



PetroProd Ltd (“PetroProd” or the “Company”) has entered into a contract with Jurong Shipyard in Singapore on 22 June 2007 for the construction of one MSC/Gusto CJ70 Jackup for 150 m water-depth. The expected delivery is now third quarter 2010. PetroProd has put on hold the plans for a 2nd identical unit due to difficulties in the world financial market.

In January 2009, PetroProd has successfully completed the sales of the 2 Aframax tanker vessels, Archimid and Trust, to a European buyer. The directors are pleased to announce that the sales are made at rates above the prevailing market values. All proceeds have been transferred back to the FPSO bondholders through a partial bond loan redemption.

The work on the 1st CJ70 unit is approximately 31% completed against planned completion of 37% as at January 2009. The Company foresees that there will still be potential demands for these drilling rigs, although at a slow pace. However, due to the current financial market crisis, oil production activities have slowed down and this makes marketing efforts very challenging.

PetroProd Ltd is managed through management agreements with Larsen Oil & Gas Pte. Ltd. of Singapore. (“LOG Singapore”).

Summary of Operations

PetroProd Ltd (“PetroProd” or the “Company”) was incorporated in the Cayman Islands on 1 December 2006. The Company was listed in the Oslo Stock Exchange, Oslo Axess on 7 December 2007.

PetroProd has a contract with Jurong Shipyard in Singapore (the “shipyard”) dated 22 June 2007 for the construction of one MSC/Gusto CJ70 Jackup (the “drilling rig”) for 150 m water-depth with current delivery expected in September 2010.

FPSO conversion

PetroProd has entered into an agreement with an undisclosed operator (the “Buyer”) to sell the MT “Arc”, which is currently in the process of being converted into a FPSO unit at Jurong Shipyard in Singapore. The purchase price is USD 216 million, including commission and sales expenses.

The Buyer will make milestone payments, commencing in February / March 2009, during the remainder of the conversion period, with a final installment payment to be made after the FPSO has commenced operations at the designated work area specified by the Buyer, expected to be in Q1 2010. The Company will be responsible for the completion of the conversion project at the yard. The sale will represent an exit from the FPSO market for the Company for the time being, and the Company will focus future business on the harsh environment jack-up market.

Conversion work in the shipyard is currently stopped and will continue upon first installment being received from the buyer.

Vessels operations

In January 2009, PetroProd has successfully completed the sales of the 2 Aframax tanker vessels, Archimid and Trust, to a European buyer. The directors are pleased to announce that the sales are made at rates above the prevailing market values. All proceeds have been transferred back to the FPSO bondholders through a partial bond loan redemption.

Drilling & Production Jack-ups (MSC/Gusto CJ70)

The work on the 1st CJ70 unit is approximately 31% completed against planned completion of 37% as at January 2009. At this point in time, the delivery of the unit is expected to be in September 2010. Plans for a 2nd identical unit have been put on hold due to difficulties in the world financial market.

The Company foresees that there will still be potential demands for these drilling rigs, although at a slow pace. However, due to the current financial market crisis, oil production activities have slowed down and this cripples the Company’s marketing efforts. The Company is now awaiting the outcome of 3 major Tenders.

Market Situation

The credit crunch has put all industry players in a difficult financial situation. The Company has therefore implemented tighter control over cashflow management, and is in the process of negotiating with the shipyard and major suppliers for rescheduling of installment payments. Some of the vendors have already agreed to defer payments.

Impact on the financial statements of PetroProd Ltd

In the financial report for year ended 31 December 2008, the FPSO in conversion has been written down to the sales value, resulting in an impairment loss of USD 105.9 million. As for the 1st CJ70 unit in construction, the directors have obtained and reviewed an independent broker assessment of its fair value. Accordingly, impairment loss of USD 175 million is made to the 1st CJ70 construction in progress. Similarly, the directors have also written down the value of the prepayments made to secure contract for the 2nd CJ70 unit. For this 2nd unit, USD 15.6 million have been reversed to the profit and loss (USD 10.3 million as cancellation charges, and USD 5.3 million as impairment loss).

In addition, there has been a reclassification of the D&P1 bond loan (ISIN NO 001 036899.6) maturing in May 2013 from non-current liability to current liability. This is due to requirements in IAS 1 para 65 and the directors' opinion that the Company will not be able to obtain additional new equity with gross proceeds of minimum USD 45 million, by 28 February 2009, in accordance with the amendment to the loan agreement. The Company will be calling for a bondholders meeting with regards to this.

As at 31 December 2008, the financial statements of PetroProd Ltd are adversely affected. However, the directors of PetroProd are of the opinion that these adjustments must be made to reflect the "unusual" current financial market circumstances and that the situation will improve when the financial market recovers.

Construction progress

There have been no lost time accidents, and the construction progress are developing as per described.

Commitments

At 31 December 2008, the Company's remaining capex commitments (for purchase orders and construction contracts entered into) for the construction of the 1st CJ 70 and the FPSO conversion were estimated to be approximately USD 258 million and USD 60 million respectively.

As aforementioned, the Company is in the process of negotiation with the shipyard and major suppliers for possible rescheduling of the payment installments.

The Company will require further equity and debt financing in the near future. As discussed above, according to the amendment for Bond Loan Agreement, 10.85 per cent Secured Callable Bond Issue 2007/2013 (ISIN NO 001 036899.6), entered into on 19 December 2008, the Company shall within 28 February 2009, obtain additional new equity with gross proceeds of minimum USD 45 million. The Company will call for a bondholders meeting in February 2009 to discuss this.

Investment in PetroResources

PetroResources has made some investment into securing 2 blocks offshore Cyprus, one of which is a shallow water block and the other one being a deep water block. Active discussions have been ongoing with relevant parties. Technical review on the blocks is currently being carried out.

To reflect current market situation, investment in PetroResources has been written down by USD 3 million.

The Company's shareholding in PetroResources is 28.57%

Related party transactions

For year ended 31 December 2008, the related party transactions were mainly the management fees to LOG for the construction period of the FPSO and the 1st CJ 70.

Market Demands

Despite the recent severe decline in the oil price, the fundamentals in the world demand for petroleum products is anticipated to remain strong in the medium to long term. The rise in offshore exploration and production activities is expected to continue but at a slower pace restrained mainly by limited access to industry professionals, equipment and the difficulties in the world finance markets.

The Board of Directors, PetroProd Ltd, 18th February 2009.

Financial Information

Profit and loss

4Q08 and 4Q07

- Operating revenue

Total revenue in 4th quarter 2008 was USD 2.1 million, derived mainly from the sales of bunkers during chartering of vessels, and some other activities carried out by the Company.

- Operating loss before finance cost and results from associated company

Operating loss before depreciation in 4th quarter 2008 was USD -13.4 million compared to USD -9.6 million in 4th quarter 2007.

Total operating expenses aggregated USD 15.5 million in 4th quarter 2008 and USD 11.8 million in 4th quarter 2007. The reason for the higher operating expenses in 4th quarter 2008 was mainly due to the cost of selling the two vessels, eg, tank cleaning cost, sailing cost, broker commission etc.

Impairment of fixed assets in 4th quarter 2008 amounting to USD 286.2 million are as discussed under “**market situation**” section. Mainly, the construction costs are written down to reflect the current market values of the CJ70 and FPSO unit. The directors are of the view that the market value of the CJ70 under construction will increase once demand recovers.

Operating loss after depreciation and impairment was USD -300.4 million in 4th quarter 2008 and USD -11.3 million in 4th quarter 2007.

Net financial income

Net financial income for 4th quarter 2008 amounted to USD 15.4 million. This mainly consisted of the unrealized exchange gain on foreign denominated balances as per 31 December 2008 due to forex movements. In particular, due to the significant fluctuation in Norwegian Kroners (NOK) against USD, the net exchange gain arising amounted to USD 7 million.

There was also an unrealized gain of about USD 5 million due to the gain in the embedded derivative relating to the share conversion option in the NOK bond loan. The value of this embedded derivative fluctuated directly with the share price of the Company and the time for the options to expire. The decrease in the share price of the Company explained for the gain that has arose. All interest expense and interest income in 2008 related to the constructions were capitalized under the respective fixed assets.

Impairment of investment in associated company

Impairment of USD 3 million was made to the investment in associated company (PetroResources) in 2008.

YTD 4Q08 and 4Q07

- Operating revenue

Total revenue for year ended 31 December 2008 was USD 9.1 million. This was higher than those revenue derived for period ended 31 December 2007 mainly due to more charterings and other activities carried out by the Company in 2008.

- Operating loss before finance cost and results from associated company

Operating loss before depreciation for year ended 31 December 2008 was USD -31.6 million compared to USD -23.3 million for period ended 31 December 2007.

Total operating expenses for year ended 31 December 2008 aggregated USD 40.7 million whereas operating expenses for year ended 31 December 2007 was USD 26.9 million. The increase was due to higher costs incurred, mainly for the chartering business, third party services, cancellation fees incurred for the 2nd CJ70 unit based on letters of intent previously entered and cost of selling the two vessels.

Operating loss after deprecation and impairment was USD -323.7 million for the year ended 31 December 2008 and USD -27.9 million for the prior year.

- Net financial income / expense

Net financial income/expense amounted to USD 28.1 million and USD -4.1 million for the year ended 31 December 2008 and 31 December 2007 respectively.

The financial income in year ended 31 December 2008 mainly comprised of the gain in the embedded derivative for the convertible bond loan, the interest income earned from investment made in debt securities (Holberg funds) and the net unrealized exchange gain.

Balance sheet

As per 31 December 2008, total assets was USD 352.9 million, of which USD 228.7 million relates to the assets under construction by the shipyard, USD 50.5 million relates to cash at bank, and USD 42.1 million relates to investment in debt securities (Holberg funds). The debt securities (Holberg funds) are not yet adversely affected by the recent financial market turbulence and is earning at an effective interest rate about 4.4% per annum. Corresponding figures as per 31 December 2007 was total assets of USD 595.5 million, of which USD 341.2 million relates to cash at bank, and USD 175.5 million relates to vessels acquired and assets under construction in the shipyard.

As per 31 December 2008, the D&P1 bond loan has been reclassified to current liability as early described. All bond loans issued were recognized at amortised cost, which amounted to a total of USD 427.5 million and USD 460.8 million as per 31 December 2008 and 31 December 2007 respectively.

Equity

The book value of the Group's equity totaled USD -187.6 million as per 31 December 2008. The negative equity was mainly due to the impairment losses made. The total number of issued shares as per 31 December 2008 were 87,499,000, each with a par value of USD 0.01. PetroProd's largest shareholder is Petrojack ASA, with approximately 42% ownership. Accordingly, the Company will be mandated for further equity injections. For further remarks, pls refer to the earlier sections above.

Cash flow

Cash inflow from operations during 4th quarter 2008 was USD 80.9 million compared to 4th quarter 2008 net loss of USD -288.1 million. The main reason for the deviation between cashflow from operations and operating results were due to the effects of non-cash items such as depreciation of the vessels, impairments on fixed asset, gain on embedded derivative, cancellation charges, unrealized gain on debt securities held, unrealized forex gain and movements in the working capital. Cash outflows from investing activities mainly consisted of payments for the CJ70 construction and the FPSO conversion. Total cash outflows from investing and financing during 4th quarter 2008 amounted to USD 126.6 million and USD 12.9 million respectively. Cash outflows from financing activities consisted of the interest paid on the bonds issued. The main cashflow in 4th quarter 2007 were mainly payments for the constructions, interests paid on bond loans, proceeds from the placement of NOK bond loan (November 2007) and working capital changes.

FINANCIAL REPORT 4TH QUARTER 2008

Condensed Consolidated Income Statement				
All figures in USD (1000)				
	Unaudited 4Q 2008	Audited 4Q 2007	Unaudited YTD 2008	Audited YTD 2007
Revenues	2,113	2,190	9,077	3,520
Operating expenses	-15,519	-11,783	-40,705	-26,853
Operating loss before depreciation	-13,406	-9,593	-31,628	-23,333
Depreciation	-757	-1,701	-5,862	-4,537
Impairment of fixed assets	-286,249	-	-286,249	-
Operating loss	-300,412	-11,294	-323,739	-27,870
Net finance income (expense-)	15,379	8,280	28,108	-4,043
Results from associated company	-32	-	-111	-
Impairment of associated company	-3,000	-	-3,000	-
Net result before taxes	-288,065	-3,014	-298,742	-31,913
Tax	-	-	-	-
Net result	-288,065	-3,014	-298,742	-31,913
Basic / diluted loss per share (total shares) (USD)	-3.2922	-0.0344	-3.4142	-0.3647
Basic / diluted loss per share (average shares) (USD)	-3.2922	-0.0455	-3.4142	-0.4817

Condensed Balance Sheet

All figures in USD (1000)

	Unaudited 31.12.2008	Audited 31.12.2007
Assets		
Construction contract of drilling rigs (CJ70s)	178,115	94,097
FPSO conversion in progress	50,624	51,931
Vessels	-	29,490
Investment in associate	2,890	-
Furniture and fitting	16	-
Total non-current assets	231,645	175,518
Vessels held for sale	20,859	-
Other debtor	7,164	4,196
Inventories	713	704
Investment in Holberg funds	42,062	73,963
Cash and cash equivalents	50,469	341,157
Total current assets	121,267	420,020
Total assets	352,912	595,538

	Unaudited 31.12.2008	Audited 31.12.2007
Equity and liabilities		
Share capital	875	875
Share premium fund	142,171	142,171
Other equity	-330,644	-31,902
Total equity	-187,598	111,144
Bonds	246,235	460,768
Total non-current liabilities	246,235	460,768
Accounts payable	86,853	6,426
Bonds	181,235	-
Other current liabilities	26,187	17,200
Total current liabilities	294,275	23,626
Total liabilities	540,510	484,394
Total equity and liabilities	352,912	595,538
Book equity per share (end of period shares)	-2.1440	1.2702
Equity ratio	-53.2%	19%

Condensed Consolidated Statement of changes in Equity

All figures in USD (1000)

	Unaudited 4Q 2008	Unaudited YTD 2008	Audited YTD 2007
Equity period start	100,467	111,144	47,611
Loss for the period / year	-288,065	-298,742	-31,913
Currency translation differences	-	-	-
Other gains and losses charged directly to equity	-	-	-
Total gains and losses charged directly to equity	-	-	-
Total recognized loss for the period / year	-288,065	-298,742	-31,913
New equity by contributions in cash (net of expenses paid)	-	-	98,225
Expenses related to share issues (net of tax)	-	-	-2,779
Total equity from shareholders in the period / year	-	-	95,446
Total change of equity in the period / year	-288,065	-298,742	63,533
Equity at period / year end	-187,598	-187,598	111,144

Condensed Consolidated Cash Flow Statement

All figures in USD (1000)

	Unaudited 4Q 2008	Unaudited 4Q 2007	Unaudited YTD 2008	Audited YTD 2007
Net cash flow from operating	80,940	-78 509	72,922	-85,040
Net cash flow from investing	-126,603	-20 345	-317,679	-154,230
Net cash flow from financing	-12,870	128 674	-45,931	534,535
Net change in cash and cash equivalents	-58,533	29 820	-290,688	295,265
Cash and cash equivalents at beginning of period	109,002	311 337	341,157	45,892
Cash and cash equivalents at period end	50,469	341 157	50,469	341,157

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. The Company's accounting principles are described in detail in its annual report for 2007.

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

Note 2 Tangible Fixed Assets

The table below outlines the development of tangible fixed assets as per 31 December 2008:

All figures in USD (1000)	Construction contract of drilling rig (CJ70 # 1)	Construction contract of drilling rig (CJ70 # 2)	Vessel conversion in progress	Vessels	Furniture and fittings	Total
Acquisition cost:						
Balance at 1 January 2008 (Audited)	83,793	10,304	51 931	34 027	-	180 055
Additions (Unaudited)	259,584	15,087	104,593	-	18	379,282
Disposal (Unaudited)	-	-	-	-34,027	-	-34,027
Reversal to profit and loss (Unaudited)	-	-10,304	-	-	-	-10,304
Balance at 31 December 2008	343,377	15,087	156,524	-	18	515,006
Depreciation:						
Balance at 1 January 2008 (Audited)	-	-	-	4 537	-	4 537
Depreciation for the year ended 31 December 2008 (Unaudited)	-	-	-	5 860	2	5,862
Disposal (Unaudited)	-	-	-	-10,397	-	-10,397
Impairment (Unaudited)	175,000	5,349	105,900	-	-	286,249
Balance at 31 December 2008	175,000	5,349	105,900	-	2	286,251
Carrying amount:						
Balance at 31 December 2008	168,377	9,738	50,624	-	16	228,755
Balance at 31 December 2007	83,793	10,304	51,931	29 490	-	175 518

Note 3 Segment Information

All figures in USD (1000)

Year ended 31 December 2008 (unaudited)	Vessel chartering	Drilling rig - CJ 70 # 1	Drilling rig - CJ 70 # 2	FPSO	Unallocated	Total
Revenue / other income	7,477	-	1,600	-	-	9,077
Results						
Depreciation	-5,860	-	-	-	-2	-5,862
Segment results	-14,785	-2,347	-10,308	-6,882	-6,383	-40,705
Impairment	-	-175,000	-5,349	-105,900	-	-286,249
Segment result						-323,739
Net finance income						28,108
Results from associated company						-111
Impairment of associated company						-3,000
Loss before income tax						-298,742
Tax expense						-
Net loss for the period						-298,742

Year ended 31 December 2007 (audited)	Vessel chartering	Drilling rig - CJ 70 # 1	Drilling rig - CJ 70 # 2	FPSO	Unallocated	Total
Revenue / other income	3,520	-	-	-	-	3,520
Results						
Depreciation	-4,537	-	-	-	-	-4,537
Segment results	-11,537	-3,952	-	-8,667	-2,697	-26,853
Impairment	-	-	-	-	-	-
Segment result						-27,870
Net finance income						-4,043
Results from associated company						-
Impairment of associated company						-
Loss before income tax						-31,913
Tax expense						-
Net loss for the period						-31,913