



**PETROLIA**

**Q2 2014**

## PETROLIA SE ('the Company') second quarter results 2014:

### Financial results

- Total comprehensive income of USD 2.3 million in Q2 2014 compared to USD 0.7 million in Q2 2013.
- EBITDAX (EBITDA excluding exploration costs) of USD 7.0 million in Q2 2014 compared to USD 9.9 million in Q2 2013.
- Revenue was USD 28.3 million in Q2 2014 compared to USD 29.8 million in Q2 2013.
- Shareholders' equity as at 30 June 2014 was USD 4.03 per share. Share price was NOK 10.70, or USD 1.74 at an exchange rate of USD/NOK 6.15.
- Earnings per share was USD 0.07 per share compared to USD 0.03 per share in Q2 2013.

### Oil and Gas

- Purchased 10% in PL 558 from Det norske oljeselskap ASA, located east and adjacent to the Skarv Field.
- Drilled well 6507/5-7 Terne in PL 558. The well was water wet.
- Multiple farm-in opportunities evaluated.

### OilService

- OilService division continues to return strong results.

### Well and Drilling Technology

- Drilling rig re-certified and is now being marketed.

### Key figures

All figures in USD (million)	Q2 2014	Q2 2013	YTD 2014	YTD 2013
Operating revenues	28.3	29.8	56.0	55.5
EBITDAX	7.0	9.9	16.9	16.4
EBITDA	6.4	-8.2	15.1	-3.9
Total comprehensive income for the year	2.3	0.7	7.1	2.2
Earnings per share in USD	0.07	0.03	0.24	0.29
Equity per share in USD	4.03	3.41	4.03	3.41

### Financial information

#### Profit and loss for the first half year of 2014 compared to the first half year of 2013

Total revenue was USD 56.0 million compared to USD 55.5 million in 2013. Operating expenses were USD 39.1 million compared to USD 39.2 million in 2013. EBITDAX was USD 16.9 million compared to USD 16.4 million in 2013. Exploration cost was USD 1.8 million compared to USD 20.3 million in 2013. EBITDA was USD 15.1 million compared to a loss of USD 3.9 million in 2013.

Depreciation was USD 8.1 million compared to USD 8.1 million in 2013. Operating profit was USD 7.0 million compared to a loss of USD 12.0 million in 2013. Result from associated company was a loss of USD 0.2 million compared to USD 0.1 million in 2013. Net financial cost was USD 3.5 million compared to USD 2.8 million in 2013.

The net result after tax was USD 6.6 million compared to USD 7.8 million in 2013. Total comprehensive income was USD 7.1 million compared to USD 2.2 million in 2013.

### Profit and loss for the second quarter of 2014 compared to the second quarter of 2013

Total revenue was USD 28.3 million compared to USD 29.8 million in 2013. Operating expenses were USD 21.3 million compared to USD 19.9 million in 2013. EBITDAX was USD 7.0 million compared to USD 9.9 million in 2013. Exploration expenses were USD 0.6 million compared to USD 18.0 million in 2013. EBITDA was USD 6.4 million compared to USD -8.2 million in 2013.

Depreciation was USD 4.1 million compared to USD 4.1 million in 2013. Operating profit was USD 2.3 million compared to a loss of USD 12.3 million in 2013. Result from associated company was USD -0.02 million compared to USD -0.02 million in 2013. Net financial cost was USD 1.6 million compared to USD 1.0 million in 2013.

The net result after tax was USD 1.9 million compared to USD 0.8 in 2013. Total comprehensive income was USD 2.3 million compared to USD 0.7 in 2013.

### Cash flow for the first half year of 2014 compared to the first half year of 2013

Cash flow from operations was USD 4.8 million in 2014 compared to USD 1.4 million in 2013. Cash flow from investments in 2014 was USD -4.5 million compared to USD 1.0 million in 2013. Cash flow from financing activities in 2014 was USD 10.2 million compared to USD 4.0 million in 2013.

Free cash as at 30 June 2014 was USD 26.3 million compared to USD 14.1 million as at 30 June 2013.

### Statement of financial position

As at 30 June 2014, total assets amounted to USD 207.5 million. Investment in OilService equipment had a book value of USD 57.0 million, investment in land rigs had a book value of USD 12.7 million, investment in listed shares had a book value of USD 11.5 million and total cash was USD 30.9 million. Total tax receivable was USD 25.0 million and relates to exploration expenses on the Norwegian Continental Shelf.

As at 30 June 2014, net interest bearing bond loans amounted to USD 31.8 million, of which USD 5.4 million is recognised as a short term liability as it is due for payment in June 2015. The Group holds Borrower's Bonds (bonds owned by the borrower) of USD 24.2 million (total bond loan is USD 56.0 million). In addition there are financial leasing facilities for OilService equipment for USD 3.7 million and for one work-over rig for USD 4.1 million (total USD 7.8 million).

Total equity was USD 109.8 million as at 30 June 2014, including a minority interest of USD 4.4 million. Book value of equity per share was USD 4.03 as at 30 June 2014, including minority interests of USD 0.16 per share.

### Share information

As at 30 June 2014, the total number of shares outstanding in Petrolia SE was 27,235,867, each with a par value of USD 1.00. The company has no outstanding or authorised stock options, warrants or convertible debt. As at 30 June 2014, the company held no treasury shares.

## Operational development, market and outlook

### Oil & Gas division

Within the Oil & Gas division, Petrolia Norway AS ('Petrolia Norway') is actively developing the licence portfolio. It has established a cost efficient, robust and scalable business model, with the current drilling programme fully funded. Petrolia Norway will actively pursue farm-in opportunities and participate in upcoming APA rounds. Petrolia Norway is targeting 20 – 30 MMbbl reserves within the four next years, with net annual capital expenditure after tax of USD 5 – 8 million.

10 June 2014: Petrolia Norway entered into an agreement to purchase 10% in PL 558 from Det norske oljeselskap ASA. The 6507/5-7 exploration well on the Terne prospect in PL558, located east and adjacent to the Skarv Field was drilled in June and completed in 21 days. The well did not encounter hydrocarbons.

## OilService division

The OilService division continued to return strong results during the quarter. The OilService division has established its position as a well-known service and rental equipment company. Based on modern equipment and craftsmanship, in addition to global scale and reach, the division serves some of the industry's global leaders. The division has been restructured over recent years and is experiencing continuous positive margins and equipment utilisation. The improvement in the operating performance has resulted in revenue and EBITDA growth, and subject to an oil price at current levels, this is expected to continue during 2014.

Some of the key market drivers for the OilService division are the oil companies' E&P Investments and global rig activity. Based on the market and the division's present performance, the Board of Directors expects to see the continued satisfactory development of the OilService division going forward.

## Drilling and Well Technology

The Drilling and Well Technology division currently has one drilling and one work over rig idle in Romania. The rig has demonstrated an excellent operational performance and is being marketed in other regions where the day rates are expected to be higher. The work-over rig will be mobilised once a Letter of Intent ('LOI') is signed.

The rigs and the drilling competence of this division may also be used for drilling in licences in the Company's Oil & Gas division where appropriate.

## Related party transactions

14 May 2014: Mr Erwin Joseph Pierre Godec, Managing Director of Petrolia SE, purchased 47 247 shares at NOK 9.70 per share from the Company

6 June 2014: the Company was granted a short term liquidity loan of NOK 50 million from Increased Oil Recovery AS. The loan carries an interest of 12% equal to the bond interest.

## About the company

### Oil & Gas division:

Petrolia Norway maximises field potential through innovative exploration in mature areas on the Norwegian Continental Shelf, leveraging on the extensive industry experience of its management team. Petrolia Norway currently holds 20 per cent of the PL 739S license, 50 per cent of the PL 674 license, 30 per cent of PL 506S, PL 506BS, PL 506CS, PL 506DS, 10 per cent of PL 628, 10 per cent of PL 546 and 10% of PL 558. Petrolia Norway has offices in Oslo, Bergen and Stavanger and is wholly owned by Petrolia SE.

Through Petroresources Ltd (47.32 per cent owned) the division has economic interests in licenses in Africa.

### 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 275 million. The investments were largely financed by Petrolia and in addition financial leases of more than USD 40 million were obtained. The division has developed into a well-respected international equipment rental group with a global presence. This division owns drill pipes, test strings & tubing, handling & auxiliary tools, pressure control equipment for on and offshore activities and other equipment. In addition, the division provides associated services such as tubular running services through Premium Casing Services Pty Ltd in Australia and New Zealand.

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.



### Drilling and Well Technology division:

In 2012, a subsidiary of Petrolia SE acquired two land rigs which are presently located in Romania. The drilling rig has completed 21 wells since it commenced a one and a half year contract in Romania. The rig has proven to be efficient in line with expectations for the drilling activities, including fast and efficient mobilisation and demobilisation between wells. The rig is currently being marketed to a number of potential customers within Eastern Europe, Middle East and other commercially attractive areas.

The work-over land rig is being marketed and will be mobilised once a LOI is signed.

### **Key risks and uncertainty**

The activities and assets of the group are primarily in USD and the Bond Loan is in NOK. There is therefore a 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 13 November 2008 whereby Oil Tools Supplier AS (formerly Petrolia Services AS) purchased drilling equipment for USD 34.7 million from PetroMENA ASA. On 19 March 2013 Oslo District Court ruled in favour of the PetroMena ASA estate for USD 14 million. Oil Tools Supplier AS has filed an appeal scheduled for the fourth quarter 2014. Oil Tools Supplier AS is a subsidiary of Petrolia Drilling II AS which is owned by Petrolia SE.

The board of PetroMENA ASA, under bankruptcy proceedings, has filed a claim of USD 1.2 billion against Deutsche Bank for various breaches of law and governance.

### **Responsibility Statement**

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2014 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the company's and group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

### **Board of Directors, Petrolia SE, 28 August 2014**

Berge Gerdt Larsen  
Chairman of the Board

Judith Parry  
Board member

Sjur Storaas  
Board member

Erwin Joseph Pierre Godec  
Board member / Managing Director



## Financial report second quarter 2014 – preliminary

<b>Consolidated Statement of Comprehensive Income</b>				
All figures in USD (1000)				
	<b>Q2 2014</b>	<b>YTD 2014</b>	<b>Q2 2013</b>	<b>YTD 2013</b>
Operating revenues	28 348	55 986	29 817	55 536
Operating expenses	21 327	39 056	19 929	39 185
<b>EBITDAX</b>	<b>7 021</b>	<b>16 930</b>	<b>9 889</b>	<b>16 351</b>
Exploration expenses	624	1 824	18 038	20 288
<b>EBITDA</b>	<b>6 397</b>	<b>15 106</b>	<b>-8 150</b>	<b>-3 937</b>
Depreciation	4 140	8 091	4 102	8 059
Impairment	0	0	0	0
<b>Operating profit (loss-)</b>	<b>2 257</b>	<b>7 015</b>	<b>-12 252</b>	<b>-11 996</b>
Result from associated companies	-22	-168	-16	98
Net financial income/cost(-)	-1 568	-3 524	-997	-2 828
<b>Profit before income tax</b>	<b>667</b>	<b>3 323</b>	<b>-13 265</b>	<b>-14 726</b>
Tax on result	-1 265	-3 303	-14 089	-22 521
<b>Profit for the year</b>	<b>1 932</b>	<b>6 626</b>	<b>824</b>	<b>7 795</b>
<b>Other comprehensive income</b>				
Currency translation differences	365	509	-108	-5 628
<b>Total other comprehensive income</b>	<b>365</b>	<b>509</b>	<b>-108</b>	<b>-5 628</b>
<b>Total comprehensive income for the year</b>	<b>2 297</b>	<b>7 135</b>	<b>716</b>	<b>2 167</b>
Number of shares	27 235 867	27 235 867	27 235 867	27 235 867
<b>Earnings per share, basic</b>	<b>0.07</b>	<b>0.24</b>	<b>0.03</b>	<b>0.29</b>

## Condensed Consolidated Statement of Financial Position

All figures in USD (1000)

<b>Assets</b>	<b>30.06.2014</b>	<b>Audited 31.12.2013</b>
Goodwill	1 947	1 947
Deferred tax assets	9 928	9 214
Exploration costs and licences	273	0
Land rigs	12 657	13 048
OilService and other equipment	56 956	54 715
Land and buildings	2 641	2 674
Investments in associates	2 165	2 334
Other financial fixed assets	4 166	4 023
Restricted cash	3 741	3 664
<b>Total non-current assets</b>	<b>94 474</b>	<b>91 619</b>
Inventory	2 421	1 741
Tax receivables	24 953	21 436
Accounts receivable	39 549	39 016
Other current assets	7 461	6 736
Financial asset at fair value through P&L	11 523	15 296
Free cash	26 313	15 814
Restricted cash	828	760
<b>Total current assets</b>	<b>113 048</b>	<b>100 799</b>
<b>Total assets</b>	<b>207 522</b>	<b>192 418</b>
<b>Equity and liabilities</b>	<b>30.06.2014</b>	<b>31.12.2013</b>
Share capital	27 236	27 236
Treasury shares	0	-47
Other equity	78 214	71 159
Majority interest	105 450	98 348
Minority interest	4 372	4 119
<b>Total equity</b>	<b>109 822</b>	<b>102 467</b>
Bond loan	26 476	30 063
Deferred tax liability	6 945	6 725
Other long-term liabilities	6 086	6 629
<b>Total non-current liabilities</b>	<b>39 507</b>	<b>43 417</b>
Short-term portion of non-current liabilities	7 713	6 715
Accounts payable	15 641	12 184
Provisions	13 048	13 048
Bank loan	1 839	3 503
Other current liabilities	19 952	11 084
<b>Total current liabilities</b>	<b>58 193</b>	<b>46 534</b>
<b>Total liabilities</b>	<b>97 700</b>	<b>89 951</b>
<b>Total equity and liabilities</b>	<b>207 522</b>	<b>192 418</b>
Book equity per share (end of period shares)	4.03	3.76
Equity (majority) ratio	51%	49 %



**Condensed Consolidated Statement of changes in Equity**

All figures in USD (1000)

	YTD 2014	YTD 2013
Equity period start 01.01	102 467	90 578
Total equity from shareholders in the period	0	0
Total comprehensive income/loss (-) for the period	7 356	2 166
<b>Total change of equity in the period</b>	<b>7 356</b>	<b>2 166</b>
<b>Equity at period end</b>	<b>109 823</b>	<b>92 744</b>

**Condensed Consolidated Cash Flow Statement**

All figures in USD (1000)

	Q2 2014	YTD 2014	Q2 2013	YTD 2013
Net cash flow from operating activities	1 442	4 787	136	1 350
Net cash flow from investing activities	-6 027	-4 511	960	961
Net cash flow from financing activities	14 514	10 224	5 107	3 971
<b>Net change in cash and cash equivalents</b>	<b>9929</b>	<b>10 500</b>	<b>6 203</b>	<b>6 282</b>
Free cash and cash equivalents at beginning of period	16 539	15 813	7 906	7 827
Exchange gain/loss (-) on cash and cash equivalents	-155			
<b>Free cash and cash equivalents at period end</b>	<b>26 313</b>	<b>26 313</b>	<b>14 109</b>	<b>14 109</b>

**Notes to the unaudited condensed consolidated figures:****Note 1 Applied accounting principles**

This second 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 were approved by the Board on 28 August 2014 at 20:00 hours.

This second 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 (2013). 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 (2013), have been applied in the preparation of this interim report. The Company's accounting principles are described in detail in its annual report for 2013 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 30 June 2014:

All figures in USD (1000)	Drilling- and other equipment	Land rigs	Exploration cost & licences	Goodwill	Land and buildings	Total
<b>Balance at 1 Jan 2014</b>	54 715	13 048	0	1 947	2 674	72 384
Acquisition cost:						
Acquisition cost at 1 Jan 2014	285 516	14 234	0	1 947	3 438	305 135
Purchased tangibles in 2014	9 755	8	273	0	24	10 060
Disposal in 2014	-1 095	0	0	0	0	-1 095
<b>Acquisition cost at 30 June 2014</b>	294 176	14 242	273	1 947	3 462	314 100
<b>Depreciation/impairment:</b>						
Balance depreciation at 1 January 2014	216 529	1 186	0	0	764	218 479
Balance impairment at 1 January 2014	14 272	0	0	0	0	14 272
Depreciation in 2014	7 659	399	0	0	33	8 091
Impairment in 2014	0	0	0	0	0	0
Disposal of depreciation in 2014	-1 015	0	0	0	0	-1 015
<b>Depreciation/impairment as at 30 June 2014</b>	237 445	1 585	0	0	797	239 827
Translation differences	228	0	0	0	-24	204
<b>Carrying amount:</b>						
<b>Balance at 30 June 2014</b>	56 959	12 657	273	1 947	2 641	74 477
<b>Residual value</b>						

## Note 3 Investments in associates

All figures in USD (1000)	Petroresources Ltd
<b>Investments in associates</b>	
Shareholding	47.32%
Business address	Limassol, Cyprus
<b>Balance 1 January 2014</b>	2 334
Investments	0
Share of result	-168
<b>Balance at 30 June 2014</b>	2 165

## Note 4 Segment Information

All figures in USD (1000)	Oil & Gas	Drilling & Well Technology	OilService	Other	Total
Revenue	0	182	55 189	615	55 986
EBITDAX	-3 211	-1 477	24 274	-2 656	16 930
EBITDA	-5 035	-1 477	24 274	-2 656	15 106
Rental equipment, land rigs, licences	585	15 361	53 941	0	69 887
Property	0	0	2 641	0	2 641

### Oil & Gas

Petrolia Norway AS has purchased 10 per cent of license PL 558 from Det norske oljeselskap ASA. PL 558 is located east and adjacent to the Skarv Field and an exploration well was drilled in June and completed in 21 days. The well did not encounter hydrocarbons.

### OilService

The improvement in the operating performance has resulted in revenue and EBITDA growth, and subject to an oil price at current levels, this is expected to continue during 2014.

Some of the key market drivers for the OilService division are the oil companies' E&P Investments and the global rig activity. Based on the market and the division's present performance, the Board of Directors expects a continued satisfactory development for the OilService division going forward.

### Drilling & Well Technology

The Drilling and Well Technology division currently has one drilling and one work over rig idle in Romania. The drilling rig has demonstrated a solid operational performance and is being marketed in other regions where the day rates are expected to be higher. The work-over rig will be mobilised once an LOI is signed.

## Note 5 Legal disputes

The Estate of PetroMENA ASA (51 % owned by Petrolia) is, through a writ of summons ("stevning"), seeking to invalidate an equipment purchase on 13 November 2008 whereby Oil Tools Supplier AS (formerly Petrolia Services AS) purchased drilling equipment for USD 34.7 million from PetroMENA ASA. On 19 March 2013 Oslo District Court ruled in favour of the PetroMENA ASA estate for USD 14 million. Oil Tools Supplier AS has filed an appeal scheduled for the fourth quarter 2014. Oil Tools Supplier AS is a subsidiary of Petrolia Drilling II AS which is owned by Petrolia SE.

The board of PetroMENA ASA, under bankruptcy proceedings, has filed a claim of USD 1.2 billion against Deutsche Bank for various breaches of law and governance.

## Note 6 Events after the balance sheet date

12 August: Petrolia Norway AS, a 100% subsidiary of Petrolia SE, has entered into an agreement with Lundin Norway AS to sell 15% in PL 674. After the transaction Petrolia Norway AS holds 35% in PL 674. The transaction is pending approval from the authorities.

### 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