



**PETROLIA**

**H2 2017**

## PETROLIA SE ('the Company' or 'the Group') financial report for second half-year ended 31 December 2017 and preliminary unaudited annual results 2017:

### Financial results

- Total comprehensive loss of USD -3.9 million in H2 2017 compared to a loss of USD -8.7 million in H2 2016.
- EBITDA of USD 3.8 million in H2 2017 compared to USD 0.6 million in H2 2016.
- Revenue was USD 22.4 million in H2 2017 compared to USD 18.7 million in H2 2016.
- The following capital changes were completed on 21 January 2017:
  - Par value of the shares was reduced from USD 1.00 to USD 0.10 and the share capital thus reduced from USD 27.2 million to USD 2.7 million.
  - Bond loan of USD 13.3 million was converted to equity by issuing 26.5 million new shares at price USD 0.50 and the share capital thus increased to USD 5.4 million.
  - Number of shares increased from 27.2 million to 53.8 million.
- Shareholders' equity as at 31 December 2017 was USD 0.63 per share. Share price was NOK 2.50, or USD 0.30 at an exchange rate of USD/NOK 0.1219.
- Earnings per share was USD -0.01 per share (53.8 million shares) in H2 2017 compared to USD -0.25 per share (27.2 million shares) in H2 2016.
- Challenging market conditions continue to impact on activity levels in the OilService division however there are early signs of recovery in 2018.
- Land drilling rig in continuous operation with order book into Q2 2018.
- High focus on disciplined cost management.

### Key figures

All figures in USD (million)	H2 2017	H2 2016	YTD 2017	YTD 2016
Operating revenues	22.4	18.7	39.6	38.8
EBITDA	3.8	0.6	2.8	0.2
Total comprehensive income for the year	-3.9	-8.7	-11.0	-17.5
Earnings per share in USD	-0.01	-0.25	-0.12	-0.44
Equity per share in USD	0.63	1.15	0.63	1.15

### Financial information

#### Profit and loss for the second half year of 2017 compared to the second half year of 2016

Total revenue was USD 22.4 million compared to USD 18.7 million in 2016. Operating expenses were USD 18.5 million compared to USD 18.6 million in 2016. EBITDA was USD 3.8 million compared to USD 0.6 million in 2016.

Depreciation was USD 4.4 million in 2017 compared to USD 5.8 million in 2016. Operating loss was USD 1.6 million compared to a loss of USD 5.0 million in 2016. Result from associated company was a loss of USD 0.5 million compared to a loss of USD 1.7 million in 2016. Net financial income was USD 1.4 million compared to a loss of USD 0.5 million in 2016.

The net result after tax was a loss of USD 0.8 million compared to a loss of USD 7.1 million in 2016. Total comprehensive loss was USD 3.9 million compared to a loss of USD 8.7 million in 2016.

#### Profit and loss for 2017 compared to 2016

Total revenue was USD 39.6 million compared to USD 38.8 million in 2016. Operating expenses were USD 36.9 million compared to USD 39.8 million in 2016. EBITDA was USD 2.8 million compared to USD 0.2 million in 2016.

Depreciation was USD 9.9 million in 2017 compared to USD 12.3 million in 2016. Operating loss was USD 8.1 million compared to USD 11.9 million in 2016. Result from associated company was a loss of USD 0.7 million compared to a loss of USD 0.9 in 2016. Net financial income was USD 2.3 million compared to an income of USD 1.1 million in 2016.

The net result after tax was USD -6.6 million compared to USD -12.7 million in 2016. Total comprehensive loss was USD 11.0 million compared to a loss of USD 17.5 million in 2016.

#### Cash flow for 2017 compared to 2016

Cash flow from operations was USD 0.9 million in 2017, compared to USD 0.6 million in 2016. Cash flow from investments in 2017 was USD -2.0 million compared to USD 10.4 million in 2016. Cash flow from financing activities in 2017 was USD -1.7 million compared to USD -2.5 million in 2016.

Free cash as at 31 December 2017 was USD 13.9 million compared to USD 16.5 million as at 31 December 2016.

#### Statement of financial position

As at 31 December 2017, total assets amounted to USD 62.1 million. Investment in OilService equipment had a book value of USD 17.6 million, investment in listed shares had a book value of USD 0.2 million and total cash was USD 14.3 million.

As at 31 December 2017, net interest bearing bond loans amounted to USD 4.4 million. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 15.1 million (total bond loan is USD 19.5 million). In addition, there are financial leasing facilities for OilService equipment of USD 3.1 million.

Total equity was USD 33.6 million as at 31 December 2017, including a minority interest of USD 0.8 million. Book value of equity per share was USD 0.63 as at 31 December 2017, including minority interest of USD 0.01 per share.

#### Share information

As at 31 December 2017, the total number of shares outstanding in Petrolia SE was 53,757,988 (2016: 27,235,867), each with a par value of USD 0.10 (2016: USD 1.00). The Company has no outstanding or authorised stock options, warrants or convertible debt. As at 31 December 2017, the Company held no treasury shares.

## Operational development, market and outlook

### E&P division

Within the E&P division, the 49.9% owned associated company Petrolia NOCO AS ('Petrolia NOCO') is actively developing its licence portfolio. It has established a cost efficient, robust and scalable business model. Petrolia NOCO will actively pursue farm-in opportunities and participate in upcoming APA rounds. Four new exploration licences were awarded to the company in January 2018, one of which as Operator.

### OilService division

Since the oil price collapsed at the end of 2014, the industry has experienced a significant reduction in capital expenditure by oil companies, drilling companies, oil service companies and other customers of the OilService Division. This challenging environment has affected the activity levels and profit margins of this division which has excellent customer relationships and is a well-known and respected service and rental equipment company. Costs have been cut substantially whilst at the same time there has been a higher focus on business development in order to maintain or even increase market share.

Overall, the Board expects continued weak revenues for this division during 2018 as activity and margins remain low. However, as the oil price strengthened above USD 60 at the end of 2017, the Board expects the oil cycle to have bottomed in 2015-2016 and the first half of 2017.

Both the land-rigs are being marketed in the Middle East region where both activity level and day rates have proven to be higher than in Europe.

The drilling rig has been in continuous operation from September 2016 into 2018. A slight increase in day rates has been experienced towards the end of 2017 with further increases expected as the rig market improves in the region. The current order book should see the rig operational into at least Q2 2018 but most likely longer. The rig has operated excellently with very little downtime, generating a high degree of customer satisfaction.

### Related party transactions

There have been no significant related party transactions during the second half-year.

### About the Company

#### E&P division:

#### Petrolia NOCO (Associate Company):

Petrolia NOCO seeks to maximise field potential through innovative exploration in mature areas of the Norwegian Continental Shelf ('NCS'), leveraging on the extensive industry experience of its management team and a new younger team of geologists and geophysicists. Petrolia NOCO currently holds 6 licences on the NCS including one operatorship. Petrolia SE directly and indirectly holds 49.9% of the share capital of Petrolia NOCO and is the main shareholder.

#### OilService division:

The Company's involvement in oilfield services began through the acquisition of Independent Oil Tools AS in 2007. Total investment in equipment has subsequently exceeded USD 310 million. The investments were largely financed by Petrolia SE. In addition financial leases of more than USD 40 million were obtained. The division has developed into a well-respected, international equipment rental and oil service group with a global presence. This division owns drill pipes, test strings & tubing, handling and auxiliary tools and pressure control equipment for onshore and offshore activities. In addition, the division provides associated services such as tubular running services, fishing services and land drilling services.

The OilService division benefits from an excellent track record of availability, technical compliance, experience and performance. It has a well-established, large, international client base, including a portfolio of contracts in place with numerous major oil service companies, oil companies and drilling contractors.

### Key risks and uncertainty

The activities and assets of the Group are primarily in USD and the loan to Petrolia NOCO AS (reported as 'other financial fixed asset') is in NOK. There is therefore a currency risk regarding the USD/NOK exchange rate.

In January 2017, the Bond Loan was re-financed and is now denominated in USD.

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.

### Going Concern

Before the oil price collapse in 2014, the Board of Petrolia SE ('the Board') had already reduced the financial gearing of the Company which has had no net debt for many years. The Board closely monitors the cash position of the Group and the cash flow forecasts and remains confident in the Group's ability to maintain sufficient financial resources to enable it to continue as a going-concern for the foreseeable future.

### Board of Directors, Petrolia SE, Limassol, Cyprus 27 February 2018



## Financial report second half-year 2017 – preliminary unaudited

Consolidated Statement of Comprehensive Income				
All figures in USD (1,000)				
	H2 2017	H2 2016	YTD 2017	YTD 2016
Operating revenues	22,406	18,671	39,627	38,783
Impairment current assets	-94	561	45	1,227
Operating expenses	-18,499	-18,642	-36,867	-39,778
<b>EBITDA</b>	<b>3,813</b>	<b>590</b>	<b>2,805</b>	<b>232</b>
Depreciation	-4,367	-5,771	-9,926	-12,318
Impairment	-1,037	209	-997	209
<b>Operating profit (loss-)</b>	<b>-1,591</b>	<b>-4,972</b>	<b>-8,118</b>	<b>-11,877</b>
Result from associated companies	-481	-1,664	-677	-932
Interest income	128	975	279	1,060
Other financial income	182	137	182	137
Fair value through P&L	210	-41	180	137
Interest cost	74	-644	-363	-1,362
Other financial cost	-16	-61	-31	-67
Currency gain/loss	816	-873	2,071	1,164
<b>Profit / (loss-) before income tax</b>	<b>-678</b>	<b>-7,143</b>	<b>-6,477</b>	<b>-11,740</b>
Tax on result	-86	17	-167	-994
<b>Profit / (loss-) for the year</b>	<b>-764</b>	<b>-7,126</b>	<b>-6,644</b>	<b>-12,734</b>
<b>Other comprehensive income</b>				
Currency translation differences	-3,183	-1,598	-4,332	-4,742
<b>Total other comprehensive income / (loss-)</b>	<b>-3,183</b>	<b>-1,598</b>	<b>-4,332</b>	<b>-4,742</b>
<b>Total comprehensive income / (loss-) for the year</b>	<b>-3,947</b>	<b>-8,724</b>	<b>-10,976</b>	<b>-17,476</b>
Number of shares	53,757,988	27,235,867	53,757,988	27,235,867
<b>Earnings per share, basic</b>	<b>-0.01</b>	<b>-0.25</b>	<b>-0.12</b>	<b>-0.44</b>

# Condensed Consolidated Statement of Financial Position

All figures in USD (1,000)

<b>Assets</b>	<b>31.12.2017</b>	<b>Audited 31.12.2016</b>
Deferred tax assets	292	278
Land rigs	0	0
OilService and other equipment	17,645	25,291
Land and buildings	3,593	2,970
Investments in associates	2,531	3,192
Other financial fixed assets	2,864	3,480
Restricted cash	44	19
<b>Total non-current assets</b>	<b>26,969</b>	<b>35,230</b>
Inventory	669	860
Tax receivables	0	295
Accounts receivable	15,447	13,154
Other current assets	4,600	2,516
Financial asset at fair value through P&L	181	409
Free cash	13,907	16,525
Restricted cash	299	303
<b>Total current assets</b>	<b>35,103</b>	<b>34,062</b>
<b>Total assets</b>	<b>62,072</b>	<b>69,292</b>
<b>Equity and liabilities</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Share capital	5,376	27 236
Other equity	27,480	3,284
Majority interest	32,856	30,520
Minority interest	785	836
<b>Total equity</b>	<b>33,641</b>	<b>31,356</b>
Bond loan	4,420	17,681
Deferred tax liability	292	278
Other long-term liabilities	2,622	3,069
<b>Total non-current liabilities</b>	<b>7,334</b>	<b>21,028</b>
Short-term portion of non-current liabilities	1,309	1,368
Accounts payable	10,330	8,856
Bank overdraft	337	274
Other current liabilities	9,121	6,410
<b>Total current liabilities</b>	<b>21,097</b>	<b>16,908</b>
<b>Total liabilities</b>	<b>28,431</b>	<b>37,936</b>
<b>Total equity and liabilities</b>	<b>62,072</b>	<b>69,292</b>
Total book equity per share (end of period shares)	0.63	1.15
Equity (total) ratio	54.20%	45.25%



### Condensed Consolidated Statement of changes in Equity

All figures in USD (1,000)

	YTD 2017	YTD 2016
Equity period start 01.01	31,356	48,832
Total equity from shareholders in the period	13,261	0
Total comprehensive income/loss (-) for the period	-10,976	-17,476
<b>Total change of equity in the period</b>	<b>2,285</b>	<b>-17,476</b>
<b>Equity at period end</b>	<b>33,641</b>	<b>31,356</b>

### Condensed Consolidated Cash Flow Statement

All figures in USD (1,000)

	H2 2017	YTD 2017	H2 2016	YTD 2016
Net cash flow from operating activities	2,332	921	-1,579	619
Net cash flow from investing activities	-1,729	-1,992	12,071	10,433
Net cash flow from financing activities	-563	-1,668	-1,323	-2,472
<b>Net change in cash and cash equivalents</b>	<b>40</b>	<b>-2,739</b>	<b>9,169</b>	<b>8,580</b>
Free cash and cash equivalents at beginning of period	13,616	16,525	7,273	7,945
Exchange gain/loss (-) on cash and cash equivalents	251	121	83	0
<b>Free cash and cash equivalents at period end</b>	<b>13,907</b>	<b>13,907</b>	<b>16,525</b>	<b>16,525</b>

## Notes to the unaudited condensed consolidated figures:

### Note 1 Applied accounting principles

This second half-year report is prepared according to the International Financial Reporting Standards (IFRS as adopted by the EU) and the appurtenant standard for interim reporting. The half-year accounts are based on the current IFRS standards and interpretations and were approved by the Board on 27 February 2018.

This second half-year 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 (2016). 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 (2016), have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2016 which is available on the Company's website [www.petrolia.eu](http://www.petrolia.eu).

The consolidated accounts are based on historical cost, with the exception of items required to be reported at fair value.

## Note 2 Tangible fixed assets

The table below outlines the development of tangible fixed assets as of 31 December 2017:

	Drilling- and other equipment	Land rigs	Land and buildings	Total
All figures in USD (1,000)				
<b>Balance at 1 Jan 2017</b>	25,291	0	2,970	28,261
Acquisition cost:				
Acquisition cost at 1 Jan 2017	308,453	14,271	3,439	326,163
Purchased tangibles in 2017	2,698	0	318	3,016
Disposal in 2017	-1,441	0	0	-1,441
Translation differences	1,016	-246	436	1,206
<b>Acquisition cost at 31 December 2017</b>	310,726	14,025	4,193	328,944
Depreciation/impairment:				
Balance depreciation at 1 January 2017	-253,391	-3,061	-164	-256,616
Balance impairment at 1 January 2017	-29,771	-11,210	-305	-41,286
Depreciation in 2017	-9,795	0	-131	-9,926
Impairment in 2017	-1,243	246	0	-997
Disposal of depreciation in 2017	1,130	0	0	1,130
Disposal of impairment in 2017	-11	0	0	-11
<b>Depreciation/impairment as at 31 December 2017</b>	-293,081	-14,025	-600	-307,706
Carrying amount:				
<b>Balance at 31 December 2017</b>	17,645	0	3,593	21,238
<b>Residual value</b>				

## Note 3 Investments in associates

All figures in USD (1,000)	Petrolia NOCO AS
<b>Investments in associates</b>	
Shareholding	49.9%
Business address	Bergen, Norway
<b>Balance 1 January 2017</b>	3,192
Investments	0
Translation differences	16
Share of result	-677
<b>Balance at 31 December 2017</b>	<b>2,531</b>



## Note 4 Segment Information

All figures in USD (1,000) YTD 2017	Oil & Gas	OilService	Total
Revenue	0	39,627	39,627
EBITDA	0	2,805	2,805
Rental equipment, land rigs, licences	0	17,645	17,645
Property	0	3,593	3,593

### Oil & Gas

Petrolia NOCO was awarded 4 new licenses, one of which as Operator, in January 2018 and now holds 6 licences on the NCS.

### OilService

In the second half-year of 2017, the OilService division has witnessed some signs of recovery, but is maintaining a focus on disciplined cost management.

## Note 5 Legal disputes

There are no legal disputes.

## Note 6 Events after the balance sheet date

In January 2018 Petrolia NOCO was awarded 4 new licences including its first operated licence.

## Glossary

APA	Awards in Predefined Areas
BOEPD	Barrels of oil equivalent per day
BOE	Barrels of oil equivalents
BOPD	Barrels of oil per day
EBIT	Earnings before Interest and taxes
EBITDAX	Earnings before interest, taxes and explorations costs
EPS	Earnings per share
Exploration	A general term referring to all efforts made in the search for new deposits of oil and gas
Exploration well	A well drilled in the initial phase in petroleum exploration
Farm out	A contractual agreement with an owner who holds a working interest in an area to assign all or parts of that interest to other parties
MMbbl	Million barrels (oil reserves)
LOI	Letter of intent
NOK	Norwegian crowns
Oil field	An accumulation of hydrocarbons in the subsurface
Prospect	An area of exploration in which hydrocarbons have been predicted to exist
Spud	To start drilling a well
USD	United States Dollars