

1st 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 USD 138 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	-7 676	-7 676	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:

	Drilling- and other equipment	Land and buildings	Total
All figures in USD (1000)			
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	82 993	2 135	85 128
Residual value			

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.