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# PETRO Jack

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**3<sup>rd</sup> quarter 2008**

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*Larsen Oil & Gas Ltd is manager for Petrojack.*

## **Operation and business management**

Petrojack has one jack-up rig under construction at the Jurong Shipyard in Singapore and one jack-up rig on contract with Saipem. The jack-up rigs have an operating water depth capacity of 375 feet and drilling depth capacity of approximately 30,000 feet. The jack-up rig under construction will be delivered in January 2009.

In addition, Petrojack holds 24.98 % of Petrolia Drilling ASA. The investment gives Petrojack exposure to the strong semi market, which has continued to develop positively during 2006-2008, with improving day rates and rig utilization.

Petrojack also holds 36,958,800 shares in PetroProd Ltd, giving a total ownership of 42.3 %.

PetroProd intends to convert three Aframax tankers to FPSOs at Jurong, and has ordered an enhanced CJ70 jack-up rig from Jurong.

Larsen Oil & Gas ("LOG") is manager for Petrojack.

### **Construction progress**

Petrojack's original construction program included four rigs. However, two rigs were sold to Maersk in Q3-2006, for a total consideration of mUSD 420. Petrojack II was delivered from the yard according to schedule and on budget on the 28<sup>th</sup> of March 2008. There have been no significant lost time accidents regarding the remaining jack-up rig, and the construction process is developing according to schedule and on budget. The total rig construction cost for the remaining jack-up rig is mUSD 180 including project cost.

### **Contract situation**

Petrojack II Pte Ltd, a subsidiary of Petrojack ASA, has together with the manager, Larsen Oil & Gas Ltd, entered into a charter agreement with Saipem for hire of Petrojack II. The contract for Petrojack has duration of four years, beginning 2 April 2008. The hire under the contract is USD 100,000 per day. The Charter Agreement includes a put/call option at a price of mUSD 199.1, on 28 March 2009. However, the Company has approached Saipem with the intention of pushing forward the exercise date of the put/call option to 25 January 2009. Final accounting reporting for the Petrojack II contract, with respect to IFRS and taxes, will be concluded at year end, and presented in the annual accounts.

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

## **Financial Information**

(All figures in MUSD)

Petrojack has with effect from 01.01.2008 changed functional currency from NOK to USD in accordance with IFRS. The financial figures are also presented in USD as of 3Q 2008 and accumulated 2008. All comparative figures have for presentation purposes been changed to USD as presentation currency.

The financial data have been prepared in accordance with IFRS. The current situation in the financial markets will impact the industry and available funding going forward.

## **Q3 Highlights**

### **Unrealized currency gain**

USD versus NOK has increased from 5.08 at 30.06.08 to 5.83 as per 30.09.08. Unrealized gain on bond loans is included with mUSD 24.8 in the third quarter figures.

### **Impairment of investments in associates**

The market price of the shares in Petrolia Drilling ASA and PetroProd Ltd has declined during the third quarter.

Due to the current financial turmoil and general market uncertainty the Board of Directors of Petrojack has impaired its Petrolia Drilling investments with mUSD 81.3 and PetroProd investments with mUSD 24.3 in the third quarter based on fair value assessments.

## **Profit and loss**

### **Year to date per 30.09.08**

Petrojack's total revenues YTD was mUSD 15.7 compared to mUSD 0.4 YTD 2007. Revenues came from rental of drilling equipment and time charter hire. TC is amounted to mUSD 14.9 YTD.

Operating profit before depreciation was mUSD 5.8 YTD compared to mUSD -3.0 YTD 2007. The main explanation for the deviation between YTD 2008 and YTD 2007 is the time charter hire from Saipem. Operating expenses includes primarily expenses for management services under the contracts with LOG, and various other administrative expenses.

YTD 2008 operating profit was mUSD -0.6, compared to mUSD -5.0 YTD 2007.

Result from associated companies includes Petrojack's share of the results from PetroProd Ltd and Petrolia Drilling ASA. Net result YTD 2008 is incorporated with MUSD -0.5 and MUSD -2.9 YTD 2007. Impairment on investment in shares is as of 30 September 2008 MUSD -105.6.

Net financial incomes YTD 2008 were mUSD 3.2 Net financial incomes include the effect of Petrojack's change of functional currency from NOK to USD. Petrojack's debt nominated in NOK is converted to USD as of 30 September 2008. The USD has during YTD 2008 increased resulting in an unrealized gain of mUSD 20.5 mainly related to the debt nominated in NOK. In YTD 2008 Petrojack also incurred interests of mUSD 16.0 related to a bond loan which was drawn up in Q2 2007 and interest from a bond loan related to Petrojack II.

The net result YTD 2008 is mUSD -103.5 compared to -5.6 YTD 2007. Interest income and expenses related to the bonds for construction of the rigs are capitalised under the construction contract in the group balance sheet.

### **Third quarter 2008**

Petrojack's revenues in the third quarter 2008 was mUSD 9.5 compared to mUSD 0.2 in third quarter 2007. Revenues in the third quarter came from time charter hire for Petrojack II to Saipem and rental income of drilling equipment.

Operating profit before depreciation was mUSD 6.6 in the third quarter 2008 compared to mUSD -0.9 in the third quarter last year. The main explanation for the deviation between Q 2008 and Q3 2007 is income from time charter hire.

Petrojack's operating expenses includes primarily expenses for management services under the contracts with LOG, and various other administrative expenses. Q3 2008 operating profit was mUSD 3.7, compared to mUSD -1.8 in Q3 2007.

Result from associated companies incorporates Petrojack's portion of the results from PetroProd Ltd and Petrolia Drilling ASA. Net result in Q3 is incorporated with MUSD 16.7 and MUSD -1.9 in Q3 2007. Impairment on investment in shares is per 30.09.08 MUSD -105.6.

Net financial income in Q3 2008 was mUSD 25.5. Net financial income includes the effect of Petrojack's change of functional currency from NOK to USD. In Q3, net unrealized currency gain is MUSD 31.1. Interest expenses in Q3 2008 of mUSD 5.9 related to a bond loan which was drawn up in Q3 2007 and interest from financing Petrojack II.

The net result for Q3 2008 was mUSD -59.7 and Q3 2007 MUSD -3.1. The difference is mainly from impairment on investment in associated companies and currency gain of NOK debt in Q3. Interest income and expenses related to the bonds for construction of the rigs are capitalized under the construction contract in the group balance sheet.

### **Cash flow**

Cash flow from operations YTD 2008 was mUSD -15.4. Cash flow from investments mUSD -97.9 was mainly related to instalments paid to Jurong as well as interest on bonds issued to fund construction of the two rigs and expenses related to yard supervision. Cash flow from financing activities YTD 2008 was 0.

### **Balance sheet**

As per 30 September 2008, Petrojack's total assets were mUSD 503.5 of which mUSD 330.4 relates to the Company's rig construction program. Investments in associated companies amount to mUSD 104.4. The bank deposits and cash equivalents were mUSD 43.4 as per 30.09.2008. Corresponding figures as per 31 December 2007 was total assets of mUSD 621.0, of which mUSD 203.6 related to rigs and rigs under construction and mUSD 200.6 to investments in shares. The bank deposits and cash equivalents were mUSD 156.7 as per year-end 2007.

The 42.3% ownership in PetroProd Ltd and the 24.98% ownership in Petrolia Drilling ASA are recognised as investment in associates in the balance sheet. Due to the current financial turmoil and general market uncertainty the Board of Directors of Petrojack has impaired its investments in Petrolia Drilling ASA and PetroProd Ltd with mUSD 105.6 in the third quarter based on fair value assessments.

## **Equity**

The book value of Petrojack's equity totalled mUSD 77.2 per 30.09.2008, which gives an equity ratio of approximately 15 percent. Total issued shares as per 30 September 2008 were 64,975,000, each with a par value of NOK 5.

## **Tax**

Payable tax in the balance sheet was recognised in 2006 and refers to the sale of Petrojack I and III. The Norwegian tax authorities has asked for additional information concerning the contractual relationship and contract assignments between parent company in Norway and subsidiaries in Singapore and has given notice that the tax assessment may be subject to correction. Any claim of increased tax liabilities from Norwegian tax authorities will be contested by the company.

The Company has been advised that there could be a Singapore tax (18 %) payable on the potential profit from a sale of Petrojack II in early 2009, corresponding to approximately mUSD 10.5 (based on a sales price of mUSD 199.1). Petrojack points out that this matter is still unclear and that any claim for such tax will be contested legally by the Company.

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

The remaining funding needed to complete Petrojack IV is estimated to mUSD 68.3, payable upon delivery of the rig from the yard in January 2009. Petrojack currently has mUSD 37.5 on an escrow account to pay for the last instalment on Petrojack IV. In order to fully finance the last instalment, Petrojack estimates that they need mUSD 30.8 of additional cash. Petrojack has therefore asked its bondholders for certain amendments to the loan agreements, freeing up cash from the Petrojack II that may be used to finance the last instalment on Petrojack IV. Petrojack is of the opinion that a possible sale of Petrojack II combined with changes in the loan agreements as described in the stock exchange announcement 7 November 2008 is the most realistic funding source to cover the amount needed. Provided that the bondholders approve the suggested solution, and Saipem will accept to take delivery of Petrojack II before delivery of Petrojack IV from Jurong, Petrojack will have sufficient cash position to cover the last instalment to Jurong for Petrojack IV.

The bondholders meeting will take place on 19 November 2008.

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

Petrojack ASA has on 17 November 2008 carried out an early termination of a forward contract regarding 12,383,000 shares in PetroProd Ltd. After the above mentioned transaction, Petrojack ASA owns 36,958,800 shares in PetroProd Ltd, corresponding to 42.23% of the shares outstanding in PetroProd Ltd.

After this transaction Petrojack ASA has no forward contracts regarding any shares.

## **Market conditions and outlook**

The average age of the global jack-up fleet is approximately 23 years. There are currently approximately 61 jack-up rigs under construction, including options, corresponding to approximately 15% of the global jack-up fleet.

The jack-up market may seem to have passed the peak, as a result of hectic newbuilding activity, and the rates seem to have come down somewhat from the peak levels. The Board of Directors are therefore somewhat cautious towards the outlook of the jack-up market.

Petrojack has through its investments in Petrolia Drilling ASA (24.98 %) exposure to three deepwater semi submersible rigs under construction and one semi submersible rig in operation. The rigs under construction will commence drilling in ultra deep waters in the Mexico-gulf, Brazil and West Africa region upon delivery. The rig in operation is commenced operations in the same region during February 2008. The semi submersible rig market is strong. Recent fixture in the 2nd generation semi market corresponds to day rates of approximately USD 300,000 – 350,000.

Through its investment in Petroprod Ltd., Petrojack has exposure to the FPSO market and the market for large jack-ups (CJ70). While the FPSO market is currently weak, Petroprod expects strong interest in the CJ70 from charters.

## **The Board of Directors, Petrojack ASA, 17<sup>th</sup> November 2008**

## FINANCIAL REPORT 3<sup>rd</sup> quarter 2008

### Condensed Consolidated Income Statement Unaudited

All figures in USD (1000)

	3Q 2008	YTD 2008	3Q 2007	YTD 2007
Operating revenues	9 526	15 696	191	367
Operating expenses	2 951	9 891	1 092	3 351
<b>Operating profit before depreciation</b>	<b>6 575</b>	<b>5 805</b>	<b>-902</b>	<b>-2 985</b>
Depreciation	2 848	6 428	905	2 016
<b>Operating profit (loss-)</b>	<b>3 727</b>	<b>-623</b>	<b>-1 807</b>	<b>-5 001</b>
Result from associated companies	-88 906	-106 095	-1 883	-2 945
Net financial income/expenses(-)	25 500	3 213	539	268
<b>Net result before taxes</b>	<b>-59 679</b>	<b>-103 504</b>	<b>-3 151</b>	<b>-7 678</b>
Tax	0	0	-41	-2 087
<b>Net result</b>	<b>-59 679</b>	<b>-103 504</b>	<b>-3 110</b>	<b>-5 591</b>
Earnings per share (average shares)	-0,92	-1,59	-0,05	-0,09
Earnings per share (total shares)	-0,92	-1,59	-0,05	-0,09

### Condensed Balance Sheet Unaudited

All figures in USD (1000)

<b>Assets</b>	<b>30.09.2008</b>	<b>31.12.2007</b>
Petrojack II	162 613	0
Construction contract Petrojack IV	167 834	203 647
Drilling equipment	13 512	16 218
Investments in associates	104 401	200 564
<b>Total non-current assets</b>	<b>448 360</b>	<b>420 429</b>
Trade receivables	10 781	220
Other current assets	797	953
Other liquid assets	71	42 661
Bank deposits	43 442	156 709
<b>Total current assets</b>	<b>55 090</b>	<b>200 543</b>
<b>Total assets</b>	<b>503 450</b>	<b>620 972</b>
<b>Equity and liabilities</b>	<b>30.09.2008</b>	<b>31.12.2007</b>
Share capital	60 040	60 040
Share premium fund	34 233	34 233
Other equity	-17 056	86 448
<b>Total equity</b>	<b>77 217</b>	<b>180 721</b>
Deferred tax	0	0
Bond loan	365 821	377 342
<b>Total non-current liabilities</b>	<b>365 821</b>	<b>377 342</b>
Current portion of non-current liabilities	8 027	4 816
Trade payables	4 105	358
Payable tax	30 455	32 791
Other current liabilities	17 825	24 944
<b>Total current liabilities</b>	<b>60 412</b>	<b>62 909</b>
<b>Total liabilities</b>	<b>426 232</b>	<b>440 251</b>
<b>Total equity and liabilities</b>	<b>503 450</b>	<b>620 972</b>
Book equity per share (end of period shares)	1,19	2,78
Equity ratio	15 %	29 %

## Condensed Consolidated Statement of changes in Equity Unaudited

All figures in USD (1000)

	YTD 2008	YTD 2007
Equity period start	180 721	172 695
Profit for the period	-103 504	-5 591
Currency translation differences	0	24 786
Other gains and losses charged directly to equity	0	-3 764
Total gains and losses charged directly to equity	0	21 022
Total recognised income for the period	-103 504	15 431
<b>Total change of equity in the period</b>	<b>-103 504</b>	<b>15 431</b>
<b>Equity at period end</b>	<b>77 217</b>	<b>188 126</b>

## Condensed Consolidated Cash Flow Statement Unaudited

All figures in USD (1000)

	YTD 2008	YTD 2007
Net cash flow from operating activities	-15 403	21 977
Net cash flow from investing activities	-97 864	-158 754
Net cash flow from financing activities	0	82 107
<b>Net change in cash and cash equivalents</b>	<b>-113 267</b>	<b>-54 671</b>
Cash and cash equivalents at beginning of period	156 709	222 650
<b>Cash and cash equivalents at period end</b>	<b>43 442</b>	<b>167 979</b>

## Notes to the unaudited condensed consolidated interim figures

### Note 1 Applied accounting principles

This quarterly report is according to the International Financial Reporting Standards (IFRS as adopted by the EU) and the appurtenant standard for quarterly reporting (IAS 34). The quarterly accounts are based on the current IFRS standards and interpretations. The quarterly report is prepared according to the same principles as the most recent annual financial statements, but do not include all the information and disclosures required in the annual financial statements. Consequently, this report should be read in conjunction with the latest annual report for the Company (2007). Changes in standards and interpretations may result in other figures.

The same accounting principles and methods for calculation which were applied in the latest annual report (2007) have been applied in the preparation of this interim report.

Petrojack has with effect from 01.01.2008 changed functional currency from NOK to USD in accordance with IFRS. The financial figures are also presented in USD as of 3Q 2008 and accumulated 2008. All comparative figures have for presentation purposes been changed to USD as presentation currency.

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 per 30 September 2008:

	Equipment	Petrojack IV under construction	Petrojack II	Total
All figures in USD (1000)				
<b>Balance at 1 Jan 2008</b>	16 218	152 873	50 774	219 864
Acquisition cost:				
Acquisition cost at 1 Jan 2008	20 008	152 873	50 774	223 655
Purchased tangibles 2008	474	14 961	115 151	130 586
Sale at cost 2008	-63	0		-63
<b>Acquisition cost at 30 September 2008</b>	20 420	167 834	165 925	354 178
<b>Depreciation:</b>				
Balance at 1 January 2008	3 791	0	-	3 791
Depreciation 2008	3 117	0	3 312	6 428
<b>Balance at 30 September 2008</b>	6 907	0	3 312	10 219
<b>Carrying amount:</b>				
<b>Balance at 30 September 2008</b>	13 512	167 834	162 613	343 959

Petrojack has one jack-up drilling rig under construction with scheduled delivery during Q4 2008. Estimated purchase price for a drilling rig is MUSD 180.

Acquisition cost 01.01.08 is divided between Petrojack II and Petrojack IV. Currency translation differences included is reallocated in 3Q. This is corrected in the presentation above.

## Note 3 Investments in associates

All figures in USD (1000)	Petrolia Drilling ASA	PetroProd Ltd	Total
<b>Investments in associates</b>			
<b>Balance at 1 January 2008</b>	130 122	70 442	200 564
Acquisition cost:			
Acquisition cost at 1 Jan 2008	134 192	77 555	211 747
Purchased 2008	9 728	203	9 931
Share of result	14 478	-11 622	2 855
Depreciation of value added	-14 521	0	-14 521
Write down of shares	-81 344	-24 267	-105 611
<b>Balance at 30 September 2008</b>	62 532	41 868	104 401