included in other current liabilities per 31.12.2009.

H) PETROJACK ASA

Petrolia Drilling ASA owned 39.55% in Petrojack ASA per 31.12.2009. The Board of Directors in Petrojack ASA filed for bankruptcy 9 March 2010.

Petrolia Services AS bought drilling equipment from Petrojack ASA in 2009. Acquisition cost for the equipment was mUSD 5.3, based on the price established in an external valuation from third party. The equipment is purchased with a lease back and a put/call option. Petrojack ASA is entitled to lease back the equipment for a period of five years. The put/call option is valid at all times for all or some of the equipment. The repurchase price shall be based on the purchase price less depreciation.

I) VENTURE DRILLING AS

The company is 50% owned by Petrolia Drilling ASA.

Petrolia Drilling ASA has paid Directors fee for its representatives in the Board of Venture Drilling AS. In 2009 Scandinavian Consulting Group AS through Terje O. Hellebø (Board Member) and Lars Moldestad (former Managing Director) each received TUSD 62.5.

J) VARIOUS

Accrued expenses involved in tax audit/ taxes in Petrolia Drilling ASA with subsidiaries and associates and in companies related to board and top management of Petrolia Drilling are covered by the company pending a final result of the matters.

K) DISPUTED CLAIMS NOT ACCRUED FOR

Petrolia Services AS purchased drilling equipment in 2008 from PetroMENA ASA. PetroMENA ASA is bankrupt and it is disputed whether or not items of mUSD 1.5 will have to be returned to the bankrupted estate. Furthermore, Larsen Oil & Gas Ltd has claimed mUSD 0.2 related to man-hours and refurbishment. Larsen Oil & Gas AS has presented a request for additional costs under the Business Administration Agreement, cf note 21 above.

NOTE 24 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2009	2008
Interest income		
Interest income from current bank deposits	634	3,865
Profit from liquidity reserve	0	1
	634	**3 866**
Financial income		
Gain from sale of shares	0	70
Foreign exchange gain - net*)	343	0
	343	**70**
Interest expenses		
Interest expenses bonds	9,785	7,179
Other interest expenses	514	1
Interest financial leasing	1,494	1,842
Interest expenses to related parties	499	0
Interest forward contract	0	2,301
	12 292	**11 323**
Financial expenses		
Value change shares at fair value through profit and loss	251	2,812
Foreign exchange loss - net*)	0	7,347
Other financial expenses	1,303	6,781
	1,554	**16,940**
Net finance	**-12,869**	**-24,328**
***)Foreign exchange is presented net in the income statement**		
Foreign exchange gain	28,271	40,084
Foreign exchange loss	27,928	47,632
Foreign exchange - net	343	-7,548

NOTE 25 EVENTS AFTER THE BALANCE SHEET DATE

PETROLIA DRILLING ASA:
Petrolia Drilling ASA ("Petrolia") has terminated the business manager agreement entered into with Larsen Oil & Gas AS "LOG"). Under the business manager agreement LOG has provided the following main business manager 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

According to the business manager agreement the agreement may be terminated by either party by six months notice. LOG AS is entitled to business manager fee payable pursuant to the agreement during the six months term of notice. The annual business manager feeass agreed in 2000 at NOK 3 per year. Petrolia will establish own management to perform services previously provided by LOG.

PETROJACK ASA
On 6 March, the Board of Directors in Petrojack ASA filed for bankruptcy proceedings.

LARSEN OIL & GAS AS
On 18 March 2010 Larsen Oil & Gas AS purchased 253,000,000 shares in Petrolia Drilling ASA from the Petrojack ASA bankrupted estate, equal to 24.99% of the share capital.

The company has since sold down to an interest of 5.73%.

SHAREHOLDER INFORMATION
The EGM in Petrolia Drilling ASA was held the 8th of March 2010 at the request of shareholder Independent Oil & Resources ASA (owner of 13,5%) 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. 18 March 2010 Larsen Oil & Gas AS, controlled by Berge Gerdt Larsen, purchased 253,000,000 shares in Petrolia Drilling ASA from the bankruptcy estate of Petrojack ASA at a price of NOK 72, corresponding to 24.99% of the share capital in Petrolia Drilling ASA.

On 13 April was held new EGM of Petrolia Drilling ASA at the request of a shareholder Independent Oil & Resources ASA (26.56% stake) where it was voted for the election of new Board members. A new board was elected according to the proposal from Independent Oil & Resources ASA.

LIST OVER THE MAJOR SHAREHOLDERS IN PETROLIA DRILLING ASA PER 20TH OF APRIL 2010

Shareholder		No. of shares	Shareholding
1	Independent Oil & Resources ASA	269,000,000	26.57%
2	B. H. Holding AS	100,000,000	9.88%
3	Larsen Oil & Gas AS	58,000,000	5.73%
4	NET AS	50,000,000	4.94%
5	DNO Invest AS	23,468,365	2.32%
6	Øyvind Hellorsen	13,000,000	1.28%
7	Jensen AS	9,000,000	0.89%
8	Citibank N.A. New York	7,288,093	0.72%
9	Thor Inge Willumsen	6,000,000	0.59%
10	Danske Bank A/S	5,365,839	0.53%
11	Askeladden Invest	5,300,300	0.52%
12	Petrolia Drilling ASA	5,210,024	0.52%
13	Tore Pedersen	4,500,000	0.44%
14	Increased Oil Recovery AS	4,350,000	0.43%
15	Nordea Bank AB	4,133,125	0.41%
16	Roar Charles Pedersen	4,000,000	0.40%
17	Trygve Elnæsser	3,400,000	0.34%

Shareholder		No. of shares	Shareholding
18	Six Six AS account	3,212,640	0.32%
19	A/S Byggentreprenør v/Bjørn Eidberg	3,200,000	0.32%
20	Jacob Haugen	3,000,000	0.30%
	Other shareholders	425,868,311	42.06%
Total no. of shares before treasury shares		1,007,346,721	99.48%
Treasury shares		5,250,024	0.52%
Total no. of shares		**1,012,596,745**	**100.00%**

Information related parties, cf. note 23

Change in shareholder composition after balance sheet date and related parties as follow:

Jan Egil Moe, Chairman in Independent Oil & Resources ASA, General Manager and Chairman in NET AS and Jensen AS.

NET AS is the owner of 26.7% in Increased Oil Recovery AS which is 100% owner of Larsen Oil & Gas AS.

STATUS DEEP VENTURE

Deep Venture's manager, Larsen Oil & Gas Ltd, has withheld funds from operations of Deep Venture to cover accrued costs and liabilities. Venture Drilling AS has started court proceedings in Scotland claiming release of the actual amounts.

Maersk has given notice of intent to early terminate the drilling contract for Deep Venture before due date when the present well was completed. Maersk estimates the termination to be effective in April 2010.

Venture Drilling AS and Maersk have reached an agreement whereupon Maersk will redeliver the vessel against an early termination fee of mUSD 6.4. The vessel is expected to be redelivered within end of May 2010.

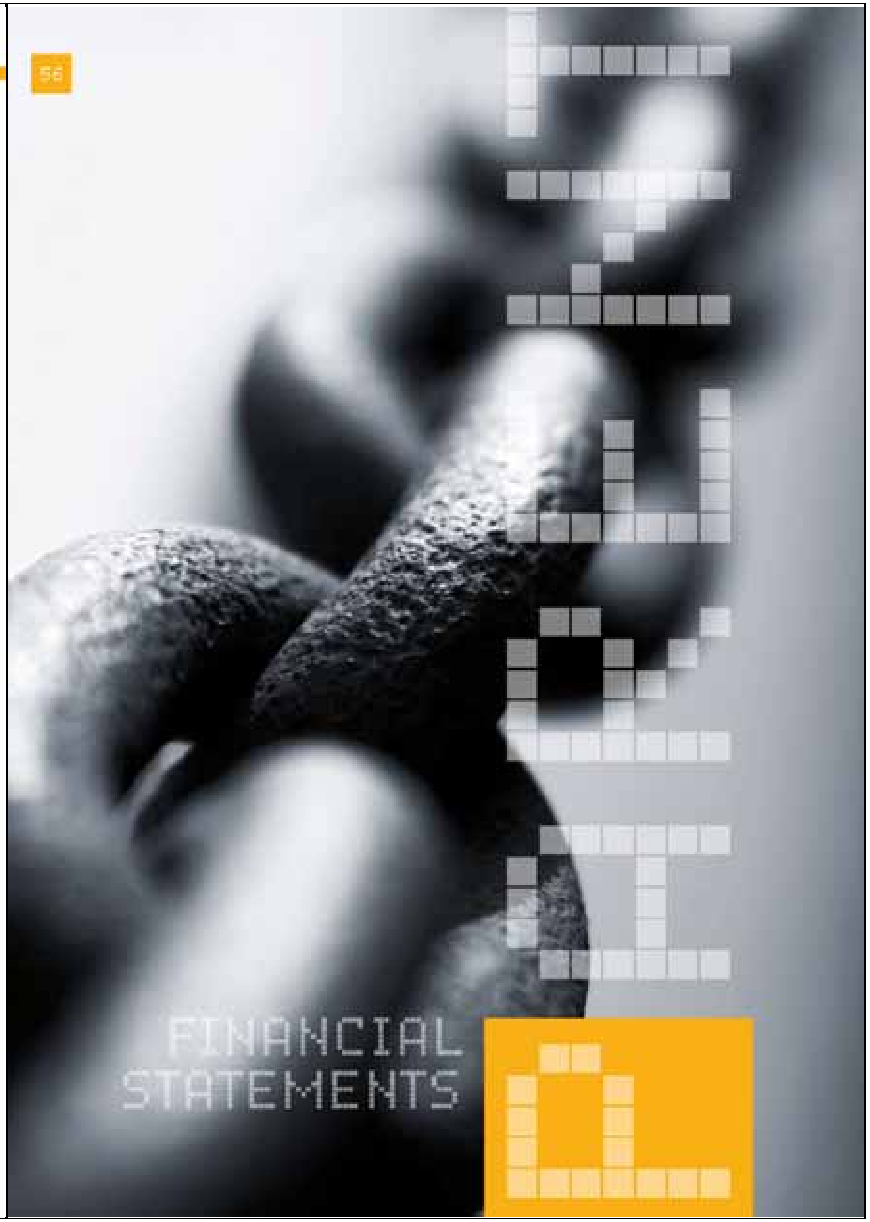
As part of the Russian legal process, Venture Drilling AS has submitted the case to the Court of Cassation in St Petersburg. These proceedings commenced 3 March 2010, but were by the court postponed as FGUE Arktikmorneftegazrazvedka failed to appear before the court. It was not produced any documentation showing that FGUE Arktikmorneftegazrazvedka was properly summoned. It was by the court indicated that the proceedings will resume in about 1 1/2 months.

Venture Drilling AS has a long term valid Bareboat Agreement under Norwegian law, court proceedings are taken place in Oslo at the latest stage.

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 Limited (Aberdeen, UK) in February 2010. The company changed the name from Larsen Rig Ltd to the Deepwater Driller Ltd.

Petrolia Invest AS, a 100% owned subsidiary of Petrolia Drilling ASA has on 16 April 2010 entered into an agreement together with the shareholders of Deepwater Driller Ltd and Songa Offshore, whereby Songa Offshore will invest mUSD 10 in new equity into Deepwater Driller and thereby receive a 31.15% ownership in the company. As part of the agreement, Songa Offshore will ensure building supervision and commercial management of the rig. Petrolia Drilling's ownership is 20.6%.



FINANCIAL STATEMENT

Petrolia Drilling ASA - Parent Company

INCOME STATEMENT

(Amounts in USD 1 000)	Note	2009	2008
Revenue		0	0
Total revenue		**0**	
Depreciation			0
Operating expenses	1	142	5,295
Total operating expenses		**142**	**5,295**
Operating result		**-142**	**-5,295**
Interest income from group companies	6	182	9,829
Interest income		211	1,297
Financial income		1,804	83,313
Impairment of non-current financial assets	3-5	-10,830	214,650
Impairment of current financial assets	8	232	2,612
Interest expense to group companies	6	604	5,184
Interest expenses		9,847	10,532
Financial expenses		43,985	58,946
Result before taxes		**-41,502**	**-193,766**
Tax on result	2	-13,735	11,279
Result of the year		**-27,767**	**-205,045**
Attributable to:			
Transferred from share premium fund		-27,767	-160,433
Transferred from other equity		-	-44,612
		-27,767	-205,045

BALANCE SHEET PER 31.12

ASSETS	Note	2009	2008
Non-current assets			
Intangible assets			
Deferred income tax assets	2	**24,945**	**11,210**
Financial non-current assets			
Investments in subsidiaries	3	185,348	202,759
Investments in joint venture	4	32,553	32,553
Investments in associated companies	5	0	10,865
Loan to group companies	6	**1,466**	**74,244**
		239,367	**340,421**
Total non-current assets		**264,312**	**351,631**
Current assets			
Debtors			
Loan to joint venture	7	6,974	29,764
Other debtors	7	51	62
		7,025	**29,826**
Investments			
Market based investment shares	8	620	871
Investment in money market fund	9	15	12
		635	**883**
Bank deposits	10	**11,933**	**15,178**
Total current assets		**19,593**	**45,887**
TOTAL ASSETS		**283,905**	**397,518**

BALANCE SHEET PER. 31.12.

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2009	2008
Equity			
Paid-in equity			
Share capital	11	93,568	93,568
Own shares	12	-486	-486
Share premium fund	12	95,352	123,119
		188,434	**216,201**
Retained earnings			
Other equity	12	0	0
			0
Total equity	12	**188,434**	**216,201**
Liabilities			
Non-current liabilities			
Bond loans	13	85,143	69,855
Loan from group companies	6	6,147	99,285
		91,290	**169,140**
Current liabilities			
Short term portion of long term liabilities	15	288	236
Trade creditors		1,327	1,426
Public duties payable		20	18
Other current liabilities	15	2,546	10,495
		4,181	**12,177**
Total liabilities		**95,471**	**181,317**
TOTAL EQUITY AND LIABILITIES		**283,905**	**397,518**

Bergen/Oslo, 29 April 2010

Børge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Ørnulf Sandal
Managing Director

CASH FLOW STATEMENT

(Amounts in USD 1 000)		2009	2008
Cash flows from operating activities			
Result before taxes		-41,502	-193,788
Loss/gain from sale of current assets		0	-70
Impairment of non-current financial assets		14,926	204,830
Impairment of current financial assets		232	2,012
Change in trade creditors		101	1,243
Change in other provisions		-6,757	-4,142
Currency translation differences		14,985	-13,999
Net cash generated from operating activities		**-17,693**	**-3,462**
Cash flows from investing activities			
Proceeds from sale of shares and investments in other companies and liquidity reserves		0	2,614
Investment in shares in other companies		0	-2,858
Proceeds from investment in shares in other companies		20,826	0
Investment in shares in subsidiaries		-6,470	-63,319
Net cash used in investing activities		**14,356**	**-63,563**
Cash flows from financing activities			
Proceeds from bond loan		0	94,010
Current liabilities from purchase of shares in other companies		0	-11,992
Change in loan to group companies		1,081	115,408
Repayment of bond loan		0	-103,000
Purchase of own shares/issue costs		0	-690
Net cash used in financing activities		**-1,081**	**93,457**
Net cash flow of the period		**-4,418**	**22,472**
Cash and cash equivalents at the beginning of the period		15,178	1,140
Exchange gain (loss) on cash and cash equivalents		1,577	-8,435
Cash balance at 31 December	10	**10,760**	**15,178**
Specification of cash and cash equivalents at period end			
Bank deposits	10	11,933	15,178
Whereof restricted bank account is	10	8,248	6,646

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia Drilling ASA - Parent

INTRODUCTION
Petrolia Drilling ASA was established 13 March, 1997. The company owns, charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Petrolia Drilling ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange.

The financial statements per 31 December were passed by the Board of Directors on 29 April 2010.

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

INVESTMENTS IN SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES
Subsidiaries, joint venture and associates are valued at cost in the financial statements. The investment is assessed at acquisition cost of the shares unless impairment has been necessary.

Group contribution to subsidiary, with the deduction of tax, is recognised as increased cost price for the shares.

Dividends/group contributions are recognised in the income statement in the same year as allocated in the subsidiary/joint venture. If dividends/group contributions materially exceed the share of retained earnings after the acquisition the excess part is considered as refund of invested capital and deducted the value of the investment in the balance sheet.

SHARE CAPITAL
Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the company purchases treasury shares (the company's equity share capital), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

BORROWING EXPENSES
Expenses involved in the raising of bond loan are capitalised and charged as expense over the term of the loan.

POLICIES FOR RECOGNITION OF REVENUE AND EXPENSES
Income is recognised as earned and expenses are recognised in the same period as belonging income. Income and expenses related to activities that last after the turn of the year are accrued according to number of days that the activity lasts before and after the balance sheet date.

IMPAIRMENT OF NON-CURRENT ASSETS
Whenever events or changes in circumstances indicate that the carrying amount of a non-current asset exceeds recoverable amount, the asset is reviewed for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If carrying amount exceeds both net realizable value and recoverable amount (present value from continued use/ownership), impairment is made to the higher of net realizable value and recoverable amount.

Previous impairments are reversed to the extent that the basis of the impairment is no longer present.

THE USE OF ESTIMATES
In connection with the preparation of the financial statements in accordance with generally accepted accounting principles and standards it will be necessary to use estimates and assumptions that have impact on the financial statements. Actual amounts may differ from these estimates. The impact of change of accounting estimates are recognised in the period that the estimate is changed.

CHANGE OF ACCOUNTING POLICIES
The impact of changes of accounting policies and correction of errors in previous years' financial statements are recognised directly against equity.

CLASSIFICATION OF BALANCE SHEET ITEMS
Assets determined for permanent possession or use is classified as non-current assets. Other assets are classified as current assets. Receivables that are to be repaid within one year are in any case classified as current assets. By classification of liabilities analogue criteria are used.

ACCOUNTS RECEIVABLE
Trade receivables and other receivables are recognised at nominal value after deduction of provision for bad debt. Provision for bad debt is made on the basis of an individual assessment of each receivable.

FOREIGN CURRENCY
Petrolia Drilling has with effect from 1 January 2008 changed presentation currency from NOK to USD. Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

TAXES
The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilised. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

RELATED PARTIES
Information as to which persons and companies that are considered as related parties is stated in note 10 to the accounts. Agreements, transactions and outstanding accounts with related parties are described in the same note.

STATEMENT OF CASH FLOW
The statement of cash flow is prepared according to the indirect method. The indirect method involves reporting of gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash in hand and cash equivalents comprise cash, bank deposit and interest bearing investments in fund.

CONTINGENCIES
Contingencies are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other contingencies, if any, are referred to in note.

CONDITIONAL PROFITS
Conditional profits and earnings are not recognised.

EVENTS AFTER THE BALANCE SHEET DATE
New information about conditions existing at the balance sheet date regarding the accounting period has been taken into the account in the financial statements according to standard estimation principles. Events related to circumstances that have taken place after the balance sheet date are referred to in note.

NOTES - PARENT

to the financial statements

NOTE 1 REMUNERATION ETC

The company has no employees

Board of Directors' fee The following fee has been paid to the members of the board. (Amounts in USD 1000)	2009	2008
Claus F. Tollefsen, Chairman of the board	55	192
Terje Hafseba, Board member	47	192
Leif Holst, Board member	47	192
Unni Tafre, Board member	47	34
Gun Marit Stenersen, Board member	47	34
Total	**243**	**645**

Directors' fees for 2009 have been paid in 2009 in accordance with ordinary resolution.

In accordance with established policy in the joint venture Venture Drilling AS, each of the owners are responsible for remuneration of its board members.

Lars Midtsveit (former Managing Director of Petrolia Drilling ASA) and Terje Hafseba through Scandinavian Consulting Group AS has each received TUSD 62.3 in 2009.

Auditors (Amounts in USD 1000)	2009	2008
Statutory audit (incl technical accounting assistance)	264	159
Certification services	0	0
Tax assistance	7	10
Other services	60	62
Total fee	**331**	**231**

The amounts are exclusive of value added tax.

NOTE 2 TAXES

Basis for tax charges, change in deferred tax and payable tax (Amounts in USD 1000)	2009	2008
Result before tax charge	-41,502	-190,294
Expenses not deductible for tax purposes	19,488	136,136
Change in temporary differences	-4,376	-2,351
Group contribution	16,767	62,200
Change in group contribution 2008	-59,705	0
Currency differences	68,343	-16,692
Taxable income of the year	**0**	**-37,931**
Payable tax 28%	0	0
Payable tax of result of the year	**0**	**0**
Change deferred tax asset	-13,735	11,290
Tax charge	**-13,735**	**11,280**

Calculation of deferred tax asset	2009	2008
Receivables	-7,309	-10,279
Other non-current liabilities	1,412	1,584
Profit and loss account	1,039	1,071
Total temporary differences	-4,858	-7,623
Carry forward loss	-112,615	-32,412
Basis for deferred tax asset in the balance sheet	**-117,473**	**-40,035**
Deferred tax asset, 28%	-32,892	-11,210
Including not recognised in the balance sheet	7,948	0
Deferred tax asset in the balance sheet	**-24,944**	**-11,210**

Tax obligation is nominated and calculated in NOK, and converted to USD.

Capitalised deferred tax asset on net tax reducing temporary differences and on carry forward losses for tax purposes are based on the assessment that future taxable profit in the group will be available against which the temporary differences can be utilised.

Calculated group contribution in 2008 of mUSD 62.2 was changed after the financial statements were prepared. Petrolia Drilling ASA received group contribution of mUSD 2.5.

The Norwegian tax authorities notified the company in 2006 of a tax audit for the period from the formation of the company in 1997 until the accounting year 2005. The company has as of today not received notice of any changes affecting the tax position of the company.

NOTE 3 SUBSIDIARIES

Investments in subsidiaries are recognised according to the cost method

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2009	Equity per 31.12.09	Book value 2009	Book value 2008
Petrolia Drilling II AS	Oslo	100%	100%	-23,907	137,203	147,548	166,308
Petrolia Invest AS	Oslo	100%	100%	11,279	38,781	39,300	21,000
Petrolia Drilling Ltd	Virgin Island / Jersey	100%	100%	142	-2,771	0	0
PetroMENA ASA (group)	Oslo	51.5 %	51.5 %	-	-	0	15,431
Total						**185,348**	**202,759**

Petrolia Drilling Ltd is controlled by a trust on Jersey. The company owned 51,5 % of PetroMena ASA which was declared bankrupt 21 December 2009. The company owned 51,5% of PetroMena ASA which was made for Bankruptcy 21st of December 2009.

Petrolia Drilling ASA impaired the investment i Petrolia Invest AS in 2008 related to uncertainty with respect to continued operation and future financing requirements. Parts of the impairment is reversed in 2009.

NOTE 4 INVESTMENT IN JOINT VENTURE

Investment in joint venture is estimated according to the cost method

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2009	Equity per 31.12.09	Book value 2009	Book value 2008
Venture Drilling AS	Kristiansand	50%	50%	67,067	135,498	52,553	52,553

The annual accounts for 2009 has per date not been adopted by the Board of Venture Drilling.

In 2005 Venture Drilling AS entered into an agreement on lease of DS "Deep Venture", formerly DS "Valentin Shashin", for a period of five years with option on another 5 two-year periods. Venture Drilling AS has entered into a management agreement with Larsen Oil & Gas Ltd on technical and operational management of DS "Deep Venture". On behalf of Venture Drilling AS Larsen Oil & Gas Ltd has entered into a contract for the drilling vessel with ExxonMobil for a 18 month assignment in West-Africa. Deep Venture commenced the contract June 30 2007. The contract was extended, and DS Deep Venture was engaged for Maersk Oil Angola until July 15 2009, at a day rate of USD 425,000 after withholding tax. Venture Drilling agreed to a further 18 months contract with Maersk Oil Angola at a day rate of USD 495,000 after withholding tax. The rates are base rates, i.e minimum rates, depending on where the drillship will operate under the contract.

Venture Drilling AS and Maersk have reached an agreement whereupon Maersk will redeliver the vessel against an early termination fee of mUSD 84. The vessel is expected to be redelivered end of May 2010, cf note 17.

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 should have taken place 9 March 2010, but has been postponed with 2.5 months. A redelivery against compensation is under discussion with the vessel's Russian owners. The agreement with the Russian owners is governed by Norwegian law and arbitration in Norway is initiated, cf note 17.

LOG Ltd has withheld cash flow from operation to cover costs and liabilities under the Technical and Operational Agreement for Venture Drilling AS. Venture Drilling AS has started court proceedings in Scotland against LOG Ltd claiming release of the actual amounts, cf note 17.

Petrolia Drilling ASA and Sinvest AS guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 5 INVESTMENT IN ASSOCIATE

Investment in associate is estimated according to the cost method

Company (Amounts in USD 1000)	Business Address	Share-holding	Voting rights	Result 2009	Equity per 31/12/09	Book value 2009	Book value 2008
Petrojack ASA (group)	Oslo	39.95%	39.95%	Bankrupt	Bankrupt	Bankrupt	10,666

The Board of Directors in Petrojack ASA resolved to file for bankruptcy proceedings 8 March 2010.
The value of the shares per 31.12.09 is in that respect impaired to USD 0,-

NOTE 6 INTERCOMPANY ACCOUNTS

(Amounts in USD 1000)	2009	2008
Non-current receivables		
Petrolia Drilling II AS	0	34,060
Petrolia Services AS	1,466	30,375
Petrolia Drilling Ltd	7,303	10,009
Provision for bad debts	-7,303	-10,619
Total non-current	**1,466**	**74,244**
Non-current liabilities		
Petrolia Rigs AS	6,141	98,016
Petrolia Drilling Ltd	6	1,269
Total non-current	**6,147**	**99,285**

Interest on non-current intercompany accounts are calculated at NIBOR/LIBOR + 2.25%

NOTE 7 OTHER CURRENT RECEIVABLES

(Amounts in USD 1000)	2009	2008
Prepaid expenses and VAT owing	51	62
Dividend Ventura Drilling	6,974	29,764
Total	**7,025**	**29,826**

NOTE 8 MARKET BASED INVESTMENT SHARES

Company (Amounts in USD 1000)	No. of shares	Cost price	Market value	Book value 2009	Book value 2008
Island Oil & Gas Plc	3 129 205	4,432	620	620	471

The company is quoted on the London Stock Exchange

NOTE 9 INVESTMENT IN MONEY MARKET FUND

(Amounts in USD 1000)	2009	2008
Holberg Likviditet – money market fund	15	12
Total	**15**	**12**

Shares in interest bearing fund have been assessed at fair value at balance sheet date.
Return of the period has been reinvested in the fund

NOTE 10 BANK DEPOSITS

(Amounts in USD 1000)	2009	2008
Bank deposits	11,933	15,178
Total	**11,933**	**15,178**
Incl. deposit on suspense account as security for the bond loan	8,249	9,049

NOTE 11 SHARE CAPITAL

Share capital of Petrolia Drilling ASA per 31.12.2009	Number	Nominal value	Book value
Shares	**1,012,596,745**	**NOK 0.50**	**USD 93 568**

Per 31 December 2009 Petrolia Drilling ASA holds 5,250,024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA.

Per 31 December 2009 Petrolia Drilling ASA holds 5 250 024 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia Drilling ASA.

List of the major shareholders:
Petrolia Drilling ASA had a total of 6 452 shareholders per 31.12.09. The table below shows the company's 20 largest shareholders per 31 December 2009 according to the VPS (shares with nominal value NOK 0.50).

Shareholders		No. of shares	Shareholding
1	Petrojack ASA	253,000,000	24.98%
2	Independent Oil & Resources ASA	213,000,000	21.04%
3	DNO Invest AS	23,469,365	2.32%
4	Silvercoin Industries	19,105,200	1.89%
5	Øyvind Halvorsen	14,000,000	1.38%
6	Odin Offshore	8,000,000	0.79%
7	Citibank N.A. New York	6,438,093	0.64%
8	Danske Bank A/S	5,830,299	0.58%
9	Askeladden Invest	5,300,300	0.52%
10	Jacob Haugen	5,010,000	0.49%
11	Increased Oil Recovery AS	4,350,000	0.43%
12	Roar Charles Pedersen	4,000,000	0.40%
13	Thor Ivar Pedersen	3,792,000	0.37%
14	Dnb Nor AS account	3,480,690	0.34%
15	Trygve Ermeland	3,400,000	0.34%
16	Thor Inge Wilhumsen	3,390,000	0.33%
17	A/S Byggevirksomhet v/Bjørn Ekberg	3,200,000	0.32%
18	Thore Pedersen	3,000,000	0.30%
19	Kvalfun Invest AS	3,000,000	0.30%
20	T. Lien Holding AS	3,000,000	0.30%
	Other shareholders	419,582,864	41.44%
Total no. of shares before treasury shares		**1,007,346,721**	**99.48%**
Treasury shares		5,250,024	0.52%
Total no. of shares		1,012,596,745	100.00%

On 16 April 2010 Larsen Oil & Gas AS purchased 253 000 000 shares in Petrolia Drilling ASA from the bankruptcy estate of Petrojack ASA, corresponding to 24,99 % of the share capital in PDR ASA. For further details, see note 17 Events after balance sheet date.

Shares owned by members of the board and other primary holders.
The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 0.50).

Name	12/31/2009
Members of the board and managing director per 31.12.2009:	
Klaus P. Tollefsen, Chairman of the board 4)	0
Unni F. Tefre, Board member	0
Guri Merit Sherensen, Board member	0
Terje O. Helleba, Board member	2,424
Leif Holst, Board member 1)	974,792
Bernt Skeie, CEO of Petrolia Drilling ASA	1,100,000
New member of the Board and Managing director in 2010:	
Erik Johan Frydenbø, Board member	20,000
Børge Gerolf Larsen, Chairman of the Board 2)	
Ørnulf Bendal, CEO of Petrolia Drilling ASA	0
Other primary holders per 31.12.2009:	
Petrojack ASA, Terje O. Helleba is Managing Director	253,000,000
Independent Oil & Resources ASA, Unni F. Tefre is Board Member, Børge G. Larsen indirect ownership 3)	213,000,000
DNO Invest AS, Børge G. Larsen is Chairman of the Board	23,469,365
Increased Oil Recovery AS, Børge G. Larsen 2) is Chairman of the Board and controlling owner	4,350,000
Time Critical Petroleum Resources AS, Børge G. Larsen is the owner of the company and Chairman of the Board	2,018

1) 974,792 shares are owned by Nauman Invest AS where Leif Holst is general manager. Nauman Invest also holds 2,080,000 shares in Independent Oil & Resources ASA.

2) Børge G. Larsen indirectly owns 4,352,108 shares through Increased Oil Recovery AS and Time Critical Petroleum Resources AS. Increased Oil Recovery AS owns 100% in Larsen Oil & Gas AS.

3) Increased Oil Recovery AS owns 38.25 % of Independent Oil & Resources ASA.

4) Klaus Tollefsen has been providing offices to the manager Larsen Oil & Gas AS through his company Tollefsen Energy AS. Upon termination of the management agreement in June Petrolia Drilling ASA will have to establish its own agreement with Tollefsen Energy AS to keep these offices.

NOTE 12 EQUITY

Changes in equity of the year (Amounts in USD 1000)	Share capital	Own shares	Share premium fund	Other equity	Total
Equity 31.12.08	93,568	-486	123,119	0	216,201
Purchase/sale of treasury shares					0
Result of the year			-27,767		-27,767
Equity 31.12.09	**93,568**	**-486**	**95,352**	**0**	**188,435**

Treasury shares		2009	2008
Number of shares		1,250,024	1,250,024
Average acquisition cost per share	NOK	2.21	2.21

NOTE 13 NON-CURRENT LIABILITIES

The company has the following non-current liabilities: (Amounts in USD 1000)	2009	2008
Bond loan	85,143	69,855
Intercompany liabilities	6,147	99,285
Total non-current liabilities	**91,290**	**169,140**
Current portion of bond loans	0	0
Total	**91,290**	**169,140**

The company has no liabilities with due date later than five years from the end of the accounting year per 31.12.09. There are no installments due in 2010.

Bond loan NOK 500 million, raised in 2008.
In 2008 the company issued a bond loan of nominal value MNOK 500. The loan was disbursed 20 June 2008.

The bond loan has an interest rate of 12.5 %. The interest shall be paid every six months, 20 December and 20 June. The loan is listed on Oslo Stock Exchange.

The loan shall be repaid in installments as follows:

Date	20th of June 2011	20th of June 2012
Currency	NOK	NOK
Amount in 1000	**100,000**	**400,000**

The following borrowing terms are connected to the loan:
MNOK 45 is deposited in a DSR Account to serve interest payment of the loan.
Petrolia Drilling has an option to redeem the loan inclusive of interest in total or partly at the following terms:

Period	Price
Redemption in the period 20 June 2009 till 19 June 2010	104.50%
Redemption in the period 20 June 2010 till 19 June 2011	103.30%
Redemption in the period 20 June 2011 till the expiry of the term of the loan	103.25%

According to the borrowing agreement Petrolia Drilling can not incur mortgage debt, encumbrances, guarantees, right of retention or any other type of assets or give any guarantee or compensation. Exemptions may, however, be made provided it is in compliance with normal market practice.

COVENANTS
Petrolia Drilling can not, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 30% of the group's profit after taxes the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petrolia Drilling is responsible that the company maintains a coverage ratio (ratio of total assets to total debt) of 2 (x) or higher on each Balance Sheet Reporting Date, which is every quarter. Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non-listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts.

There is no breach in the borrowing terms per 31.12.2009.

NOTE 14 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia Drilling ASA provide security for leasing equipment in Independent Tool Pool AS (100% owned by Petrolia Services AS) of mUSD [illegible].

Petrolia Drilling ASA and [illegible] AS guarantee the performance of the all obligations of Venture Drilling under the contract with Maersk Oil Angola.

NOTE 15 OTHER CURRENT LIABILITIES

(Amounts in USD 1000)	2009	2008
Accrued interest expenses from bond loan	384	238
Debt to Independent Oilfield Rentals Ltd	1,859	1,955
Accrued expenses	391	218
Loan from other companies	0	8,322
Total other current liabilities	**2,634**	**10,733**

Disputed claims not accrued for
Larsen Oil & Gas AS has presented a claim for additional management fee, cf. note 16.

NOTE 16 RELATED PARTIES

Shareholding of related parties are presented in note 11.

Some persons and companies will have several positions in relation to the company and may, independent of the circumstances, have different interests as regards the Petrolia Drilling ASA. In the company's opinion this applies to:

A) BERGE GERDT LARSEN
Berge G. Larsen is Chairman of the Board of DNO Invest AS, Time Critical Petroleum Resources AS, Increased Oil Recovery AS and of Larsen Oil & Gas AS.

B) LARSEN OIL & GAS AS
Larsen Oil & Gas AS (LOG) is controlled by Berge G. Larsen.

The group has entered into a Business Administration Agreement with Larsen Oil & Gas AS (LOG AS) in 1997. The company is 100 % owned by Increased Oil Recovery AS (IOR AS). For these services LOG AS shall receive an annual compensation of mNOK 3 as per year 2000. In 2009 mNOK 3 has been expensed. The parties are in dispute on the actual costs to be covered under the agreement, cf note 17.

The management agreement was terminated in January 2010 with six months termination. Settlement for outstanding costs is expected to take place in connection with final termination settlement by the parties.

C) LARSEN OIL & GAS LTD. IN ABERDEEN, SCOTLAND
The company is 100% controlled by Berge G. Larsen. LOG Ltd is drilling contractor for DS "Deep Venture".

LOG Ltd is also technical and operational manager for DS "Deep Venture" and for Deepwater Driller Ltd.

Venture Drilling AS (50% owned by Petrolia Drilling ASA) has entered into a management agreement for technical and operational management of the rig DS "Deep Venture". The agreed fee is USD 10,000 per day when the rig is under drilling contract, USD 6 000 per day during reactivating and USD 3 000 per day if the rig is not in operation or is moved without being under drilling contract. Manager may earn a bonus of up to USD 1 000 000 in connection with the reactivating, provided certain demands are met. Effective from November 2010 and until the day rate increased to USD 10 000 per day in October 2008, Petrolia Drilling ASA was committed to render an annual fee of mNOK 3 to LOG Ltd in connection with the management agreement between Venture Drilling AS and LOG Ltd to secure a satisfactory profit from the agreement for LOG Ltd. In connection with operations in countries in West Africa for DS Deep Venture, LOG branches/companies have been set up to support local matters. The expenses involved are included in the operation expenses.

Deepwater Driller Ltd entered into a management agreement for technical and operational management of the drilling rig Larsen Rig in June 2008. The agreed fee is USD 3,000 per day during the contract period.

The technical and operational agreement was terminated in Q1 2010 with six months termination. Termination fee is mUSD 3. From the time written termination notice is given by the owner, and until the expiry of the agreement, the termination fee shall be the only fee to be paid by the owner and the manager shall not be entitled to receive any daily management fee for this period.

D) INDEPENDENT OILFIELDS RENTALS LTD.
Berge G. Larsen is indirectly minority shareholder.

In 2005 the Group purchased drilling equipment from the company worth mUSD 2. The equipment was in its entirety used as part of contribution in kind at the establishment of Venture Drilling AS. The amount is recognised in the balance sheet as other current liability per 31.12.09.

E) PETROJACK ASA
Petrolia Drilling ASA owned 34.93% in Petrojack ASA per 31.12.2009. The Board of Directors in Petrojack ASA filed for bankruptcy 8 March 2010.

F) VENTURE DRILLING AS
The company is 50% owned by Petrolia Drilling ASA.

Petrolia Drilling ASA has paid remuneration for its representatives in the Board of Directors of Venture Drilling AS.

In 2009 Scandinavian Consulting Group AS through Terje O. Hølleland (board member) and Lars Midtsæter (former CEO) has each received TUSD 60.4.

G) VARIOUS
Accrued expenses involved in the audit fees in Petrolia Drilling ASA with subsidiaries and associates and in companies related to board and top management of Petrolia Drilling ASA are covered by the company pending a final result of the matters.

H) DISPUTED CLAIMS NOT ACCRUED FOR
Larsen Oil & Gas AS has presented a claim for additional costs under the Business Administration Agreement.

NOTE 17 EVENTS AFTER THE BALANCE SHEET DATE

PETROLIA DRILLING ASA:
Petrolia Drilling ASA ("Petrolia") has terminated the business manager agreement entered into with Larsen Oil & Gas AS "LOG"). Under the business manager agreement LOG has provided the following main business manager 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 towards the Oslo Stock Exchange
- Maintenance of Petrolia's shareholders' register

According to the business manager agreement the agreement may be terminated by either party by six months notice. LOG AS is entitled to business manager fee payable pursuant to the agreement during the six months term of notice. The annual business manager fee currently amounts to NOK 3 million. Petrolia will establish own management to perform services previously provided by LOG.

PETROJACK ASA:
On 8 March, the Board of Directors in Petrojack ASA filed for bankruptcy proceedings, which was approved by the court.

SHAREHOLDER INFORMATION
The EGM in Petrolia Drilling ASA was held the 8 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 16 March 2010, Larsen Oil & Gas AS, controlled by Berge Gerdt Larsen, purchased 252,000,000 shares in Petrolia Drilling ASA from the bankruptcy estate of Petrojack ASA at a price of mNOK 70, corresponding to 24.93% of the share capital in Petrolia Drilling ASA.

On 13 April was held new EGM of Petrolia Drilling ASA at the request of a shareholder Independent Oil & Resources ASA (25.59% stake) where it was voted for the election of new Board Members. A new Board was elected according to the proposal from Independent Oil & Resources ASA.

LIST OVER THE MAJOR SHAREHOLDERS IN PETROLIA DRILLING ASA PER 13TH OF APRIL 2010

Shareholder		No. of shares	Shareholding
1	Independent Oil & Resources ASA	259,000,000	25.57%
2	B. H. Holding AS	100,000,000	9.88%
3	Larsen Oil & Gas AS	58,000,000	5.73%
4	NET AS	50,000,000	4.94%
5	DNO Invest AS	23,444,365	2.32%
6	Øyvind Halvorsen	13,000,000	1.28%
7	Jansen AS	9,000,000	0.89%
8	Citibank N.A. New York	7,298,283	0.72%
9	Thor Inge Willumsen	6,000,000	0.59%
10	Danske Bank A/S	5,365,834	0.53%
11	Askeladden Invest	5,300,300	0.52%
12	Petrolia Drilling ASA	5,250,024	0.52%
13	Tore Pedersen	4,500,000	0.44%
14	Increased Oil Recovery AS	4,360,000	0.43%
15	Nordnet Bank AB	4,133,129	0.41%
16	Roar Charles Pedersen	4,000,000	0.40%

Shareholder		No. of shares	Shareholding
17	Trygve Ekrestan	3,400,000	0.34%
18	Sn Ere AS account	3,212,640	0.32%
19	A/S Byggeurnkomitet v/Bjørn Ekberg	3,200,000	0.32%
20	Jakob Haugen	3,000,000	0.30%
	Other shareholders	425,989,311	42.08%
Total no. of shares before treasury shares		1,007,346,721	99.48%
Treasury shares		5,250,024	0.52%
Total no. of shares		**1,012,596,745**	**100.00%**

Information related parties, cf note 14

Change in shareholder composition after balance sheet date and related parties as follow:

Jan Egil Moe, Chairman in Independent Oil & Resources ASA, General Manager and Chairman in SET AS and Jansen AS.

SET AS is the owner of 28.7% in Increased Oil Recovery AS which is 100% owner of Larsen Oil & Gas AS.

STATUS DEEPVENTURE

Deep Venture's manager, Larsen Oil & Gas Ltd, has withheld cash flow from operations and Venture Drilling AS has started court proceedings in Scotland claiming release of the actual amounts.

Maersk has given notice of intent to early terminate the drilling contract for Deep Venture before due date when the present well was completed. Maersk estimated the termination to be effective in April 2010.

Venture Drilling AS and Maersk have reached an agreement whereupon Maersk will redeliver the vessel against an early termination fee of mUSD 64. The vessel is expected to be redelivered by the end of May 2010.

As part of the Russian legal process, Venture Drilling AS has submitted the case to the Court of Cassation in St. Petersburg.

These proceedings commenced 9 March 2010, but were by the court postponed as FGUE Arktikmorneftegazrazvedka failed to appear before the court. It was not produced any documentation showing that FGUE Arktikmorneftegazrazvedka was properly summoned. It was by the court indicated that the proceedings will resume in about 2 1/2 months.

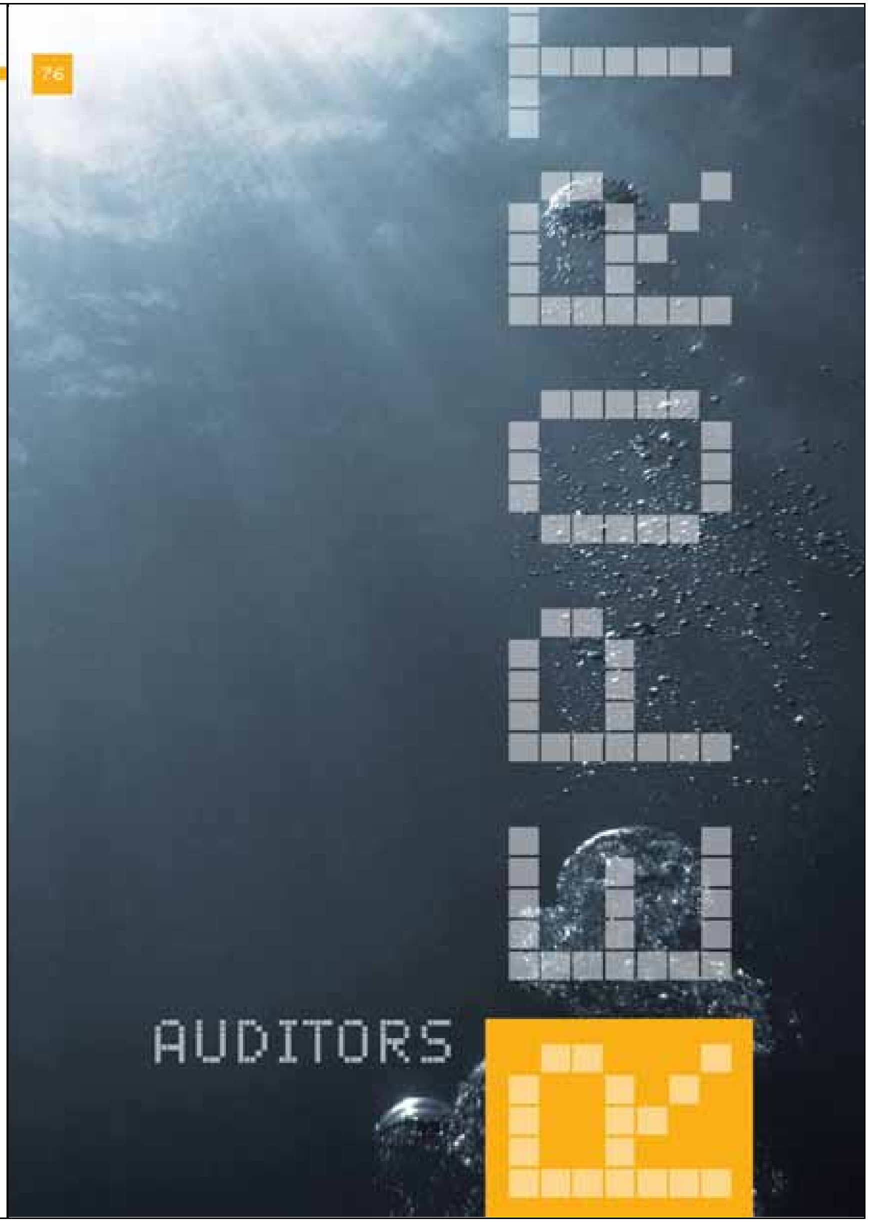
Venture Drilling AS has a long term valid Bareboat Agreement under Norwegian law, court proceedings are taken place in Oslo at the latest stage.

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 (ii) the Management Agreement between Deepwater Driller Ltd and Larsen Oil and Gas Limited (Aberdeen, UK) in the first quarter 2010. The company changed the name from Larsen Rig Ltd to Deepwater Driller Ltd.

Petrolia Invest AS – a 100% owned subsidiary of Petrolia Drilling ASA has on 19 April 2010 entered into an agreement together with the shareholders of Deepwater Driller Ltd and Songa Offshore SE, whereby Songa Offshore will invest mUSD 50 in new equity into Deepwater Driller and thereby receive a 31.25% ownership in the company.

Songa Offshore. As part of the agreement, Songa Offshore will assume building supervision and commercial management of the rig. Petrolia Drilling's ownership in the Rig is 20.6%.



AUDITORS REPORT

PRICEWATERHOUSECOOPERS

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To the Annual Shareholders' Meeting of Petrolia Drilling ASA

Auditor's report for 2009

We have audited the annual financial statements of Petrolia Drilling ASA as of 31 December 2009, showing a loss of USD 27 757 000 for the parent company and a profit of USD 107 941 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income, cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of comprehensive income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

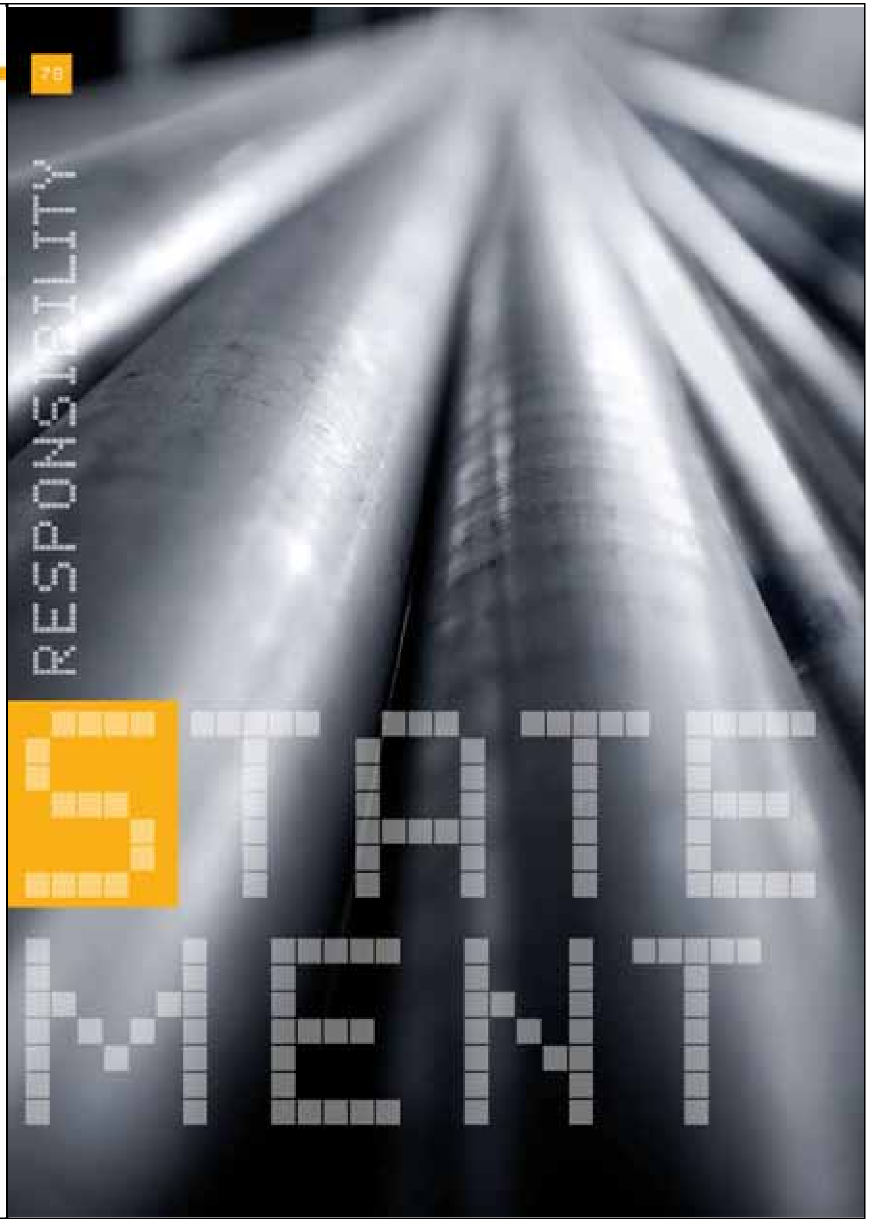
In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of 31 December 2009 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of 31 December 2009, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Bergen, 29 April 2010
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.



RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2009 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

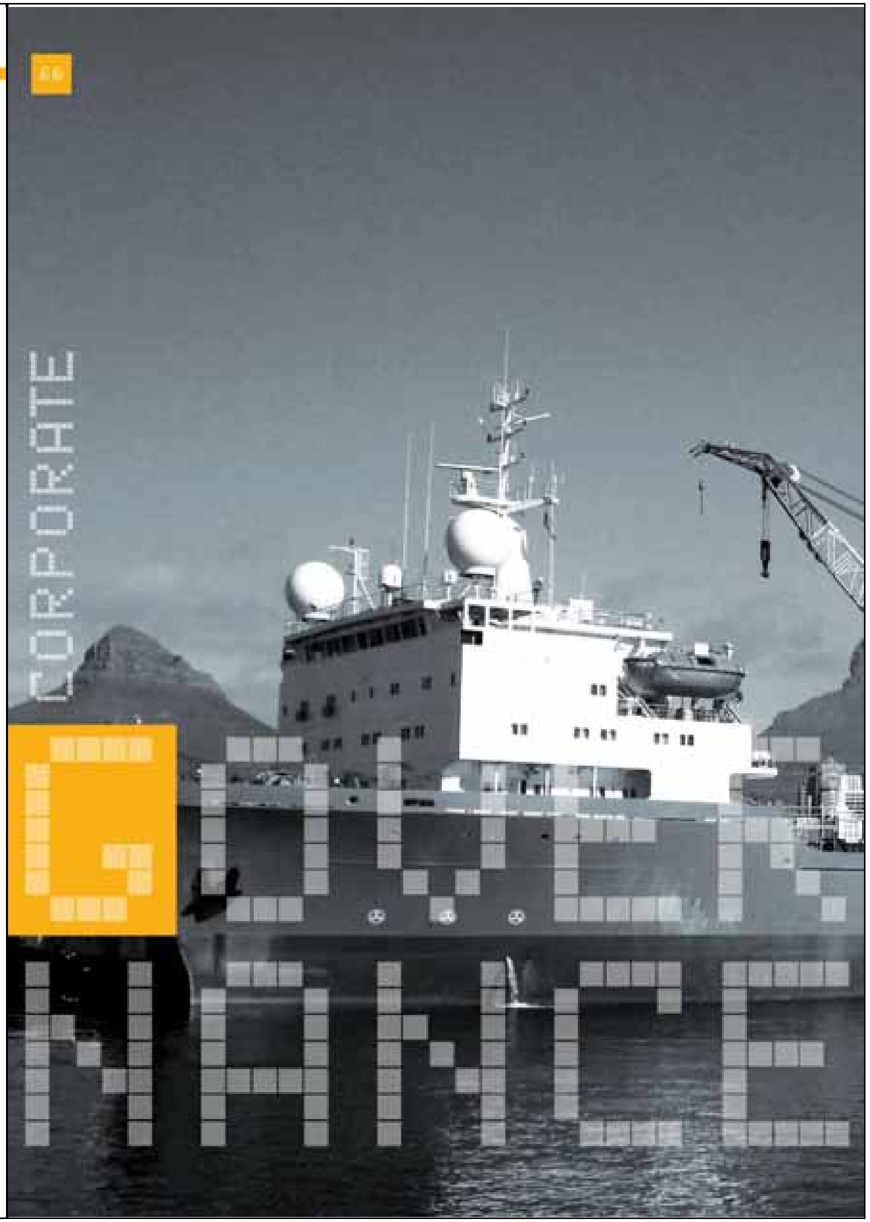
Bergen/Oslo, 29 April 2010

Børge Gerdt Larsen
Chairman of the Board

Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Ørnulf Sandal
Managing Director



CORPORATE GOVERNANCE

1. PRINCIPLES FOR CORPORATE GOVERNANCE

1.1 Introduction

Petrolia Drilling ASA ("PDR" or the "Company") is dedicated to maintaining high standards of Corporate Governance. Corporate Governance addresses the interaction between the shareholders, the Board of Directors and the Executive Management. The purpose of this document is to summarise the key principles of Corporate Governance of Petrolia Drilling. The Board of Directors has also formulated a Code of Ethics.

PDR believes that maintaining high standards of Corporate Governance will improve the quality of discussions and work to be carried out by the corporate bodies. A sound Corporate Governance practice will strengthen confidence in the Company among shareholders, the capital market and other interested parties and thus contribute to value creation for the shareholders.

1.2 Relevant codes of practice

Being incorporated in Norway and listed on the Oslo Stock Exchange, PDR is subject to the Norwegian Code of Practice for Corporate Governance of 8 December 2005. Adherence to the Code of Practice is based on a "comply or explain" principle, whereby companies will be expected to either comply with the Code of Practice or explain why they have chosen an alternative approach.

1.3 Relevant legislation

The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 governs the incorporation and management of Norwegian public limited companies. Further, PDR is under numerous obligations provided for in relevant Norwegian and other jurisdictional laws in respect of the business operations carried out by the Company and its subsidiaries.

2. BUSINESS AND OBJECT

PDR's business is clearly defined in the Company's Articles of Association, as follows:

"The object of the company is to own and operate drilling rigs, investments in vessels, and everything that is connected herewith"

(OFFICE TRANSLATION)

PDR's objective and principal strategies for its business is related to activities in the deepwater market, drilling for oil and gas in ultra deep waters. PDR's priority area of activity is connected to this segment.

The Companies basic value is to secure the shareholders competitive return for the invested capital in the longer term. In accordance with this purpose the Board and the management shall actively develop and control the company and its possessions in order for the values to be made visible in the best way possible.

3. EQUITY AND DIVIDENDS

PDR shall have an equity capital at a level appropriate to the Company's objective, strategy and risk profile.

The Board of Directors' principal policy as regards the payment of dividends is to maximise returns on equity primarily in terms of increase in the share price. Dividend payments will be dependent on PDR's earnings, financial situation and cash flow, possibilities for further value creation through investments taken into account.

Authorisations granted to the Board of Directors to increase PDR's share capital or to purchase own shares shall as a general rule be restricted to defined purposes. At each Annual General Meeting, the shareholders shall have the opportunity to evaluate and consider the board authorisations granted. Thus, the authorisations should be limited in time to no later than the date of the next Annual General Meeting. All authorisations not in compliance with these guidelines should be accounted for in the Annual Report.

4. EQUAL TREATMENT OF SHAREHOLDERS, TRANSACTIONS WITH CLOSE ASSOCIATES

PDR has one class of shares, and all shares are equal in all respects. Each share in the Company carries one vote. All shares are freely transferable.

No shareholders shall be treated on unequally unless in the Company's and the shareholders' common interests. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase of PDR's share capital must be justified, and an explanation shall be appended to the agenda for the General Meeting.

Any transactions carried out by PDR in its own shares shall be made either through the stock exchange or, if carried out in any other way, at prevailing stock exchange prices. If there is limited liquidity in the Company's shares, the Company should consider other ways to ensure equal treatment of all shareholders.

In the event of any not immaterial transactions between the Company and its shareholders, directors, members of the Executive Management or close associates of any such parties, the Board of Directors shall arrange for valuation to be obtained from an independent third party. The same shall apply to transactions between companies within the PDR group where any of the companies involved have minority shareholders. All such transactions shall be reported by the Board of Directors in the Annual Report.

The Company has established and operates guidelines to ensure that members of the Board of Directors and the Executive Management promptly notify the Board of Directors if they have any significant direct or indirect interest in any transaction entered into by the Company.

5. FREELY NEGOTIABLE SHARES

No form of restriction on negotiability is or will be included in the Articles of Association of PDR.

6. GENERAL MEETINGS

Through the General Meeting the shareholders exercise the highest authority in PDR.

General Meetings are convened by written notice to all shareholders with known addresses with a minimum of 14 days notice. All shareholders are entitled to submit items to the agenda, meet, speak and vote at the General Meetings.

Proposed resolutions and supporting information shall be distributed to shareholders no later than the date of the notice. In order to ensure that the General Meeting is an effective forum for the views of the shareholders and the Board of Directors, the Board shall see that the information distributed is sufficiently detailed and comprehensive as to allow the shareholders to form a view on all matters to be considered.

The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings in PDR, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The Board of Directors shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting.

The General Meetings shall be organised in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors must ensure that the members of the Board and the auditor (and, if any, the nomination committee) are present at all General Meetings. Also, the Board of Directors shall make arrangements to ensure an independent Chairman for each General Meeting, for instance by arranging for the person who opens the General Meeting to put forward a specific proposal for a Chairman.

The Minutes of the General Meetings shall be made available on PDR's web site.

7. NOMINATION COMMITTEE

Due to the size of the Company, PDR has chosen not to elect a nomination committee. However, a continuous evaluation is carried out of whether or not a nomination committee should be laid down in the Articles of Association and elected.

8. THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility for the management of the Company, including responsibility to supervise and exercise control of the Company's activities.

The Board of Directors of PDR shall consist of 3 – 5 directors elected by the General Meeting.

In order to give shareholders an opportunity to re-evaluate the members of the Board, term of office for members of the Board of Directors of PDR is two years. Directors may and should be re-elected so that the entire Board of Directors is not replaced at the same time (save for in extraordinary situations). However, when re-electing members of the Board, the value of continuity should be balanced against the need for renewal, the Board's independence of the Executive Management taken into consideration. The existing directors shall be presented in the Annual Report and on the Company's web site. All proposed directors will be introduced in detail minimum two weeks prior to the General Meeting.

The Chairman of the Board of Directors shall always be elected by the General Meeting.

The composition of the Board of Directors shall always ensure that the Board can attend to the common interests of all shareholders and meet the Company's need for expertise, capacity and diversity. Attention should be paid that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. At least half of the members of the Board shall be independent of the Company's Executive Management and material business contacts. At least two of the directors shall be independent of the Company's main shareholder(s).

Members of the Board of Directors, or persons closely connected with them, shall not be consultants for any Company in the PDR group, not be employed by or have any other agreements of economic significance with any such companies. The PDR group cannot without the approval of the Board of Directors of PDR buy consultancy services from companies in which any director is an owner, employee or otherwise has an interest. This extends to any Company that according to the Public Limited Companies Act § 1-3 is in the same group of companies.

All the directors are encouraged to hold shares in PDR, however not to an extent which can encourage a short-term approach which is not in the best interest of PDR and its shareholders over the longer term.

PDR does not have more than 200 employees, and therefore, no corporate assembly has been elected.

9. THE WORK OF THE BOARD OF DIRECTORS

The proceedings and responsibilities of the Board of Directors have been laid down in written guidelines adopted by the Board of Directors.

The main responsibilities of the Board of Directors are to:

- Lead PDR's strategic planning and make decisions that form the basis for the

Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis.

- Ensure that all instructions given by the Board of Directors are complied with;
- Ensure that the Board of Directors are well informed about the Company's and the group's financial position;
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation;
- Ensure the adequacy of the Company's Executive Management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the Executive Management and the Board of Directors;
- Agree on dividend policy;
- Annually evaluate its work, performance, composition and expertise and that of the Chief Executive Officer (the "CEO"). The evaluation of the Board's work should, in case a nomination committee is being established, be made available to such committee; and
- Ensure that a system of direction and internal control is established and maintained so as to ensure that the Company group activities are conducted in accordance with applicable legislation applicable to the group, PDR's Articles of Association, its corporate values and its ethical guidelines, as well as authorisations and instructions approved by the General Meeting. The internal control arrangements must address the organisation and implementation of the Company's financial reporting. The Board must provide information in the Annual Report on how the Company's internal control procedures are organised.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organised.

The Board of Directors will elect a deputy chairman who takes chair in the event that the Chairman of the Board cannot or should not lead the work of the Board, including in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors may appoint board committees, for instance in order to help ensure thorough and independent preparation of matters relating to financial reporting and compensation paid to the members of the Executive Management. The Board of Directors of PDR has currently not appointed any committees. If the Board of Directors should choose to appoint board committees, the Board of Directors shall adopt guidelines for the activities and responsibilities of such Board committees and account for details in the Annual Report on all committees appointed. Membership of board committees should be restricted to directors who are independent of the Executive Management.

The CEO is responsible for the day-to-day management of the Company. Further, the CEO is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are soundly managed.

The CEO is appointed by the Board of Directors and reports to the Board of Directors. His or her powers and responsibilities are defined in more detailed instructions adopted by the Board of Directors.

10. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of PDR. As the directors are encouraged to own shares in the Company, consideration should be given in this respect to arrange for members to invest part of their remuneration in such shares at market price.

The remuneration is not linked to the Company's performance. No directors have been granted or will be granted share options and no directors are parts in incentive programs available for the Executive Management and/or other employees.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board; any remuneration paid in addition to normal director's fees included.

11. REMUNERATION OF THE EXECUTIVE MANAGEMENT

The CEO's remuneration shall be determined by a convened meeting of the Board of Directors.

Remuneration for the other members of the Executive Management is determined by the CEO in accordance with guidelines provided by the Board of Directors. The guidelines are annually communicated to the General Meeting and included in the Annual Report together with a detailed information on all elements of the remuneration. The information to the General Meeting shall pay particular attention to any changes made during the last year.

PDR does not have share option schemes or other arrangements to award shares to employees, as other kinds of bonus schemes or incentives are being preferred. Any incentives provided to members of the Executive Management shall be in accordance with the principles set out in the Guidelines for Remuneration of Executive Management.

12. INFORMATION AND COMMUNICATION

PDR will ensure that the shareholders receive accurate, clear, relevant and timely

information related to all matters of significance to shareholders. The medium used for publication will be selected to ensure simultaneous and equal access for all equity shareholders to the information.

- Each year, PDR publishes an overview of the dates for major events.
- All information distributed to PDR's shareholders is published on www.petrolia.no at the same time as it is sent to shareholders.
- When publishing annual and interim reports, the Company holds public presentations that are simultaneously broadcast over the world wide web.
- All information is available in both Norwegian and English.

The Board of Directors have adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law.

The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

13. TAKE-OVERS

The Board of Directors and the Executive Management will not seek to hinder or obstruct take-over bids for the Company's shares or activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

14. GUIDELINES FOR THE AUDITORS AND ASSOCIATED PERSONS' NON-AUDITING WORK

The auditor is elected by the General Meeting and shall report to the General Meeting.

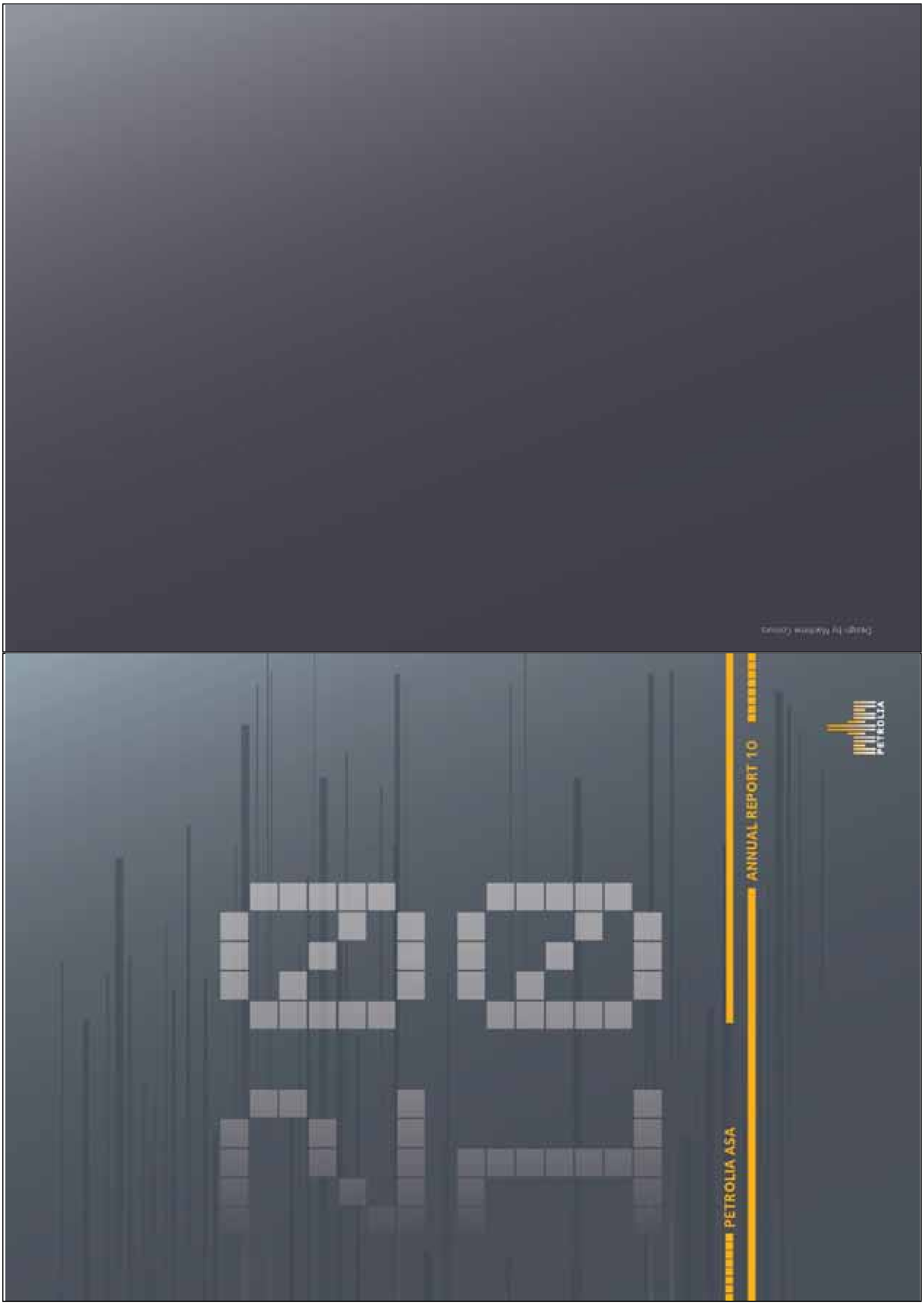
Too much non-auditing work being assigned to the auditor may jeopardise this position and diminish the public confidence in the auditor's integrity and independence of PDR. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards.

The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

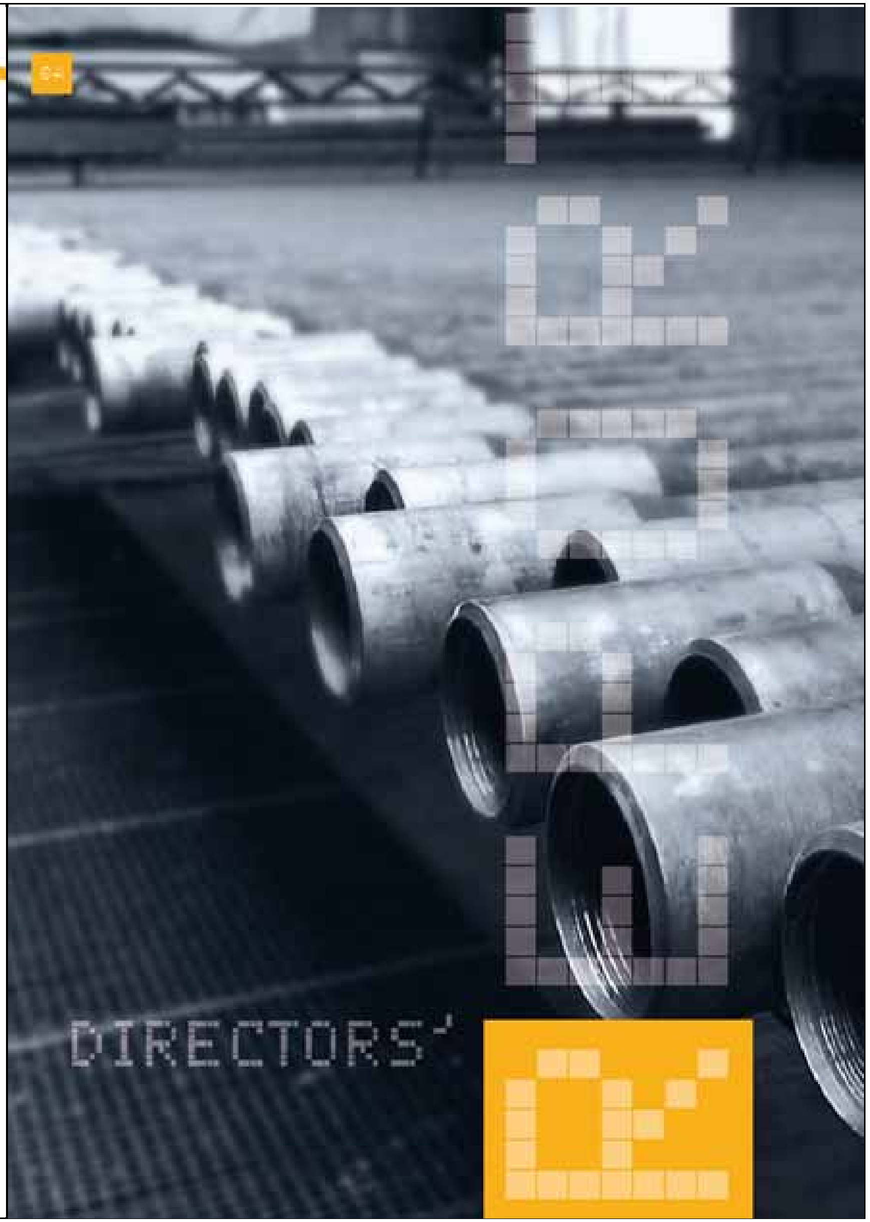
The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the Executive Management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present.

The Board of Directors of PDR has adopted guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company. The Board of Directors must report the remuneration paid to the auditor at the Annual General Meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

20. APPENDIX 5: ANNUAL REPORT FOR 2010



CONTENT




DIRECTORS' REPORT
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Financial information
FINANCIAL AND LIQUIDITY RISK
GOING CONCERN ASSUMPTION
ANNUAL REPORT 2010

WORKING ENVIRONMENT AND PERSONNEL

Petrolia ASA has 6 employees, four men and two women.

In total the group has 245 employees through the IOT group in respectively Norway, Holland, Romania, Australia and New Zealand. There have not been any serious damages or accidents in 2010.

The company is actively and goal-oriented to encourage equality and to prevent discrimination.

Petrolia's Board of Directors consisted of 3 men and 2 women at year-end.

ENVIRONMENT REPORTING

The company has as objective that all activities that are performed are to be carried out without damage on people or surroundings. The company's activities this year have not caused pollution of the environment in defiance of demands made by the prevailing authorities.

EVENTS AFTER THE BALANCE SHEET DATE

- 18th of January 2011, Kjetil Forland was appointed Managing Director.
- 24th of January 2011 all shares in Deepwater Driller Ltd was sold to Songa Offshore for mUSD 34.5.
- 24th of February 2011 Venture Drilling AS redelivered the vessel Deep Venture. At the same time the drilling equipment and the position in the arbitration against the owner were sold to JSC Zarubezhneft for mUSD 13.8
- 5th of March 2011 the reduction in par value of the shares from NOK 5.00 to NOK 0.04 was registered at www.brreg.no
- 10th of March 2011 Petrolia ASA received a writ of summons from Petrojack ASA, its bankrupt estate, which includes a claim of up to mNOK 32.9 related to Petrolia Services AS's purchase of certain drilling equipment from Petrojack ASA in 2008. The bankrupt estate asserts to have a claw back claim related to the transferred equipment
- 29th of March 2011 Petrolia ASA entered into a Share Purchase Agreement with Sinvest AS to purchase 50% of the shares in Venture Drilling AS. The purchase price for the shares was mUSD 34.0. Following the transaction Venture Drilling AS is a 100% subsidiary of Petrolia ASA.

Bergen/Oslo, 29th of April 2011

Berge Gerdt Larsen
Chairman of the Board

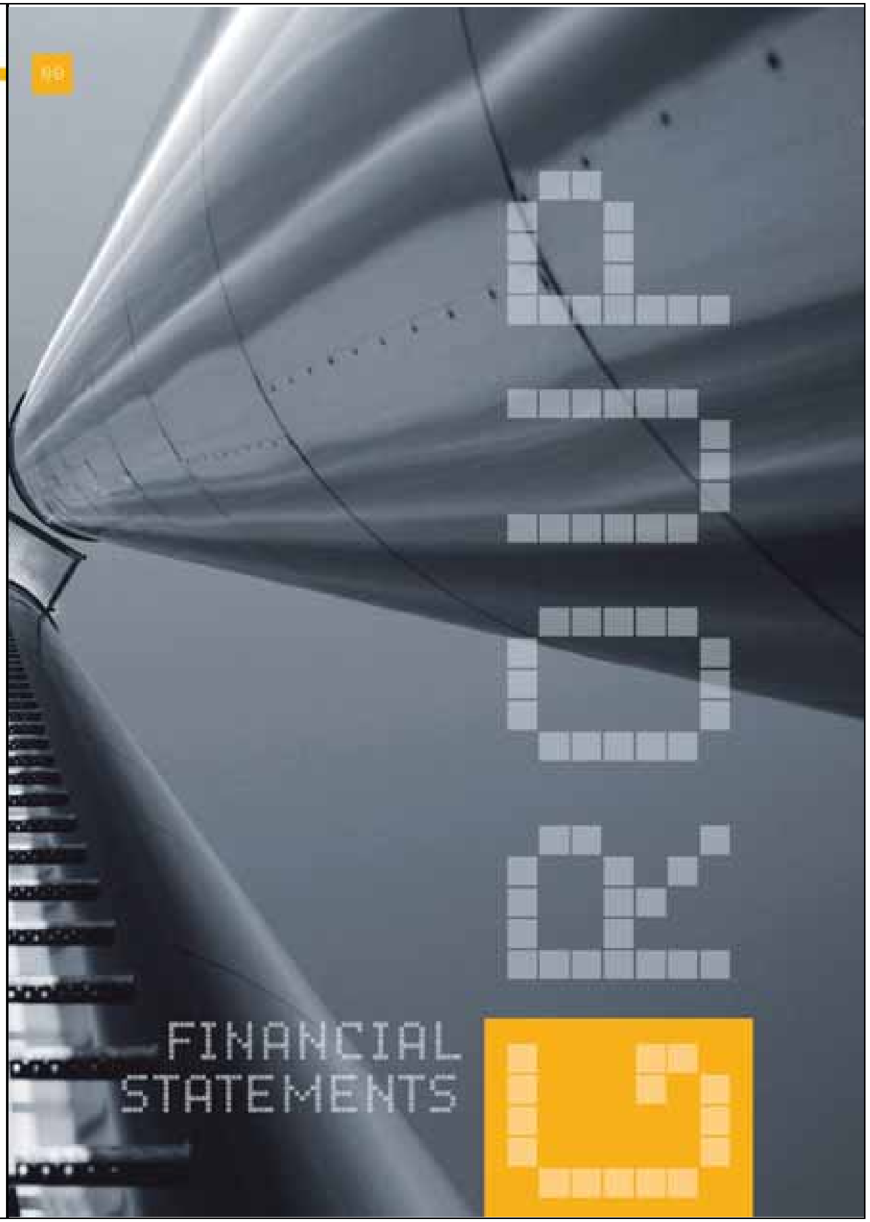
Unni F. Tefre
Board member

Erik Johan Frydenbø
Board member

Marit K. Instanes
Board member

Sjur Storaas
Board member

Kjetil Forland
Managing Director



FINANCIAL STATEMENTS

Petrolia ASA – Group

CONSOLIDATED INCOME STATEMENT

(Amounts in USD 1 000)	Note	2010	2009
Continuing operations			
Revenue	3	75,541	70,748
Barge cost	20	13,468	10,691
Depreciation	4	42,081	40,371
Impairment of fixed assets	4	4,798	9,498
Other operating expenses	12	34,108	35,323
Operating result		**-60,911**	**-24,307**
Result from investment in joint venture	17	18,089	30,934
Result from associated companies	18	-15,848	104
Interest income	15	305	834
Financial income	15	123	343
Interest expenses	15	11,359	12,230
Financial expenses	15	839	1,554
Result before income taxes		**-67,336**	**-3,919**
Tax on result	14	0	6,653
Result from the year from continuing operations		**-67,336**	**-10,572**
Discontinued operations			
Profit for the year from discontinued operations	16	0	117,613
Result for the year		**-67,336**	**107,041**
Attributable to:			
Shareholders		-67,605	148,460
Minority interests		269	-40,619
		-67,336	**107,041**
Earnings per share from continuing and discontinued operations attributable to the equity holders of the company during the year (USD per share)			
Basic earnings per share (Majority interests)			
From continuing operations	13	-0.67	0.34
From discontinued operations	13	0	1.12
		-0.67	**1.47**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in USD 1 000)	Note	2010	2009
Result for the year		**-67,336**	**107,041**
Other comprehensive income			
Currency translation differences		3,545	13,345
Total comprehensive income for the year		**-63,791**	**120,386**
Attributable to:			
Owners of the parent		-64,141	160,949
Minority interest		350	-40,563
Total comprehensive income for the year		**-63,791**	**120,386**

CONSOLIDATED BALANCE SHEET PER 31.12

ASSETS (Amounts in USD 1 000)	Note	2010	2009
Non-current assets			
Intangible assets	4	0	20,335
Drilling equipment and other equipment	4	66,781	121,809
Land and buildings	4	2,245	2,305
Investments in joint venture	17	85,838	86,955
Investment in associated companies	18	2,674	41,083
Other financial fixed assets		6	450
Total non-current assets		**157,344**	**273,133**
Current assets			
Inventory		1,121	1,478
Trade- and other current receivables	8	22,048	42,198
Financial assets at fair value through profit and loss		0	620
Investment in money market fund		18	13
Bank deposits	5	45,748	49,616
Total current assets		**69,035**	**94,017**
Non-current assets held for sale	19	34,300	0
Total non-current assets held for sale		**34,300**	**0**
TOTAL ASSETS		**261,679**	**367,150**

CONSOLIDATED BALANCE SHEET PER 31.12

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2010	2009
Equity			
Share capital	21	93,568	93,568
Own shares		-2,153	-2,153
Share premium fund		45,232	95,352
Other equity		-44,253	-10,232
Majority interests		**92,394**	**176,535**
Minority interests		**2,934**	**2,384**
Total equity		**95,348**	**179,848**
Liabilities			
Non-current liabilities			
Bond loans	9	68,301	85,143
Pension liability		307	562
Other non-current liabilities	10	15,582	25,992
		84,208	**111,697**
Current liabilities			
Short term portion of non-current liabilities	9,10	27,915	11,106
Trade payables	11	16,545	11,658
Payable tax		-283	129
Other current liabilities	11	37,984	53,230
		82,131	**76,413**
Total liabilities		**166,439**	**188,111**
TOTAL EQUITY AND LIABILITIES		**261,679**	**367,158**

Bergen/Oslo, 20th of April 2011

Berge Gerdt Larsen Chairman of the Board	Unni F. Tefre Board member	Eric Johan Frydenbø Board member
Marit K. Instanes Board member	Sjur Storaas Board member	Kjetil Forland Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the company's shareholders. Confer also note 21

(Amounts in USD 1 000)	Share capital	Own shares	Share premium fund	Other reserves	Currency translation	Minority interests	Total equity
Equity 1st of January 2009	**93,568**	**-2,153**	**123,119**	**-186,853**	**-12,093**	**43,067**	**58,654**
Comprehensive income							
Profit or loss			-27,767	176,227		-40,619	107,841
Other comprehensive income							
Currency translation differences					12,489	56	12,545
Totalt comprehensive income			**-27,767**	**176,227**	**12,489**	**-40,563**	**120,386**
Equity 31st of December 2009	**93,568**	**-2,153**	**95,352**	**-10,626**	**396**	**2,504**	**179,040**
Equity 1st of January 2010	**93,568**	**-2,153**	**95,352**	**-10,626**	**396**	**2,504**	**179,040**
Comprehensive income							
Profit or loss			-50,120	-37,566		350	-87,336
Other comprehensive income							
Currency translation differences					3,545		3,545
Totalt comprehensive income			**-50,120**	**-37,566**	**3,545**	**350**	**-83,791**
Equity 31st of December 2010	**93,568**	**-2,153**	**45,232**	**-48,192**	**3,941**	**2,854**	**95,248**

On 28th of June 2010 the general meeting resolved a reverse split whereby 10 old shares where combined to one new share. To make the number of shares dividable by ten, five old shares were first issued (and capital thus increased by NOK 2.50). The transaction was required since the share price was traded under NOK 1.00. The transaction changed the share capital from NOK 506,298,372.50 (1,012,596,745 shares at NOK 0.50) to NOK 506,298,375.00 (101,259,675 shares at NOK 5.00).

On 17th of December 2010 (registered at www.brreg.no on 3th of March 2011) the extraordinary general meeting resolved to reduce the par value from NOK 5.00 to NOK 0.04. This to put the company in position to issue new equity (price cannot be lower than par value). Per 31st of December 2009 and 2010 the company owns 525 000 own shares. The shares have been purchased at an average purchase cost of NOK 22.13 per share (total NOK 11.6 million).

CONSOLIDATED CASH FLOW STATEMENT – GROUP
YEAR ENDED 31 DECEMBER

(Amounts in USD 1 000)	Note	2010	2009
Cash flows from operating activities			
Result before taxes		-87,336	107,841
Prepaid taxes in the period		0	-53
Profit from discontinued operations	18	0	-118,413
Depreciation	4	42,081	45,371
Impairment of drilling equipment	4	4,796	6,469
Impairment of goodwill	4	20,385	0
Change in net pension liability		-235	129
Change in inventory		357	-1,151
Change in trade receivables		18,208	1,187
Change in trade payables		4,387	-11,006
Result from investment in joint venture	17	-18,089	-30,854
Result from investment in associated companies	18	10,948	-304
Unrealised foreign currency loss/gain		-2,209	12,729
Cash flows from discontinued operations	18	0	953
Net cash generated from operating activities		**-3,384**	**9,790**
Cash flows from investing activities			
Purchase of operating equipment	4	-13,438	-15,933
Disposal at book value		-323	
Dividends and capital reduction from Venture Drilling AS	17	42,272	20,825
Investment in shares in Deepwater Driller Ltd	18	-7,050	-6,000
Proceeds from sales of liquid reserves		0	89
Cash flows from discontinued operations	18	0	-21,780
Net cash used in investing activities		**20,089**	**-22,819**
Cash flows from financing activities			
Proceeds from bond loan		0	1,635
Leasing installments	6	-10,628	-11,903
Interest paid on bond loans	13	-9,944	-9,820
Repayment of long term/short term borrowings		0	-450
Cash flows from discontinued operations	18	0	-46,308
Net cash used in financing activities		**-20,572**	**-66,796**
Net cash flow of the period		-3,867	-79,825
Cash and cash equivalents at the beginning of the period	5	49,616	127,813
Exchange gains (loss) on cash and cash equivalents		0	1,628
Cash balance at December 31	**5**	**45,749**	**49,616**
Specification of cash and cash equivalents at period end			
Bank deposits	5	45,749	49,616
Whereof restricted bank accounts is	5	29,696	35,400

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia ASA – Group

GENERAL INFORMATION

[illegible]

[illegible]

[illegible]

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[illegible]

BASIS OF PREPARATION

[illegible]

[illegible]

[illegible]

[illegible]

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards adopted by the group in 2010.

[illegible]

[illegible]

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

[illegible]

[illegible]

[illegible]

Other

[illegible]

CONSOLIDATION PRINCIPLES

(i) Subsidiaries

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

(ii) Joint venture and associates

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

SEGMENT REPORTING

[illegible]

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

[illegible]

Transactions and balances

[illegible]

[illegible]

Group companies

[illegible]

[illegible]

Borrowing costs

(i) Financial assets at fair value through profit or loss

(ii) Loans and receivables

(iii) Available-for-sale financial assets

Goodwill

Finance leases

or the company will take over the asset at expiration of the lease contract the asset is depreciated over the shorter of the term of the lease contract and depreciation period for corresponding assets owned by the group.

If a "sale and back-lease" transaction results in a finance lease, a possible profit will be deferred and recognised over the period of the lease.

CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

PENSION OBLIGATIONS

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

PROVISIONS

The group recognises provisions when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Contingent liabilities and allocations are reassessed at each balance sheet date and the size of the recognised provision reflects best estimate of the obligation.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received for the sale of goods and services net of value-added tax. Sales within the group are eliminated.

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the group reduces the carrying amount to its recoverable amount. The recoverable amount is the estimated future cash flow discounted at the original effective interest rate. Interest income on impaired loans is recognised using the original effective interest rate.

MOBILISATION INCOME AND - EXPENSE

Mobilisation income and expense are distributed over the mobilisation period. If the expenses exceed the income in the mobilisation period, expenses corresponding to the income in the mobilisation period are recognised in the income statement. Excess expenses are recognised in the balance sheet and distributed over the duration of the contract.

RELATED-PARTY TRANSACTIONS

Information as to which persons and companies that are considered as related parties has been stated in note to the consolidated financial statements. Agreements, transactions and outstanding accounts with related parties are always at arms length pricing at market conditions.

CASH FLOW STATEMENT

The cash flow statement has been prepared by the indirect method. The indirect method involves reporting gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash and cash equivalents comprise bank deposits and other current, liquid investments which immediately and at insignificant exchange rate risk can be converted into known cash amounts and with due dates of less than three months from purchase date.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the result of the group with the weighted average number of ordinary shares of the period.

EVENTS AFTER THE BALANCE SHEET DATE

New information about the position of the group existing at the balance sheet date regarding the accounting period have been taken into account in the financial statements according to standard estimation principles. Events after the balance sheet date are referred to in note 22.

NOTES - GROUP

to the consolidated financial statements

NOTE 1 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Impairment
Confer also note 4

The group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

The group tests annually whether the drilling equipment have suffered any impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

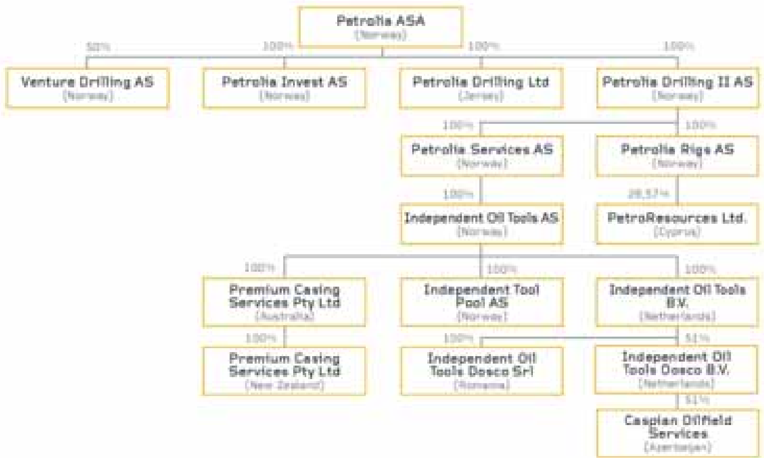
ii) Income taxes
The group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

iii) Disputes
Provisions and impairments have been made regarding certain claims made, confer note 11. There is significant difference in opinions regarding the validity of the claims and final outcome may thus deviate substantially from today's best estimate.

NOTE 2 ORGANISATION

Summary of the companies of the group:
Per 31.12.2010 following companies are presented in the balance sheet:

Company	Objective, activity, business office
Subsidiaries (fully consolidated)	
Petrolia Drilling II AS	Holding company for Petrolia Rigs AS and Petrolia Services AS. The company is registered and domiciled in Norway
Petrolia Drilling Ltd.	A company registered on Virgin Island. The shares are controlled by a trust in Jersey. Petrolia ASA is "beneficial owner" of the trust
Petrolia Invest AS	Owner of shares in the associate Deepwater Driller Ltd (former Larsen Rig Ltd). The company is registered and domiciled in Norway
Petrolia Rigs AS	Former owner of the drilling rig SB Petrolia. The company is registered and domiciled in Norway
Petrolia Services AS	Owner of drilling equipment. The company is registered and domiciled in Norway
Independent Oil Tools AS	Hiring out- and service of drilling equipment. The company is registered and domiciled in Norway
Independent Tool Pool AS	Hiring out- and service of drilling equipment The company is registered and domiciled in Norway
Premium Casing Services Pty Ltd	Hiring out- and service of drilling equipment The company is registered and domiciled in Australia
Independent Oil Tools BV	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland
Independent Oil Tools Dosco BV	Hiring out- and service of drilling equipment The company is registered and domiciled in Holland
Independent Oil Tools Dosco Srl	Hiring out- and service of drilling equipment The company is registered and domiciled in Romania
Caspian Oilfield Services	Hiring out- and service of drilling equipment The company is registered and domiciled in Azerbaijan
Premium Casing Services Pty Ltd	Hiring out- and service of drilling equipment The company is registered and domiciled in New Zealand
Joint ventures (equity method)	
Venture Drilling AS	A joint venture with Sinvest AS concerning the drillship Deep Venture. The company is registered and domiciled in Norway. From 29th of March 2011 the company became a 100% owned subsidiary
Associated companies (equity method)	
Petroresources Ltd	The company is registered and domiciled in Cyprus



NOTE 3 SEGMENT INFORMATION

IN 2009 AND 2010 ACTIVITY HAS ONLY BEEN IN THE OILFIELD SERVICES SEGMENT

Petrolia has prior years had two segments, drilling and oilfield services. After the bankruptcy of Petrorand, Petrolia has business in the oilfield services segment only. The activity within this segment is homogenous and is managed as one business and management focus on the group result for internal review purposes.

THE GROUP'S TWO BUSINESS SEGMENTS OPERATE IN THE FOLLOWING MAIN GEOGRAPHICAL AREAS:

Revenue (amounts in USD 1 000)	2010	2009
Norway	15,907	8,929
Europe outside Norway	24,888	22,267
Asia and Australia	17,574	15,940
Other countries	17,371	23,612
Total	**75,541**	**70,746**

Assets (amounts in USD 1 000)	2010	2009
Norway	6,747	2,349
Europe outside Norway	8,530	15,236
Asia and Australia	7,830	36,486
Other countries	84,893	70,203
Total	**89,006**	**124,274**

Revenue
The major part of Petrolia's revenues arrive from rental of drilling equipment such as drill pipe and test tubing.

Geographic allocation
Geographic allocation is primarily based at where the companies are domiciled. Independent Tool Pool AS and Petrolia Services AS are allocated as Other countries.

Major customers
The end customer of our oilfield services are oil companies or other oilfield services companies, in other words many customers.

The "Other countries" above is through COR International Ltd. COR has had severe financial difficulties in 2010 and as a result all receivables on COR have been impaired (USD 30 million).

NOTE 4 NON-CURRENT ASSETS

(amounts in USD 1 000)	Drilling equipment and other equipment	Land and buildings	Goodwill
Per 1 January 2009			
Acquisition cost	170,873	2,805	17,344
Accumulated depreciation	-51,402	-100	0
Book value 01.01.09	**119,471**	**2,705**	**17,344**
Accounting year 2009			
Book value 01.01.09	119,471	2,705	17,344
Translation differences	20,966	-341	3,051
Addition included leased equipment	23,539		
Discontinued operations	7,037		
Disposal of book value	-2,284		
Depreciation of the year	-46,312	-59	
Impairment	-8,488		
Book value 31.12.09	**121,969**	**2,305**	**20,395**
Per 31 December 2009			
Acquisition cost	222,179	2,464	20,395
Accumulated impairment	-8,488		
Accumulated depreciation	-91,742	-159	
Book value 31.12.09	**121,969**	**2,305**	**20,395**
Accounting year 2010			
Book value 01.01.10	121,969	2,305	20,395
Translation differences	-1,523	1	
Addition included leased equipment	13,456		
Disposal of book value	-323		
Depreciation of the year	-42,020	-61	
Impairment	-4,798		-20,395
Book value 31.12.10	**86,761**	**2,245**	**0**
Per 31 December 2010			
Acquisition cost	233,787	2,464	0
Accumulated impairment	-13,264		
Accumulated depreciation	-133,762	-220	0
Book value 31.12.10	**86,761**	**2,245**	**0**
Remaining useful life			
Depreciation period	5 year	33 year	
Residual value	0		

Impairment of fixed assets
Fixed assets are impaired by mUSD 4.8 in 2010 (mUSD 8.5 in 2009) due to uncertainty related to use of assets acquired from Petrolmans and Petrojack.

Impairment test for goodwill
Goodwill is in its entirety allocated to the segment offshore services.

Impairment test for cash-generating units is based on value in use calculated as estimated present value of future cash flows. The estimated present value assume a pre tax discount rate of 13.3 % and a growth rate of 2.0%, with a terminal value after 5 years. The present value of future cash flows is based on the 2011 budget. The key assumption in the estimated cash flow, is rental revenue which is expected to increase approx 15% in 2011 due to better utilisation. Based on the impairment test the goodwill has been impaired by mUSD 20.4 in 2010.

LEASED EQUIPMENT (INCLUDED IN DRILLING EQUIPMENT ABOVE)

Drilling equipment acquired through financial leases amounts to: (amounts in USD 1 000)	
Per 1st of January 2009	
Acquisition cost – financial leases	51,010
Accumulated depreciation	-20,557
Book value per 01.01.2009	**30,453**
Accounting year 2009	
Book value 01.01.2009	30,453
Addition	18,857
Depreciation of the year	-12,842
Translation differences	[illegible]
Book value 31.12.2009	**44,525**
Accounting year 2010	
Book value 01.01.2010	44,525
Addition	[illegible]
Depreciation of the year	-13,532
Translation differences	2,283
Book value 31.12.2010	**33,292**

NOTE 5 BANK DEPOSITS

(amounts USD 1 000)	2010	2009
Bank deposits	**45,749**	**49,616**
Hereof deposit restricted		
Security in Handelsbanken for Pemex contract regarding DB Petrolia	21,200	25,331
Security in DnB for the bond loan in Petrolia ASA	8,328	8,248
Employees' tax deduction	167	188
Total restricted capital	**29,696**	**35,409**
Cash and bank deposits per currency (amounts in USD 1 000)		
Cash an bank deposits in NOK	9,312	10,885
Cash an bank deposits in USD	31,547	32,117
Cash an bank deposits in SGD	8	2,029
Cash an bank deposits in GBP	48	85
Cash an bank deposits in EUR	2,098	3,550
Cash an bank deposits in NZD	778	
Cash an bank deposits in RON	1,123	
Cash an bank deposits in AZN	2	
Cash an bank deposits in AUD	842	1,337
Total	**45,749**	**49,616**

NOTE 6 TRADE- AND OTHER CURRENT RECEIVABLES

Other current receivables (amounts in USD 1 000)	2010	2009
Trade receivables *	15,873	33,697
Prepaid expenses and value added tax owing	0	7,034
Other current receivables	7,076	1,246
Total	**22,949**	**42,200**

*) Trade receivables have been impaired with 30,318. Confer also note 8

Aging of accounts receivables	< 3 months	3 - 6 months	> 6 months	Total
Accounts receivables	15,350	523	0	15,873
Other current receivables	281	6,795	0	7,076
Total	**15,631**	**7,318**	**0**	**22,949**

Prepaid expenses has been exempted in the above profile.

NOTE 7 CAPITAL MANAGEMENT

CAPITAL STRUCTURE AND EQUITY

The main objectives of the group when monitoring capital are to safeguard the group's ability to maintain a good credit rating and belonging favourable loan terms from the lenders in accordance with the group's operations. Through maintaining a satisfactory debt ratio the group is supporting the current operations and maximizing the value of the group's shares accordingly.

The group is managing the capital structure and making necessary adjustments based on a continuous assessment of the financial conditions that the enterprise is subject to and the present short- and medium term prospects. The capital structure is managed through repurchase of treasury shares, reduction of share capital or issuing new shares.

(amounts in USD 1 000)	2010	2009
Total liabilities	166,431	188,111
Equity of majority	92,394	176,536
Debt ratio	1.80	1.07

NOTE 8 FINANCIAL RISK MANAGEMENT

Financial risk factors and categories of financial instruments

The group uses financial instruments such as bond loans, financial lease and borrowing from related parties. The purpose of these financial instruments is to provide capital for investments necessary for the group's activity. Further on the group has financial instruments like trade receivables and trade payables which are directly connected to the current operations of the group. The group has no derivative financial instruments, neither for hedging nor trading purposes. All financial assets are categorized as loans and receivables measured at amortised cost, and all financial liabilities are categorised as financial liability measured at amortised cost. In 2009 the company had some minor investments measured at fair value through profit and loss, these investment are sold in 2010.

Profit and loss effects from financial instruments are interest income and expenses on financial instruments measured at amortised cost. Gains and losses on instruments measured at fair value through profit and loss are immaterial. These profit and loss effects are disclosed in note 13. Impairment on financial instruments concerns trade receivables and are disclosed in note 6 and under Credit risk below.

The group's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The group's management is currently monitoring the risk related to credit, interest rate, liquidity and foreign exchange. The group is subject to a balanced exposure through income and expenses in USD and NOK and financing in USD and NOK. The group has fixed rate on the major part of interest bearing liabilities, which limits the liquidity risk. The credit risk which the company is exposed to is acceptable.

Credit risk

The group is primarily exposed to credit risk related to trade receivables, other receivables and prepayments for equipment. The maximum risk exposure is represented by the carrying value of trade receivables and other receivables referred to in note 6.

The group has many smaller customers and one large customer. A large part of the equipment in the oilfield services segment is on rental through Certified Oilfield Rentals Ltd (COR Ltd) throughout the world. COR Ltd acts on behalf of the Petrolia group. COR Ltd conducts credit rating of new customers and transfer funds to Petrolia after receiving payment from the customers. Petrolia has in 2010 made provision for possible credit losses due to significant financial challenges in COR Ltd. The group's revenues are limited to a number of transactions and customers and therefore credit risk is transparent. Management has assessed the collectability of receivables past due and do not expect losses for other than balances that are impaired. Confer also note 6.

Interest rate risk

The group is exposed to interest rate risk through its financing activities (cf. note 9 and 10). Part of the interest-bearing liabilities is based on floating rates which implies that the group is exposed to changes in the interest rate level.

The group's interest rate risk management aims at reducing the interest expenses at the same time as the volatility of future interest payments is kept within acceptable frames. Per 31.12.2010 the group's bond loan has fixed interest, while the lease obligation is subject to floating rate of interest.

Sensitivity for changes in interest rate level (amounts in USD 1000)	Changes in interest rate level in basis points	Impact on result before tax	Impact on equity
2010	50	40	0
2009	50	64	0

Further information regarding the interest rate conditions of the group's financing is given in note 9.

Liquidity risk

Liquidity risk is the risk that the group is not able to meet its financial liabilities as they fall due. The group's strategy of handling credit risk is to have sufficient liquidities at all times to pay any liability on maturity, in both normal and extraordinary circumstances.

The table below states maturity profile of financial liabilities recognised per 31.12.2010.

Per 31st of December 2010	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	18,545	0	0	0	18,545
Bond loans (incl interests)	26,331	72,495	0	0	98,825
Other long-term debt (incl interests)	10,817	9,334	8,246	0	28,398
Other current liabilities	37,884	0	0	0	37,884

Per 31st of December 2009	< 1 year	1-2 years	2-5 years	> 5 years	Total
Trade payables	11,858	0	0	0	11,858
Bond loans	268	16,605	68,538	0	85,432
Other long-term debt	10,817	9,474	18,318	0	38,609
Other current liabilities	53,350	0	0	0	53,350

Retirement benefit obligations have been exempted in the above profiles.

*) Write down based on external valuation

The group's long term financing is mainly related to bond loan of mNOK 500 which falls due in June 2012. Confer note 9.

The liquidity in the group has in 2011 been improved by the sale of shares in Deepwater Drilling where USD 31 mill of the considerations was received immediately after the sale.

Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NOK. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The group is exposed to exchange rate fluctuations connected to the value of NOK relatively to USD due to the fact that the group has mainly income and operating expenses in USD while parts of the financing is nominated in NOK.

As of 31st of December 2010 and 2009 the group had mNOK 500 in bond loan nominated in NOK.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. The revenues and the operating costs in the offshore services segment are mainly in USD and the leasing debt raised to finance the equipment is therefore also nominated in USD.

As of 31st of December 2010, the group had mUSD 85.4 net debt nominated in NOK, while the corresponding figure for 2009 was mUSD 82.7.

The table below illustrates the group's sensitivity related to reasonable changes in the currency rate between USD and NOK. Changes in other currencies will not have material impact on the profit & loss or equity.

	Changes in the exchange rate of NOK	Impact on result before taxes	Impact on equity
2010	5 %	4,071	0
	-5 %	-4,071	0
2009	5 %	4,037	0
	-5 %	-4,037	0

FAIR VALUE

All financial instruments are measured at amortised cost.

Fair value of non-current liabilities is assessed by means of quoted market prices, last available selling price or the use of interest terms for liabilities with similar re-payment period and credit risk. Fair market value of investment in the bonds is based on Norwegian Securities Dealer Association assessment of value for fair purpose at year-end, available on the website http://www.nfmf.no/. Below is a comparison of book values and fair values of the bond.

Carrying value of cash and cash equivalents approximate fair value owing to the fact that these instruments have short maturity. Correspondingly, carrying value of trade receivables and trade payables approximate fair value as they are established at normal terms and doubtful receivables are impaired by recording impairment loss.

Bond loan mNOK 500 - fair value	2010	2009
Book value	85,499	85,143
Fair value	58,642	41,113

NOTE 9 BOND LOANS

PER 31 DECEMBER THE GROUP HAD THE FOLLOWING BOND LOANS

Bond Loans (amounts in USD 1 000)		Average interest rate	Effective interest rate	2010	2009
Bond loan (mNOK 500)	ISIN: NO 001044923.8 - 12% Petrolia Drilling ASA	12.00%	13.27%	85,489	95,143
Book value 31.12.				**85,489**	**95,143**

Split between long term and short term portion of bond loan 31.12.2010	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	68,391	17,098	85,489
Book value 31.12.	**68,391**	**17,098**	**85,489**

Split between long term and short term portion of bond loan 31.12.2009	Long term portion	Short term portion	Total bond loan
Bond loan (mNOK 500)	95,143	0	95,143
Book value 31.12.	**95,143**	**0**	**95,143**

Book value in 2010 excludes expenses directly attributable to the raising of the loan. Such costs where originally mNOK 12.5 and per 31st of December 2010 remaining balance was mNOK 4.8. Exchange rate 31st of December 2010 for NOK/USD was 5.8487.

BOOK VALUE OF MORTGAGE

Bond loan mNOK 500 is subject to security in bank deposit	2010	2009
Bond loan mNOK 500		
Suspense bank account (3 months interests)	8,328	8,249
Total book value of mortgage	**8,328**	**8,249**

Maturity structure bond loans:	2011	2012	Total
Instalment	17,098	68,391	85,489
Interest	9,233	4,103	13,336
Total	**26,331**	**72,495**	**98,825**

BORROWING TERMS

Bond loan mNOK 500 in Petrolia ASA

Petrolia has an option to redeem the loan inclusive of interest in total or partly at the following terms

Period	Price
Redemption in the period 20th of June 2010 till 19th of June 2011	102.50%
Redemption in the period 20th June 2011 till the expiry of the term of the loan	102.25%

Bond borrowing is recognised at amortised cost and not fair value adjusted. Change in time value on options for future redemption are consequently not recognised.

According to the borrowing agreement Petrolia ASA can not incur mortgage debt, encumbrances, guarantees, right of retention or any other type of mortgage for present or future assets or give any guarantee or compensation, exemptions may, however, be made provided it is in compliance with normal market practice.

Covenants

Petrolia ASA can not, according to the borrowing agreement, pay dividends, purchase own shares or make payment to the shareholders beyond 20% of the group's profit after taxes the preceding year, without approval from the lenders. Nor can the company without approval dispose of or close down a significant part of the enterprise or change the character of its operations.

In addition Petrolia is responsible that the company (parent) maintains a coverage ratio (ratio of total assets to total debt) of 2.0 or higher on each Balance Sheet Reporting Date, which is every quarter.

Total assets are the aggregate of (i) the market value of the shares in listed companies, (ii) the book value of shares in non listed companies, goodwill deducted and (iii) free cash. Gross debt is the aggregate book value of the financial indebtedness according to IFRS in the accounts. There is no breach in the borrowing terms per 31.12.2010.

NOTE 10 OTHER NON-CURRENT LIABILITIES

(amounts in USD 1 000)	2010	2009
Liability connected to financial leasing of drilling equipment	15,582	25,992
Total other non-current liabilities	**15,582**	**25,992**

FINANCIAL LEASING LIABILITY DRILLING EQUIPMENT

The payment schedule is (amounts in USD 1 000)	2010	2009
Falling due within 1 year	10,817	10,817
Falling due between 1 and 5 years	15,582	25,992
Total	**26,399**	**36,809**

Book value of assets financed through financial leasing amounts to mUSD 33.3. Confer also note 4.

Petrolia ASA has given surety towards the leasing company at a value of mUSD 65.5.

NOTE 11 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables (amounts in USD 1 000)	2010	2009
Trade payables	16,545	11,958
Total trade payables	**16,545**	**11,958**
Other current liabilities		
Public duties	532	408
Accrued expenses	0	369
Liabilities to related parties (note 19)	2,795	18,532
Petromena Ltd (Cyprus) *	21,017	27,000
Other current liabilities	13,639	6,927
Total other current liabilities	**37,984**	**53,236**
Total trade payables and other current liabilities	**54,529**	**65,188**

*) Ref cash balance of mUSD 21,2 in note 8. Once the Pemex guarantee is terminated the cash will be repaid after adjusting for interests and guarantee premiums.

DISPUTED ITEMS

Petrolia Services AS and Petrolia ASA are involved in two disputes regarding claw back claims presented by the bankruptcy estates of Petromena ASA and Petrojack ASA. Both claims are related to drilling equipment acquired from Petromena and Petrojack prior to the opening of bankruptcy. Both claims have been rejected.

In the dispute with the Petromena estate, Petrolia Services received a writ of summons from the estate on 15th of December 2010 with a claim of up to NOK 245 million related to an agreement of 13th of November 2008 regarding an acquisition by Petrolia Services of equipment from Petromena. The estate is seeking to invalidate the acquisition, alleging that it is not binding for the estate, that it can seize the equipment and/or that the NOK 245 million is to be considered a loan given by Petrolia Services to Petromena.

Petrolia dismisses the claim, but has accrued USD 1.7 million. However, the exposure for Petrolia Services is considerable.

In the dispute with the Petrojack estate, Petrolia ASA received a writ of summons on 8th of March 2011, in which the estate submits a claim of up to NOK 32.9 million related to an agreement dated 31st of July 2008 between Petrojack and Petrolia Services pursuant to which Petrolia Services purchased certain drilling equipment from Petrojack. The estate challenges Petrolia Services' acquisition based on its view that the transaction was in reality settlement for older debt Petrojack had to Petrolia, and alleges that the transferred drilling equipment is subject to claw back. The writ of summons is addressed to Petrolia ASA even though Petrolia Services was the purchaser of the equipment. Petrolia Services has rejected the claim, but has impaired the equipment with USD 3.3 million.

NOTE 12 SPECIFICATION OF OTHER OPERATING EXPENSES

The amounts are exclusive of value added tax

Other operating expenses comprise the following main items (amounts in USD 1,000)	Note	2010	2009
Fees to external advisors, lawyers, auditors		3,693	2,318
Management services		725	1,871
Cost of goods sold		13,124	20,758
Impairment customers	8	30,016	
Impairment of Goodwill	4	29,395	
Provision termination fee Deepwater Driller Ltd*	18	1,300	
Provision Petromena claim*	11	1,798	
Accrual administration fee*	18	2,793	
Other operating expenses		20,150	10,380
Total operating expenses		**94,106**	**35,323**

*) New provisions in 2010

NOTE 13 EARNINGS PER SHARE

(amounts in USD 1 000, with the exception of earnings per share)	2010	2009
Average no. of shares	101 259 575	101 259 575
No. of shares at period end	101 259 575	101 259 575
Fully diluted no. of shares	101 259 575	101 259 575
Basic earnings per share (Majority interest)		
From continuing operations	-0.87	0.34
From discontinued operations	0	1.12
	-0.87	**1.47**

On 28th of June 2010 the general meeting resolved a reverse split whereby 10 old shares where combined to one new share.

To make the number of shares divisible by ten, 5 old shares were first issued. Per 31st of December 2009 actual number of shares was 1,012,595,745.

Confer also the Consolidated Statement of Changes in Equity for more details regarding equity changes.

NOTE 14 TAXES

Basis for tax charges, change in deferred tax and tax payable (amounts in USD 1,000)	2010	2009
Result before tax charges	-47,306	5,019
Tax calculated at domestic tax rates applicable to profits in respect tax countries (28% for parent company)	0	120
Non-taxable impairment	8,218	9,042
Tax on non-deductible differences	1,944	1,134
Change deferred tax asset, included in not recognised in the balance sheet	-11,182	-5,043
Tax charge	**0**	**4,653**

There is no time limit for the use of carry forward loss

Calculation of deferred tax asset (amounts in USD 1,000)	2010	2009
Non-current assets	-5,233	3,095
Current assets	-33,025	-306
Non-current liabilities	0	1,412
Pension	-273	45
Profit and loss account	-21,008	82,505
Net temporary differences	-59,739	86,747
Carry forward loss	-91,214	-141,504
Basis for deferred tax asset	-150,953	-74,757
Deferred tax asset at nominal tax rates	42,287	20,932

For the Norwegian companies the tax obligation is nominated and calculated in NOK, and then converted to USD.

The Norwegian tax authorities notified the company in 2008 of a tax audit for Petrolia ASA and it's subsidiaries Petrolia Drilling II AS, Petrolia Rigs AS and Petrolia Services AS for the period from the formation of the companies in 1997 until the accounting year 2005. The companies have, as of today, not received notice of any changes affecting the tax position of the companies.

NOTE 15 SPECIFICATION OF FINANCIAL ITEMS

(amounts in USD 1 000)	2010	2009
Interest income		
Interest income from current bank deposits	305	634
Profit from liquidity reserve	0	1
	305	**634**
Financial income		
Foreign exchange gain - net	123	343
	123	**343**
Interest expenses		
Interest expenses bonds	9,944	9,735
Other interest expense	125	514
Interest financial leasing	1,247	1,404
Interest expenses to related parties	0	489
	11,358	**12 292**
Financial expenses		
Value change shares at fair value through profit and loss	0	251
Other financial expenses	639	1,303
	639	**1,554**
Net finance	**-11,568**	**-12,869**

NOTE 16 DISCONTINUED OPERATIONS

PetroMENA ASA (51.5% owned) went bankrupt 21st of December 2009 and has therefore been deconsolidated in the accounts for 2009.

The result from PetroMENA ASA is presented as profit for the year from discontinued operations. This comprises the total of the post-tax profit (loss) in PetroMENA ASA for the period 1st of January until 21st of December 2009 and the gain recognised on the disposal of the assets in PetroMENA per 21st of December 2009.

The equipment is pledged as security for the leasing obligation.

Analysis of the result of discontinued operations	2010	2009
Operating revenue	0	64,205
Operating expenses	0	62,907
Operating profit	**0**	**1,299**
Net financial income/(expenses)	0	-99,812
Result before tax of discontinued operations	**0**	**-98,514**
Tax	0	3,694
Result after tax for discontinued operations	**0**	**-102,207**
Gain recognised on discontinued operations (*)	0	220,620
Result for the year from discontinued operations	**0**	**118,413**

*related to:
(-) deferred income related to the sale of SS "Petrolia" to PetroMENA in 2007
(-) consolidated negative equity from PetroMENA in Petrolia group on date of bankruptcy

The pre-tax gain recognised on discontinued operations in 2009 includes internal paid debts with USD [illegible] million mainly related to Petrolia Services.

Cash flows from discontinued operations	2010	2009
Operating cash flows	0	655
Investing cash flows	0	-21,790
Financing cash flows	0	-46,208
Total cash flows	**0**	**-67,343**

NOTE 17 INVESTMENT IN JOINT VENTURE

Venture Drilling AS is a joint venture cooperation between Sinvest AS and Petrolia ASA with business address in Kristiansand, Norway. Petrolia ASA's shareholding in the company per 31st of December 2010 was 50%. On 28th of March 2011 Petrolia ASA purchased the remaining 50% and after this owns 100%.

(amounts USD 1 000)	2010	2009
Book value 01.01	86,955	76,827
Result	18,089	30,554
Dividends and capital reduction	-39,388	-20,426
Book value 31.12	**65,656**	**86,955**

Key figures for Venture Drilling AS (amounts in USD 1 000)	2010	2009
Balance sheet		
Non-current assets	102,997	112,651
Current assets	48,233	67,139
Equity	48,412	131,860
Non-current liabilities	12,763	12,691
Current liabilities	90,061	35,248
Income statement		
Operating income	128,909	143,007
Operating expenses (including depreciations)	84,079	74,332
Net financial items	-5,806	-1,016
Tax	11,554	26,659
Result of the year	**39,374**	**62,060**

The annual accounts for 2010 was approved by the General meeting of Venture Drilling AS the 9th of March 2011.

Due to currency fluctuations there is a difference between the dividends and capital reduction received in cash (mUSD 40.3) and the effect on the book value (mUSD 37.4).

The vessel has been off-hire since 1st of May 2010 after Maersk early terminated the contract against a compensation of mUSD 64.

On 24th of February 2011 the vessel was redelivered to its Russian owners after lengthy negotiations. At the same time Venture Drilling AS sold its position in the arbitration against the owners and equipment for a total price of mUSD 139 to Russian company JSC Zarubezhneft.

On 28th of March 2011 Petrolia ASA purchased the remaining 50% of the shares for mUSD 24. Earlier same month Venture Drilling AS had paid mUSD 31 in dividends to each of the partners.

NOTE 18 ASSOCIATED COMPANIES

PETRORESOURCES LTD

Petrolia has invested mUSD 8 in Petroresources Ltd and controlled 28.57 % of the company per 31.12.2010.

DEEPWATER DRILLER LTD (FORMER LARSEN RIG LTD)

Petrolia has invested mUSD 55 in Deepwater Driller Ltd and controlled 20.6 % of the company per 31.12.2010. On 24th of January 2011 all shares were sold to Songa Offshore SE for mUSD 34.5. Impairments have been made so book value pr 31.12.2010 was mUSD 34.5.

Calculation of values in the balance sheet (amounts in USD 1 000)	Deepwater Driller Ltd	Petro-resources Ltd	Total
Book value per 1.1.2009	**21,000**	**2,890**	**23,890**
Addition of the year	6,000	0	6,000
Share of result of the year	-1,788	-130	-1,928
Reversal of impairment of shares	13,088	0	13,088
Book value per 31.12.2009	**38,300**	**2,760**	**41,060**
Addition of the year	7,060	0	7,060
Share of result of the year	248	-86	162
Impairment of shares & dilution effect	-11,108	0	-11,108
Book value per 31.12.2010	**34,500**	**2,674**	**37,174**

Deepwater Driller Ltd is reported as "Non-current assets held for sale in 2010"

Company	Incorporated in	Assets	Liabilities	Revenue	Profit / (Loss)	Shareholding
Deepwater Driller Ltd (former Larsen Rig Ltd)	**Cayman Island**					
2009		256,354	108,839	6	11,300	30.0 %
2010		303,037	77,700	0	779	20.6%
Petroresources Ltd	**Limassol, Cyprus**					
2009		20,751	589	0	-130	28.57 %
2010		19,849	38	0	-301	28.57%

NOTE 19 RELATED PARTIES

LARSEN OIL & GAS AS (LOG AS)

The Company has had a business management agreement with LOG AS, controlled by Mr. Berge Gerdt Larsen, Chair of the Board. The agreement was terminated at the end of July 2010. The administration fee has been NOK 3 million from year 2008. In 2008 an additional fee of NOK 2 million was paid and approved by the Company's general meeting. As a part of the limited financial due diligence performed by Ernst & Young for the Independent Directors it has been established that the fee during 2007-2009 has been too low to cover the actual costs LOG AS has incurred to provide services to the Company. The board has approved that Petrolia ASA will pay an additional NOK 16.4 million to LOG AS to cover these documented additional costs and an accrual is made per 31st of December 2010.

A new administration agreement has been signed with LOG AS. The annual cost coverage is NOK 2.5 million.

KVEN AS

An office rental agreement has been signed with Kven AS, controlled by Mr. Berge Gerdt Larsen. Annual office rent is NOK 1.1 million.

ERIK FRYDENBØ

The Company has entered into a consultancy agreement with its board member and lawyer Erik Frydenbø of a monthly fee of NOK 216 000 with 2 months termination to assist with legal matters.

LARSEN OIL & GAS LTD (LOG LTD)

LOG Ltd. controlled by Mr. Berge Gerdt Larsen, has been contracted by Venture Drilling AS (a 50% owned joint venture of the Company, cf. Section 5.2 above) to perform technical and operational management of the drilling vessel DS Deep Venture. The agreement terminates in 2011 since the vessel has been redelivered to its owners. The agreed fee is USD 10 000 per day when the vessel is under drilling contract, USD 6 000 per day during reactivation and USD 3 000 per day when the vessel is not in operation or is being moved without being under drilling contract.

LOG Ltd also provided technical and operational management of the Larsen Rig (under construction by Deepwater Driller Ltd.). The agreement terminated in 2010 and there is an on-going arbitration regarding a termination fee of mUSD 5. Petrolia is responsible for 30% and has accrued mUSD 1.5 in this connection.

VENTURE DRILLING AS

The Company has received mUSD 0.4 in management fee from Venture Drilling AS in 2010. In addition an invoice of mUSD 20.5 has been issued, but since it has been disputed it has not been recognised as revenue in 2010.

NOTE 20 KEY MANAGEMENT COMPENSATION

Wage costs (amounts in USD 1 000)	2010	2009
Wages (incl payroll tax)	14,740	9,811
Pension costs (Norway)	148	789
Other contributions	581	281
Total	**15,469**	**10,881**

Average number of man-labour years of the group has been 224 in 2010. No loan or guarantees have been granted to the Board of Directors, employees or other related parties. The Managing Director of Petrolia ASA was previously employed in Larsen Oil & Gas AS. Effective from 1st of January the Managing Director is employed directly in Petrolia ASA.

Remuneration and benefits Managing Director (amounts in USD 1 000)	2010	2009
Bernt Skeie, salary including sign-on fee of NOK 1,250,000 (1st of January to 21st of April)	533	0
Ørnulf Bendal, invoiced (21st of April to 31st of December)	338	0
Bernt Skeie, parachute*	625	0
Total	**1,496**	**0**

Remuneration to Managing Director includes ordinary salary, pension costs and health insurance to Bernt Skeie. Ørnulf Bendal was employed in his own company and has invoiced his services to Petrolia ASA.

*) The parachute has been paid in 2011 after arbitration concluded that the parachute approved by the previous board was binding for the Company. The present board disputed the parachute.

The following fee has been paid to the members of the board (amounts in USD 1 000)	2010	2009
Klaus P. Tollefsen - Chairman of the board	28	55
Terje Hallaråker - Board member	28	47
Leif Hollaf - Board member	28	47
Gun Marit Stenersen - Board member	28	47
Unni Tefre - Board member	33	47
Erik Frydenbø - Board member	6	0
Berge Gerdt Larsen - Chairman of the board	6	0
Total	**157**	**243**

Directors' fees are from annual meeting to annual meeting. On the 09th of April 2010 the extraordinary general assembly elected a new board.

AUDITORS FEE

Recognised fee for auditors of the group and other auditors (amounts in USD 1 000)	2010	2009
Audit	257	466
Certification services	0	4
Tax assistance	8	19
Other services	12	61
Total auditor's fee *	**277**	**548**

*) Of which 198 to previous auditor PwC and 79 to present auditor E&Y

NOTE 21 SHARE CAPITAL

Share capital of Petrolia ASA per 31.12.2010	Number	Nominal value	Book value 2010	Book value 2009
Shares	**101,259,675**	**NOK 5.00**	**USD 93,568**	**USD 93 568**

The extraordinary general meeting of 17th of December 2010 resolved to reduce the par value from NOK 5.00 to NOK 0.04. The change was registered at www.brreg.no on 5th of March 2011

Per 31st of December 2010 Petrolia ASA held 525,003 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia ASA. Per 31st of December 2009 Petrolia ASA held 525,003 treasury shares, corresponding to 0.52 % of the shares outstanding in Petrolia ASA.

LIST OF THE MAJOR SHAREHOLDERS

Petrolia ASA had a total of 5,489 shareholders per 31st of December 2010. The table below shows the company's 20 largest shareholders per 31st of December 2010 according to the VPS (shares with nominal value NOK 5.00)

Shareholders		No. of shares	Shareholding
1	Independent Oil & Resources ASA	27,048,744	26.71%
2	Ø. H. Holding AS	14,114,000	13.94%
3	Larsen Oil & Gas AS 1)	5,800,000	5.73%
4	NET AS	5,304,823	5.24%
5	DNO Invest AS 1)	2,346,839	2.32%
6	Thor Inge Wilhelmsen	850,000	0.84%
7	Askeladden Invest AS	530,000	0.52%
8	Kjell Langhelle	524,000	0.52%
9	Danske Bank A/S	508,234	0.50%
10	Citibank N.A New York	496,810	0.49%
11	Ole Tromsnesdal	493,426	0.49%
12	ABN AMRO Global Custody Services	482,207	0.48%
13	Tore Pedersen	450,000	0.44%
14	Increased Oil Recovery AS 1)	435,000	0.43%
15	Roar Charles Pedersen	400,000	0.40%
16	Steinar Johan Nilsen	392,250	0.39%
17	Heden Holding AS	350,330	0.35%
18	Trygve Einrestar	340,000	0.34%
19	A/S Byggevirksomhet	320,000	0.32%
20	Eiko Holding AS	313,900	0.31%
	Others	39,220,162	38.73%
Total no. of shares before treasury shares		100,734,672	99.48%
Treasury shares		525,003	0.52%
Total no. of shares		**101,259,675**	**100.00%**

SHARES OWNED BY MEMBERS OF THE BOARD AND OTHER PRIMARY INSIDERS

The table below shows shareholding of members of the board and managing director and other related parties (shares with nominal value NOK 5.00)

Name	31.12.2010
Members of the board and managing director per 31.12.2010	
Berge Gerdt Larsen, Chairman of the Board 1)	0
Unni F. Tefre, Board member	0
Erik Johan Frydenbø, Board member	2,000
Merill E. Dolleroe, Board member	0
Siur Stonnes, Board member	0
Kjell Forland, Managing director of Petrolia ASA	0

1) Berge Gerdt Larsen is indirectly a majority shareholder in the Company. Together with his son, he controls Larsen Oil & Gas AS and Increased Oil Recovery AS, which together hold 6,16 % of the shares. Larsen is furthermore the chairman of the Board of DNO Invest AS, which holds 2.32 % of the shares. Increased Oil Recovery AS is a large shareholder in Independent Oil & Resources ASA, which holds 26.71% of the shares.


FINANCIAL STATEMENTS
NOTE 22 EVENTS AFTER THE BALANCE SHEET DATE

FINANCIAL STATEMENTS

Petrolia ASA – Parent Company

INCOME STATEMENT

(Amounts in USD 1 000)	Note	2010	2009
Revenue		476	0
Total revenue		**476**	**0**
Depreciation		5	
Operating expenses	1	10,448	142
Total operating expenses		**10,454**	**142**
Operating result		**-9,976**	**-142**
Interest income from group companies	6	339	182
Interest income		191	411
Financial income		2,110	1,804
Impairment of non-current financial assets	3	30,186	-10,830
Impairment of current financial assets		0	231
Interest expense to group companies	6	75	804
Interest expenses		9,844	8,347
Financial expenses		838	43,585
Result before taxes		**-50,120**	**-41,502**
Tax on result	2	0	-13,735
Result of the year		**-50,120**	**-27,767**
Attributable to:			
Transferred from share premium fund		-50,120	-27,767
		-50,120	**-27,767**

BALANCE SHEET PER 31.12

ASSETS	Note	2010	2009
Non-current assets			
Deferred income tax assets	2	0	24,945
Office equipment		12	0
		13	**24,945**
Financial non-current assets			
Investments in subsidiaries	3	158,797	185,349
Investments in joint venture	4	18,295	52,553
Loan to group companies	6	38,151	1,466
		215,232	**239,367**
Total non-current assets		**215,244**	**264,312**
Current assets			
Debtors			
Loan to joint venture	7	0	6,974
Other debtors	7	516	51
		516	**7,025**
Investments			
Market based investment shares		0	620
Investment in money market fund		15	15
		15	**635**
Bank deposits	5	17,559	11,933
Total current assets		**18,090**	**19,593**
TOTAL ASSETS		**233,333**	**283,905**

BALANCE SHEET PER. 31.12.

EQUITY AND LIABILITIES (Amounts in USD 1 000)	Note	2010	2009
Equity			
Paid-in equity			
Share capital	11	93,568	93,568
Own shares	9	-486	-486
Share premium fund	9	45,232	95,352
		138,314	**188,434**
Retained earnings			
Other equity	9	0	0
Total equity	9	**138,314**	**188,434**
Liabilities			
Non-current liabilities			
Bond loans	12	68,391	85,143
Loan from group companies	6	0	6,147
		68,391	**91,290**
Current liabilities			
Short term portion of long term liabilities	12	17,098	289
Trade creditors		2,182	1,527
Public duties payable		137	20
Other current liabilities	8	7,232	2,348
		26,628	**4,184**
Total liabilities		**95,028**	**95,474**
TOTAL EQUITY AND LIABILITIES		**233,335**	**283,908**

Bergen/Oslo, 20th of April 2011

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

CASH FLOW STATEMENT

(Amounts in USD 1 000)		2010	2009
Cash flows from operating activities			
Result before taxes		-50,120	-41,502
Impairment of non-current financial assets		32,188	14,928
Impairment of current financial assets		0	231
Change in trade creditors		838	101
Change in other provisions		7,314	-6,757
Currency translation differences		-2,110	14,665
Net cash generated from operating activities		**-12,115**	**-18,096**
Cash flows from investing activities			
Proceeds from investment in shares in other companies		40,272	20,826
Investment in shares in subsidiaries		-6,605	-6,470
Net cash used in investing activities		**33,667**	**14,356**
Cash flows from financing activities			
Change in loan to group companies		-15,927	-1,081
Net cash used in financing activities		**-15,927**	**-1,081**
Net cash flow of the period		**5,625**	**-4,821**
Cash and cash equivalents at the beginning of the period		11,933	15,176
Exchange gain (loss) on cash and cash equivalents		0	1,577
Cash balance at 31st of December	10	**17,559**	**11,933**
Specification of cash and cash equivalents at period end			
Bank deposits	10	17,559	11,933
Whereof restricted bank account is	10	8,388	8,248

ACCOUNTING POLICIES AND GENERAL INFORMATION

Petrolia ASA – Parent

INTRODUCTION

Petrolia ASA was established 13th of March, 1997. The company owns charters and invests in drilling vessels for offshore, deepwater oil and gas exploration and development drilling. Petrolia ASA is registered and domiciled in Norway.

The company is listed on the Oslo Stock Exchange with ticker "PDR".

The financial statements per 31st of December were passed by the Board of Directors on 29th of April 2011.

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

INVESTMENTS IN SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

Subsidiaries, joint venture and associates are valued at cost in the financial statements. The investment is assessed at acquisition cost of the shares unless impairment has been necessary.

Group contribution to subsidiary, with the deduction of tax, is recognised as increased cost price for the shares.

Dividends/group contributions are recognised in the income statement in the same year as allocated in the subsidiary/joint venture. If dividends/group contributions materially exceed the share of retained earnings after the acquisition the excess part is considered as refund of invested capital and deducted the value of the investment in the balance sheet.

SHARE CAPITAL

Ordinary shares are classified as equity.

Expenses directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the company purchases treasury shares (the company's equity share capital), the consideration paid, including any directly attributable incremental costs net of income taxes is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

BORROWING EXPENSES

Expenses involved in the raising of bond loan are capitalised and charged as expense over the term of the loan.

POLICIES FOR RECOGNITION OF REVENUE AND EXPENSES

Income is recognised as earned and expenses are recognised in the same period as belonging income. Income and expenses related to activities that last after the turn of the year are accrued according to number of days that the activity lasts before and after the balance sheet date.

IMPAIRMENT OF NON-CURRENT ASSETS

Whenever events or changes in circumstances indicate that the carrying amount of a non-current asset exceeds recoverable amount, the asset is reviewed for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If carrying amount exceeds both net realizable value and recoverable amount (present value from continued use/ownership), impairment is made to the higher of net realizable value and recoverable amount.

Previous impairments are reversed to the extent that the basis of the impairment is no longer present.

THE USE OF ESTIMATES

In connection with the preparation of the financial statements in accordance with generally accepted accounting principles and standards it will be necessary to use estimates and assumptions that have impact on the financial statements. Actual amounts may differ from these estimates. The impact of change of accounting estimates are recognised in the period that the estimate is changed.

CHANGE OF ACCOUNTING POLICIES

The impact of changes of accounting policies and correction of errors in previous years' financial statements are recognised directly against equity.

CLASSIFICATION OF BALANCE SHEET ITEMS

Assets determined for permanent possession or use is classified as non-current assets. Other assets are classified as current assets. Receivables that are to be repaid within one year are in any case classified as current assets. By classification of liabilities analogue criteria are used.

ACCOUNTS RECEIVABLE

Trade receivables and other receivables are recognised at nominal value after deduction of provision for bad debt. Provision for bad debt is made on the basis of an individual assessment of each receivable.

FOREIGN CURRENCY

Petrolia has with effect from 1st of January 2008 changed presentation currency from NOK to USD. Monetary items in foreign currency are estimated according to the current exchange rate at the end of the accounting year.

TAXES

The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28% of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

RELATED PARTIES

Information as to which persons and companies that are considered as related parties is stated in note 13 to the accounts. Agreements, transactions and outstanding accounts with related parties are described in the same note.

STATEMENT OF CASH FLOW

The statement of cash flow is prepared according to the indirect method. The indirect method involves reporting of gross cash flow from investment and financing activities, while the accounting result is reconciled against net cash flow from operational activities. Cash in hand and cash equivalents comprise cash, bank deposit and interest bearing investments in fund.

CONTINGENCIES

Contingencies are recognised to the extent that it is probable that they will occur and the value of the settlement can be measured reliably. Other contingencies, if any, are referred to in note.

CONDITIONAL PROFITS

Conditional profits and earnings are not recognised.

EVENTS AFTER THE BALANCE SHEET DATE

New information about conditions existing at the balance sheet date regarding the accounting period has been taken into the account in the financial statements according to standard estimation principles. Events related to circumstances that have taken place after the balance sheet date are referred to in note 14.

NOTES - PARENT

to the financial statements

NOTE 1 REMUNERATION ETC.

The company had 6 employees and 2 full time contractors per 31st of December 2010. Total wage costs for 2010 was mUSD 1.7 of which mUSD 0.4 was invoiced, mUSD 0.2 was board remunerations, mUSD 0.2 was social security and mUSD 0.04 was pension costs.

The Company complies with the requirements of the Norwegian Mandatory Occupational Pension Act ("OTP") and has implemented a defined contribution based scheme with 4 % contribution on income up to 6 G (the National Insurance Base Amount, currently NOK 75,641) and 8 % on income between 6 and 12 G.

There are currently no incentive schemes in place, but the company is continuously considering means of compensating its current and future employees.

Auditors (Amounts in USD 1000)	2010	2009
Statutory audit (incl technical accounting assistance)	154	264
Certification services	0	0
Tax assistance	8	7
Other services	4	60
Total fee	**166**	**331**

Refer also to note 22 in the Group accounts

NOTE 2 TAXES

Basis for tax charges, change in deferred tax and payable tax (Amounts in USD 1000)	2010	2009
Result before tax charge	-50,120	-41,302
Expenses not deductible for tax purpose	4	19,468
Impairment shares	32,188	0
Losses on shares	89	0
Change in temporary differences	1,204	-4,376
Group contribution	92,331	18,787
Change in group contribution 2009	0	-59,102
Currency differences	-221	69,343
Use carry forward loss	-75,234	0
Taxable income of the year	**0**	**0**
Payable tax 28%	0	0
Payable tax of result of the year	**0**	**0**
Change deferred tax asset	0	-13,735
Tax charge	**0**	**-13,735**

Calculation of deferred tax asset	2010	2009
Fixed assets	1	
Receivables	-5,483	-1,309
Other non-current liabilities	828	1,412
Profit and loss account	921	1,039
Total temporary differences	-5,043	-4,858
Carry forward loss	-35,884	-112,615
Basis for deferred tax asset in the balance sheet	**-41,840**	**-117,473**
Deferred tax asset, 28%	-11,715	-32,892
Including not recognised in the balance sheet	11,715	7,948
Deferred tax asset in the balance sheet	**0**	**-24,944**

Tax obligation is nominated and calculated in NOK, and converted to USD.

Capitalised deferred tax asset on net tax reducing temporary differences and on carry forward losses for tax purposes are based on the assessment that future taxable profit in the group will be available against which the temporary differences can be utilised.

The Norwegian tax authorities notified the company in 2006 of a tax audit for the period from the formation of the company in 1997 until the accounting year 2005. The company has as of today not received notice of any changes affecting the tax position of the company.

NOTE 3 SUBSIDIARIES

Investments in subsidiaries are recognised according to the cost method

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2010	Equity per 31.12.10	Book value 2010	Book value 2009
Petrolia Drilling II AS	Oslo	100%	100%	-1,185	111,094	123,287	147,049
Petrolia Invest AS	Oslo	100%	100%	-12,407	32,359	34,500	38,300
Petrolia Drilling Ltd	Virgin Island / Jersey	100%	100%	-569	-3,341	0	0
Total						**150,787**	**185,349**

Petrolia Drilling II AS has been impaired by mUSD 21.8 after impairment test has been made on the oilfield services segment.

Petrolia Invest AS has been impaired such that book value per 31st December 2010 is equal to the sales price of the Deepwater Driller Ltd shares which were sold in 2011.

Petrolia Drilling Ltd is controlled by a trust on Jersey. The company owned 51,5 % of PetroMena ASA which was declared bankrupt 21st December 2009.

NOTE 4 INVESTMENT IN JOINT VENTURE

Investment in joint venture is estimated according to the cost method

Company (Amounts in USD 1000)	Business address	Share-holding	Voting share	Result 2010	Equity per 31.12.10	Book value 2010	Book value 2009
Venture Drilling AS	[illegible]	50%	50%	39,374	48,412	18,235	52,153

Refer also note 17 in the Group accounts.

NOTE 5 BANK DEPOSITS

(Amounts in USD 1000)	2010	2009
Bank deposits	17,539	11,933
Total	**17,539**	**11,933**
Incl. deposit on suspense account as security for the bond loan	8,388	9,249
Incl. with-held employee tax	75	0

NOTE 6 INTERCOMPANY ACCOUNTS

(Amounts in USD 1000)	2010	2009
Non-current receivables		
Independent Tool Pool AS	15,198	0
Petrolia Services AS	2,264	1,466
Petrolia Drilling Ltd	7,298	7,303
Petrolia Invest AS	5	0
Petrolia Rigs AS	18,730	0
Provision for bad debts	-7,303	-7,303
Total non-current receivables	**36,191**	**1,466**
Non-current liabilities		
Petrolia Rigs AS	0	6,141
Petrolia Drilling Ltd	0	6
Total non-current liabilities	**0**	**6,147**

Interest on non-current intercompany accounts are calculated at NIBOR/LIBOR + 2.25%.

NOTE 7 OTHER CURRENT RECEIVABLES

(Amounts in USD 1000)	2010	2009
Customers	147	0
Prepaid expenses and VAT	369	51
Dividend Venture Drilling	0	6,974
Total	**516**	**7,025**

NOTE 8 OTHER CURRENT LIABILITIES

(Amounts in USD 1000)	2010	2009
Accrued interest expenses from bond loan	242	238
Bond loan, amortised costs	409	0
Debt to Independent Oilfield Rentals Ltd	1,855	1,855
Accrued expenses	175	541
Legal fees	2,000	0
Administration cost	2,732	0
Parachute former CEO	798	0
Total other current liabilities	**7,232**	**2,634**

NOTE 9 EQUITY

Changes in equity of the year (Amounts in USD 1000)	Share capital	Own shares	Share premium fund	Other equity	Total
Equity 31.12.09	93,368	-486	95,352	0	188,435
Purchase/sale of treasury shares					0
Result of the year			-50,120		-50,120
Equity 31.12.10	**93,368**	**-486**	**45,232**	**0**	**138,314**

Treasury shares		2010	2009
Number of shares		525,003	525,003
Average acquisition cost per share	NOK	22.13	22.13

NOTE 10 CONTRACTUAL OBLIGATION - GUARANTEE

Petrolia ASA provide security for leasing equipment in Independent Tool Pool AS (100% owned by Petrolia Services AS) of MUSD 63.3

NOTE 11 SHARE CAPITAL

Refer to note 21 in the Group accounts

NOTE 12 BOND LOAN

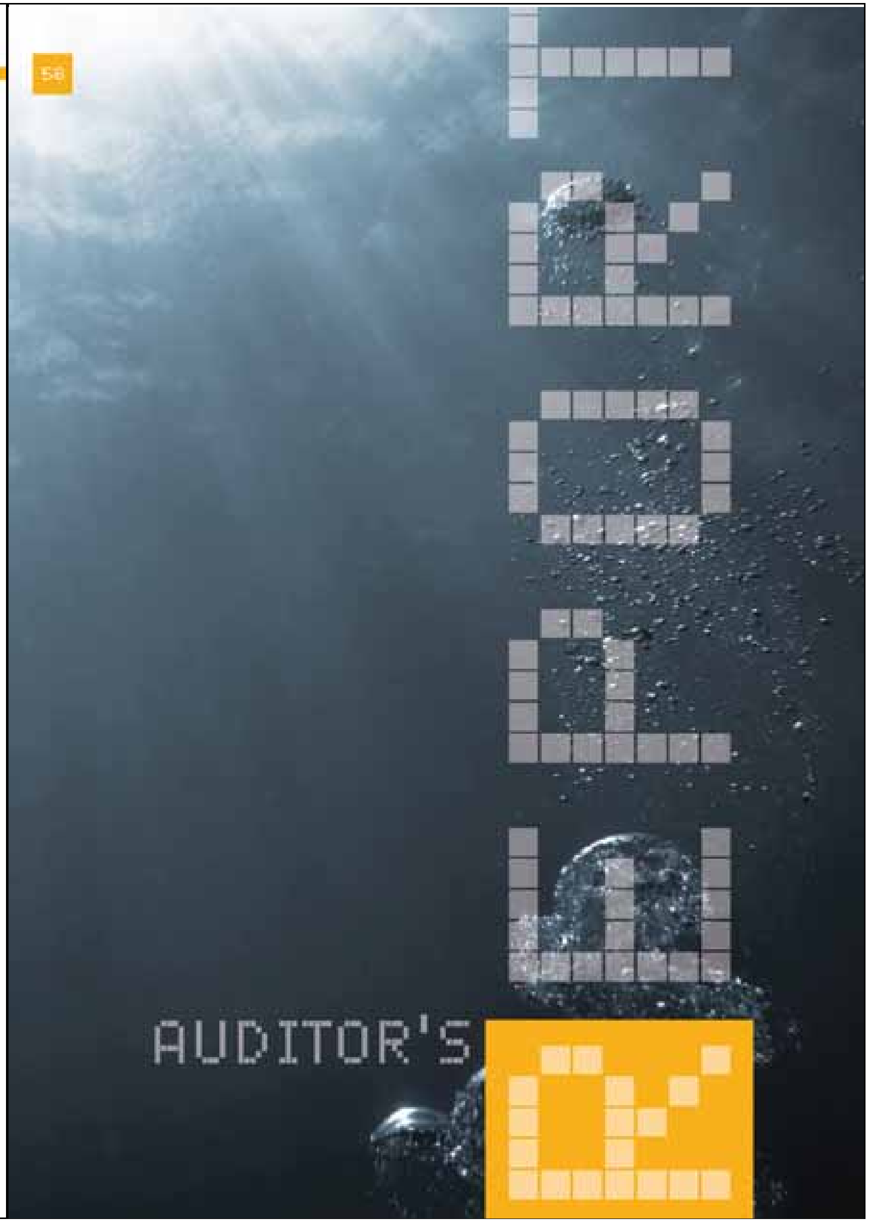
Refer to note 8 in the Group accounts

NOTE 13 RELATED PARTIES

Refer to note 19 in the Group accounts

NOTE 14 EVENTS AFTER THE BALANCE SHEET DATE

Refer to note 22 in the Group accounts



AUDITORS REPORT

ERNST & YOUNG

To the Annual Shareholders' Meeting of
Petrolia ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Petrolia ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

ERNST & YOUNG 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Petrolia ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

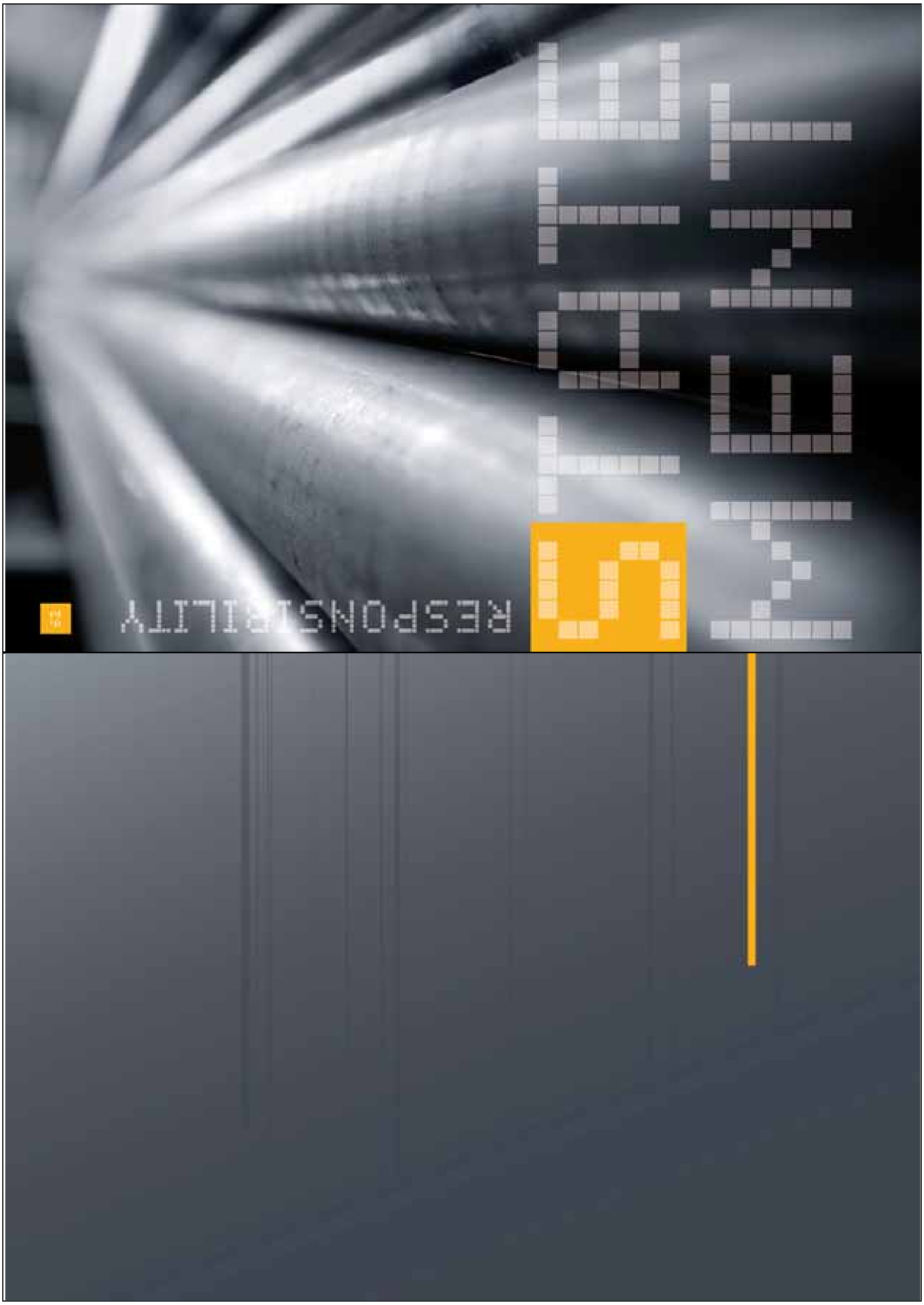
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Managing Director have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Bergen, 28 April 2011
ERNST & YOUNG AS

Kjell Ove Røsok
State Authorised Public Accountant (Norway)

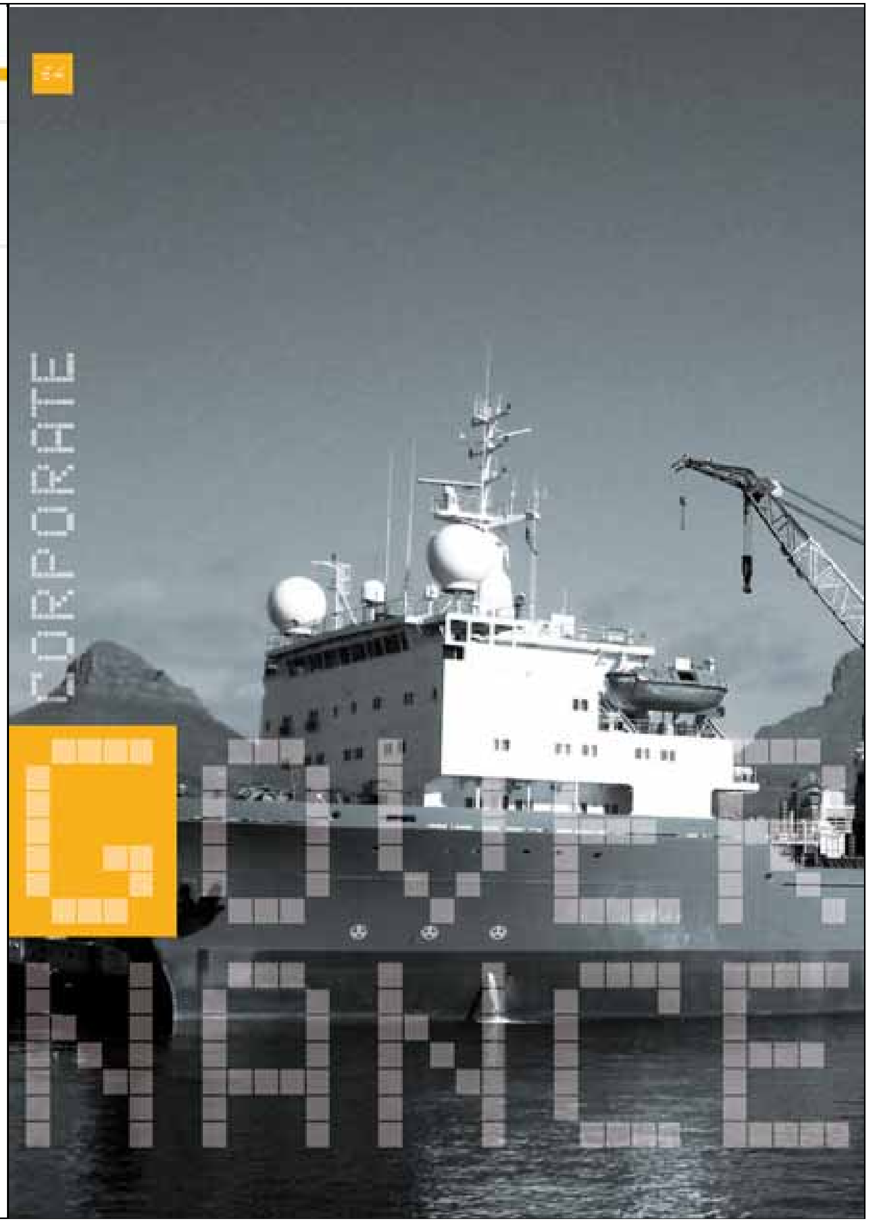

RESPONSIBILITY

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the financial statements for the period 1st of January to 31st of December 2010 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Bergen/Oslo, 20th of April 2011

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



CORPORATE GOVERNANCE

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

2. BUSINESS AND OBJECT

3. EQUITY AND DIVIDENDS

4. EQUAL TREATMENT OF SHAREHOLDERS, TRANSACTIONS WITH CLOSE ASSOCIATES

5. FREELY NEGOTIABLE SHARES

6. GENERAL MEETINGS

7. NOMINATION COMMITTEE

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

report, where information about the background and affiliations of the directors can also be found. Details on each member's attendance to Board meetings are included on page 44.

The Board shall attend to the common interests of all shareholders, and its members shall meet the Company's need for expertise, capacity and diversity. Attention should be paid that the Board of Directors can function effectively as a collegiate body. The Board shall consist of individuals who are willing and able to work as a team. Each member shall have sufficient time available to devote to his or her appointment as a director.

The composition of the Board of Directors shall ensure that it can operate independently of any special interests. Three of the five members of the Board are independent of the Company's Executive Management, material business contacts and main shareholder(s). The three independent members are Erik Johan Frydenbø, Marit K. Instefjord and Bjør Blomsøe. Mr. Frydenbø's consultancy agreement with the Company (cf. item 11 below) is not considered to imply that he is a material business contact of the Company.

None of the executive personnel of the Company are directors thereof. Members of the Board of Directors, or persons closely connected with them, shall not be employed by or have any other agreements of economic significance with any such companies. The Petrolia group cannot without the approval of the Board of Directors of Petrolia buy consultancy services from board members or from companies in which any board member is an owner, employee or otherwise has an interest. This extends to any company that according to the Public Limited Companies Act § 1-3 is in the same group of companies.

All the directors are encouraged to hold shares in Petrolia, however not to an extent which can encourage a short-term approach which is not in the best interest of Petrolia and its shareholders over the longer term. The shareholdings of the directors as per 31 December 2010 are set out in Note 44 to the consolidated annual statements.

9. THE WORK OF THE BOARD OF DIRECTORS

The proceedings and responsibilities of the Board of Directors have been laid down in written guidelines adopted by the Board of Directors.

The main responsibilities of the Board of Directors are to:

- Lead Petrolia's strategic planning and make decisions that form the basis for the Executive Management to prepare for and implement investments and structural measures. The Company's strategy shall be reviewed on a regular basis,
- Ensure that all instructions given by the Board of Directors are complied with,
- Ensure that the Board of Directors are well informed about the Company's and the group's financial position,
- Produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation,
- Ensure the adequacy of the Company's Executive Management and issue instructions for its work in which the areas of responsibilities and duties are clearly defined, also with respect to the relationship between the Executive Management and the Board of Directors,
- Agree on dividend policy,
- Annually evaluate its work, performance, composition and expertise and that of the managing director (the "MD"). The evaluation of the Board's work should, in case a nomination committee is being established, be made available to such committee, and
- Ensure that a system of direction and internal control is established and maintained as to ensure that the Company group activities are conducted in accordance with all rules and regulation applicable to the group, Petrolia's Articles of Association, its corporate values and its ethical guidelines, as well as authorisations and instructions approved by the General Meeting. The internal control arrangements must address the organisation and implementation of the Company's financial reporting. The Board must provide information in the Annual Report on how the Company's internal control procedures are organised.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organised.

The Board of Directors will elect a deputy chairman who takes chair in the event that the Chairman of the Board cannot or should not lead the work of the Board, including in matters of a material nature in which the Chairman has an active involvement.

The Board of Directors has appointed an audit committee in accordance with the requirements of Norwegian law. The committee, which is composed of Erik Johan Frydenbø and Marit K. Instefjord, shall prepare the board's follow up of the financial reporting process, monitor internal control and risk handling systems and communicate with the company's auditor on a current basis in connection with the preparation of the annual accounts. Furthermore, the committee shall assess the auditor's independence, in particular to which extent other services to the company may jeopardize the independence.

The Board of Directors has currently not found it necessary to formally appoint a remuneration committee. Given the size of the Company's administration and business and the competence of the Board members, it is the Board's opinion that the matters in question may be properly handled by the Board without such committee.

The MD is responsible for the day-to-day management of the Company. Further, the MD is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are soundly managed.

The MD is appointed by the Board of Directors and reports to the Board of Directors. His or her powers and responsibilities are defined in more detailed instructions adopted by the Board of Directors.

10. RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is primarily handled locally in each group company in accordance with applicable rules and regulations. Internal control in the group is performed through group companies reporting to Petrolia on operational and financial risk factors related to accounting, operations and HSE. Key figures and information are reported on a monthly basis, enabling the Board to monitor the situation on a continuous basis throughout the year.

The most important risk factors applicable to the group are thoroughly considered in connection with yearly budgeting.

The audit committee reviews quarterly reports from the group companies and reports to the Board. The annual accounts for all group companies are audited by the Company's external auditor.

The Company's risk management systems are described on page 26 of this Annual Report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration to the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the operations of Petrolia. Once appointed, the nomination committee will propose the reward for approval by the General Meeting.

The remuneration is not linked to the Company's performance. No directors have been granted or will be granted share options, and no directors are parts in incentive programs available for the Executive Management and/or other employees.

More detailed information about the reward of individual directors in 2010 is provided in Note 20 to the consolidated financial statements for the group.

As a general rule, no members of the Board of Directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are taken on, they shall be disclosed to the full Board, and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included. The Company has entered into a consultancy agreement with its board member and lawyer Erik Frydenbø at a monthly fee of NOK 218,000 with two months termination to assist with legal matters.

12. REMUNERATION OF EXECUTIVE PERSONNEL

The MD's remuneration shall be determined by a convened meeting of the Board of Directors, and the Board has adopted guidelines for the reward of executive management pursuant to the provisions of Section 6-16a of the Public Limited Companies Act.

Remuneration for the other members of the Executive Management is determined by the MD and chairman of the board in accordance with guidelines provided by the Board of Directors. The guidelines are annually communicated to the General Meeting and included in the Annual Report together with a detailed information on all elements of the remuneration. The information to the General Meeting shall pay particular attention to any changes made during the last year.

Petrolia does currently not have share option schemes or other arrangements to award shares to employees, nor are there other kinds of bonus schemes or incentives in place. Should incentives be offered to members of the Executive Management, they shall be in accordance with the principles set out in the guidelines for remuneration of Executive Management.

Details regarding management remuneration can be found in Note 20 to the consolidated financial statements.

13. INFORMATION AND COMMUNICATION

Petrolia will ensure that the shareholders receive accurate, clear, relevant and timely information related to all matters of significance to shareholders. The medium used for publication will be selected to ensure simultaneous and equal access for all equity shareholders to the information.

- Each year, Petrolia publishes an overview of the dates for major events
- Information to shareholders is distributed through stock exchange notices and/or on www.petrolia.no. To the extent required by law, information is also sent by regular mail to shareholders
- All information is available in English, and, when required, Norwegian

The Board of Directors have adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law.

The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company group's contact with shareholders other than through General Meetings.

14. TAKE OVERS

The Board of Directors and the Executive Management will not seek to hinder or obstruct take-over bids for the Company's charge of activities unless there are good reasons for this. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction which is in fact a disposal of the Company's activities should be decided by a General Meeting.

15. AUDITORS

The auditor is elected by the General Meeting and shall report to the General Meeting.

Too much non-auditing work being assigned to the auditor may jeopardise his position and diminish the public confidence in the auditor's integrity and independence from Petrotek. The primary task of the auditor shall be to perform the audit work required by law and professional standards with the care, competence and integrity prescribed by law or said standards.

The auditor will submit the main features of the plan for the audit to the Board of Directors annually. Further, the Board of Directors will receive an annual written confirmation from the auditor that the requirements of independence and objectivity have been met. The auditor shall also at least once a year present to the Board of Directors a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement.

The auditor will participate in any meetings of the Board of Directors which deal with the Annual Accounts. At these meetings, the auditor shall review material changes in the Company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the Executive Management of the Company. At least once a year, the Board of Directors shall have a meeting with the auditor in which no member of the Executive Management is present.

The audit committee will adopt guidelines in respect of the use of the auditor by the Company's Executive Management for services other than audit. Each year, the auditor shall provide the Board with a summary of all services in addition to audit work which have been undertaken for the Company.

The Board of Directors must report the remuneration paid to the auditor at the Annual General Meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

21. APPENDIX 6: SUBSCRIPTION FORM

Petrolia ASA

Rights Issue

Subscription Form

INTRODUCTION
Terms and conditions of this Rights Issue of new shares in Petrolia ASA ("Company") pursuant to a Board authorization given by the company's ordinary general meeting 28 June 2010 as adjusted in the extraordinary genereal meeting of 17 December 2010, are stated in the prospectus 2 August 2011 (the "Prospectus"). Terms defined in the Prospectus shall have the same meaning in this subscription form. The calling-up notice and the minutes from the general meetings (with attachments) and the Company's Articles of Association as well as the annual reports and accounts for the last three years are available in the company's headquarters in Hopsnesveien 127, 5232 Paradis, Norway.

The Subscription period will take place from and including **9 August 2011 to and including 23 August 2011. First day of trading of Subscription Rights on Oslo Børs is 9 August 2011. End of trading of Subscription Rights on Oslo Børs is 18 August 2011 at 17:30 (CET).**
Existing Shareholders will be granted tradable Subscription Rights giving a preferential right to subscribe for and be allocated New Shares in the Rights Issue. Each Existing Shareholder will be granted one Subscription Right for each two Shares registered as held by such Existing Shareholder in the VPS on 27 June 2011. The Subscription Form must be properly executed and delivered by mail or fax to the Subscription Office on 23 August 2011 at 17:30 hours (CET) in order to be valid and binding. Subscribers who are Norwegian citizens may subscribe for New Shares by following the link on www.first.no, all of which redirect the subscribers to the VPS online subscription system. In order to use this system, the subscriber must have, or obtain, a VPS account number. All online subscribers must verify that they are Norwegian citizen by entering their VPS account and post number. The Investor bears the risk of any delay in the postal communication, busy facsimiles or data problems preventing Subscription Forms from being received by the Managers. The Board reserves the right to accept or reject Subscription Forms which are received after due, incorrectly executed or incomplete.
Full information regarding the Rights Issue is presented in the Prospectus dated 2 August 2011.

The Subscription Office is:

First Securities AS
Filipstad Brygge, P.O. Box 1441 Vika, 0115 Oslo, Norway
Fax: +47 23 23 80 11
www.first.no

SUBSCRIPTION PROCEDURES
The Company has issued one Subscription Right per two Shares in the Company registered as held by such Existing Shareholder as of 27 June 2011, each with a right to subscribe for and be allocated one New share in the Company. Subscription Price is NOK 0.50 per share. The number of Subscription Rights granted to each Existing Shareholder will be rounded down to the nearest whole Subscription Right. Subscription Rights in this Rights Issue are transferable. Oversubscription is allowed. A subscription is irrevocable and may not be withdrawn, cancelled or modified once it has been received by the Manager. Multiple subscriptions are not allowed.
If not all Subscription Rights are validly exercised in the Subscription Period, subscribers having exercised their Subscription Rights and who have over-subscribed will have the right to be allocated remaining New Shares on a pro rata basis based on the number of Subscription Rights exercised by the subscriber. The criteria in the event of over-subscription are described in Section 4.3.6 in the Prospectus.

The Investors must comply with any applicable identification verification requirements pursuant to the Norwegian Money Laundering Act No. 11 of 6 March 2009 and the Norwegian Money Laundering Regulation No. 302 of 13 March 2009 (the “Money Laundering Legislation”). Subscribers who are not registered as existing clients of the Manager must verify their identity in accordance with the requirements set forth in the Money Laundering Legislation, unless an exception applies. Subscribers who have specified an existing Norwegian bank account and an existing securities account in the subscription form are exempted from the requirement, unless the Manager requires the identity to be confirmed.
The Offering may not be revoked or suspended. A subscription is irrevocable and may not be withdrawn, cancelled or modified unless otherwise stated in applicable law.
The Subscription Rights must be used to subscribe for New Shares before the end of the Subscription Period. Subscription Rights which are not exercised before the end of the Subscription Period will have no value and will lapse without compensation to the holder. Holders of Subscription Rights should note that subscriptions for New Shares must be made in accordance with the procedures set out in the Prospectus.
A Subscriber will not under any circumstances be entitled to sell or transfer its New Shares allocated in the Offering until these Shares have been paid in full by such Subscriber and the new share capital has been registered in the Norwegian Register of Business Enterprises.
Allocation letters are expected to be mailed on or about 25 August 2011. Payment in respect of the New Shares allocated to Subscribers in the Offering shall be made on and no later than 30 August 2011 by direct debit as described in the Prospectus, Section 4.3.8 There must be sufficient funds in the stated bank account from and including 29 August 2011.

Specification of the Subscription for Petrolia ASA

Investor's VPS-account no.	**No. of Subscription rights**	**Total no. of New Shares subscribed for:** (incl. over-subscription).	
For the Subscription Office):		**Price per New Share NOK 0.50 =**	**Total amount to be paid *) NOK**

*) The calculated "Total amount to be paid" is solely information for the Subscriber. Allocation will be based on Total number of New Shares subscribed for, not the quoted total amount.

In accordance with the Prospectus and this Subscription Form, I/ we hereby subscribe for number of New Shares as stated above.

Authority to debit my bank account (MUST BE COMPLETED):

I hereby give First Securities AS an authority to debit my Norwegian bank account ____
for allocated amount (no. of allocated shares x NOK 0.50) **Norwegian bank account no. - 11 digits**

Payment in respect of the New Shares allocated to Subscribers in the Offering shall be made on and no later than 30 August 2011 by direct debit as described above. **It is of high importance that investors will meet this deadline, in order for this Rights Issue to be completed.** See also section 4.3.8 in the Prospectus.

In accordance with the EU's Markets in Financial Instruments' Directive ("MiFID"), Norwegian law set forth certain requirements related to financial investments. In this regard, the Manager classifies all new customers in one of three categories: eligible counterparties, professional investors and retail clients. All subscribers in the rights issue who are not existing customers of the Manager will be categorized as retail clients. Subscribers may, by written application to the Manager, request to be categorized as professional clients if they meet the requirements set forth in the Securities Act. Subscribers may contact the Manager for further information regarding classification. **The Subscriber confirms to be able to evaluate the benefits and risks entailed in a decision to invest in the company by subscribing for new shares, and that the subscriber is able to bear the economic risk, and withstand a complete loss of, an investment in the new shares.** The Manager will treat the Subscription Form as an execution-only instruction. The Manager is not required to determine whether an investment in the New Shares is appropriate or not for the Subscriber. Hence, the Subscriber will not benefit from the protection of the relevant conduct of business rules in accordance with the Securities Trading Act.

Subscription place and date. Must be dated within the Subscription Period	**Binding signature.** The Investor must be of age. When signing per power of attorney or procura, documentation in form of copy of power of attorney or company certificate must be enclosed.

DETAILS OF SUBSCRIBER- MUST BE COMPLETED

Investor's VPS account no.	**IF ANY CHANGES IN PARTICULARS THE MANAGER MUST BE CONTACTED:**
Investor's first name	
Investor's surname/company, etc. (Nominee shareholder)	
Street address etc. (private Investors: state home)	
Postal code, city/state/country	
Date of birth /national ID number or company registration number **Must be completed**	
Dividend to be paid credit bank account no (11 digits)	
Nationality	
Telephone	

This Subscription Form shall be distributed solely together with the Prospectus dated 2 August 2011.

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5232,Paradis
Norway

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Fax: +47 55 22 47 01
www.petrolia.no

Global Coordinator and bookrunner

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