

PetroProd Ltd 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 with delivery in the second quarter of 2010. PetroProd Ltd is in the process of firming up a 2nd identical unit for delivery in the second quarter of 2011.

PetroProd Ltd has also acquired 3 Aframax tanker vessels for planned conversion to floating production storage and offloading (“FPSO”) vessels. The first vessel, M/T Arch entered Jurong Shipyard in January 2008 for conversion work into FPSO with expected completion by 2009. M/T Archimid and M/T Trust have secured slots for planned conversion to FPSOs approximately 8 and 16 months, respectively, after the conversion of M/T Arch. The M/T Archimid is presently being laid up and the M/T Trust is on time-charter in India.

PetroProd Ltd has identified a number of employment opportunities in harsh environment such as the North Sea for the large CJ70 Jackup. The Company expects to be able to secure a long-term drilling or a combined drilling and production contract ahead of additional funding requirements. All vessels are actively marketed to prospective clients worldwide. At present, several tenders are under preparation.

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 entered into a contract with Jurong Shipyard in Singapore (“Jurong”) on 22 June 2007 for the construction of one MSC/Gusto CJ70 Jackup (the “drilling rig”) for 150 m water-depth with delivery in the second quarter of 2010.

PetroProd has also acquired 3 Aframax tanker vessels for planned conversion to floating production storage and offloading (“FPSO”) vessels. The first vessel, M/T Arch entered Jurong Shipyard in January 2008 for conversion work into FPSO. M/T Archimid and M/T Trust have secured slots for planned conversion to FPSOs approximately 8 and 16 months, respectively, after the conversion of M/T Arch.

FPSO conversion

The MoU signed with an undisclosed client on 29 April 2008, for 5 year charter of M/T Arch after conversion, expired on the 17 July 2008 without a definitive contract signed due to inadequacy of client offered payment guarantee. PetroProd decided not to extend the MoU, but will continue dialogue on a non-exclusive basis with the potential client until further notice.

PetroProd is also in dialogue with another client for M/T Arch who would require approximately same start up of operation (May-July, 2009) and basically to the full utilization of the company’s generic design basis and equipment selection.

M/T Arch is continuing the conversion work with expected completion from shipyard somewhat later than initial plans. This delay is caused by PetroProd’s decision not to install more of the equipment on board than needed for the selected field application. The main component deliveries are continuing according to plan and the co-operation with the shipyard is working well.

Vessels operations

The other two tankers (M/T Archimid and M/T Trust) have continued trading as tankers, with the M/T Archimid having completed its last charter by end July 2008 due to Special Survey class renewal requirements. This class renewal will not be undertaken until the vessel has obtained a contract. PetroProd is in discussion with a potential client for a minor conversion of M/T Archimid into an FSO for a contract in the Asia region.

The M/T Trust is planned to continue trading until early 2009.

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

The work on the 1st CJ70 is progressing on schedule. At this point in time, the Company foresees no delay to the delivery date.

PetroProd is also in the process of firming up a 2nd identical unit for delivery in the second quarter of 2011.

For the operation of the jack-ups, PetroProd considers a co-operation with other drilling contractors in Norway/North Sea.

Market Outlook

FPSO / FSO

PetroProd is pleased to see an upturn in the demand for fast track FPSO/FSO in the market which is considered to be a confirmation that the Company’s strategy was correct.

However, the Company is still of the opinion that the number of players in the FPSO/FSO market is too high and that a market consolidation will take place in the near future, actively supported by PetroProd.

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

The demands for these jack-ups are very high and the company is confident that contracts will be obtained within the next 6-8 months. 3 tenders for the 1st CJ70 will be delivered in August / September 2008.

Investment in PetroResources

In June 2008, the Company invested US\$ 6 million into PetroResources, a newly set up entity. This investment represents 28.57% of PetroResources's share equity. PetroResources is a company jointly owned by the related companies of PetroProd, namely, Petrolia Drilling ASA, Increased Oil Recovery AS and NET AS.

PetroResources's strategy is to make investments that will employ the use of associated assets, such as drilling rigs, drilling tools/equipments and production vessels owned by the various participating companies, including PetroProd. Currently, PetroResources has already made investments in offshore Guinea Bissau as well as in negotiation for securing a couple of oil blocks offshore of Cyprus.

In view of the above, the directors are of the opinion that this investment will benefit PetroProd.

Summary of 2nd Quarter 2008

Construction progress

There have been no lost time accidents, and the construction processes are developing according to schedule and on budget.

Commitments

At 30 June 2008, the Company's remaining contractual obligations for the construction of the 1st CJ 70 and the 1st FPSO conversion were estimated to be approximately USD311.3 million and USD98.8 million respectively.

For the 1st CJ70, approximately 38% of the contract has been paid as per 30 June 2008, next 23% becomes due in the second half of 2008, 26% becomes due in 2009 and the last 13% becomes due in 2010.

For the 1st FPSO, almost all of the remaining contractual commitments becomes due and payable in 2008 and early 2009.

Related party transactions

During the period ended 30 June 2008, the related party transactions were mainly the management fees to LOG based on the management agreements for the construction period of the 1st FPSO and the 1st CJ 70. Total management fees for the 1st FPSO and 1st CJ 70 during the period amounted to US\$ 4.3 million and US\$ 3.7 million respectively.

There was also a loan from LOG amounting to US\$ 1 million in June 2008 at an interest rate of 6% per annum.

As at 30 June 2008, the amount payable to LOG (including the unpaid management fees and the loan as aforementioned) amounted to US\$ 3.3 million.

Financial Information

(all figures in USD Million)

Profit and loss

2Q08 and 2Q07

- Operating revenue

PetroProd expects no material revenues before delivery of the CJ70 and the FPSOs by Jurong. Total revenue in 2nd quarter 2008 was USD 3.1 million. Revenues in the 2nd quarter 2008 were mainly derived from the chartering of M/T Archimid and M/T Trust prior to their conversions to FPSOs. Revenue derived in 2nd quarter 2007 was lower due to the vessels being only purchased in April 2007.

- EBITDA

EBITDA in 2nd quarter 2008 was USD -6.5 million compared to USD -5.5 million in the 2nd quarter 2007. The main explanation for the deviation between 2007 and 2008 EBITDA was mainly because PetroProd started its operations after 1st quarter 2007, hence there was not much revenue earned in 2nd quarter 2007.

Total operating expenses aggregated USD 9.6 million in 2nd quarter 2008 and USD 6.5 million in 2nd quarter 2007. The reason for the relatively high operating expenses in 2nd quarter 2007, taking into consideration that the Company has just started its operations then, was due to the management fees to LOG Singapore as well as the advisory/legal fees for the start-up of operations in 2nd quarter 2007. Operating expenses in 2nd quarter 2008 comprised mainly of management fees to LOG Singapore, bunker/crew cost incurred in the course of chartering the owned vessels, and withholding tax accrued with regards to the three interest-bearing bond loans issued.

Operating loss after depreciation was USD 8.2 million in 2nd quarter 2008 and USD 5.5 million in 2nd quarter 2007.

- Net financial expense

Net financial expense for 2nd quarter 2008 amounted to USD 4.8 million and USD 2.1 million for 2nd quarter 2007.

The main explanation for the financial expense in 2nd quarter 2008 was because of the accounting treatment for the convertible bond loan issued in November 2007. In order to comply with IAS 39, the convertible options attached to the bond loan are separately fair valued as an embedded derivative, representing a liability in the balance sheet.

The fair value of the embedded derivative is directly related to the share price of the Company and the time for the options to expire. The share price of the Company has gone up almost 40%, from NOK 5 to NOK 6.9, since 31 March 2008 due to more favourable market position. As such, this caused the value of the embedded derivative to increase by about USD 5.1 million, reflecting a loss in the income statement as financial expense.

All the interest expense and interest income in 2008, related to the bond loans, were capitalized in the construction contracts for the period ended 30 June 2008.

Whereas in 2nd quarter 2007, only a portion of the interest expense and interest income for the bond loans taken up for the 1st FPSO and the 1st CJ70 were capitalized in balance sheet as constructions have not fully commenced. The remaining interest expense and interest income were expensed of to the profit and loss, contributing to the net financial expense in 2nd quarter 2007.

YTD 2Q08 and 2Q07

- Operating revenue

Total revenue for period ended 30 June 2008 was USD 5.7 million. This was much higher than those revenue derived for period ended 30 June 2007 due to more charterings in 2008.

- EBITDA

EBITDA for period ended 30 June 2008 was USD -12.2 million compared to USD -5.5 million for period ended 30 June 2007.

Total operating expenses for period ended 30 June 2008 aggregated USD 17.8 million. The nature of the operating expenses incurred for this period was largely similar to those incurred for 2nd quarter 2008. Whilst for period ended 30 June 2007, it totaled to be USD 6.6 million, which approximates closely to those in 2nd quarter 2007 as most of the operating expenses were incurred in 2nd quarter 2007.

Operating loss was USD 15.6 million for period ended 30 June 2008 and USD 5.5 million for period ended 30 June 2007.

- Net financial income / expense

Net financial income for period ended 30 June 2008 amounted to USD 2.0 million. Net financial expense for period ended 30 June 2007 was USD 3.7 million.

The financial income in period ended 30 June 2008 mainly comprised of the net gain in the embedded derivative for the convertible bond loan and the interest income earned from investment made in debt securities, offset by exchange losses incurred.

As for the net financial expense in period ended 30 June 2007, it comprised of the interest expense and interest income on the bond loans for 1st FPSO and the 1st CJ 70.

Balance sheet

As per 30 June 2008, total assets was USD 595.9 million, of which USD 356.8 million relates to the 1st CJ 70 under construction, the 1st FPSO under conversion and vessels on charter, USD 6 million relates to investment in associate, USD 148.7 million relates to cash at bank, and USD 81.1 million relates to investments in debt securities. Corresponding figures as per 30 June 2007 was total assets of USD 474.6 million, of which USD 411.2 million relates to cash at bank, and USD 54.6 million relates to vessels acquired and FPSO under conversion.

Bond loans issued were recognized at USD 470.0 million and USD 327.0 million as per 30 June 2008 and 30 June 2007 respectively.

Over the period, there have been payments made to various sub-contractors for the 1st FPSO and the 1st CJ 70 as well as for the investments made. As such, this explained the fluctuations in the various balance sheet items between the 30.06.2007 and 30.06.2008.

The Company's share of the profit generated by the associate was not accounted for as per 30 June 2008 in view of immateriality. For the period ended 30 June 2008, the Company's share of associate's profit amounted to USD 3k. However, these will be equity accounted for starting July 2008.

Equity

The book value of the Group's equity totaled USD 97.5 million at the end of 2nd quarter 2008, which gave an equity ratio of 16%. The reason for the decrease as compared to the past quarters was due to the losses made during the period. However, the Company is expected to improve its equity position after taking delivery of the assets under construction. The total number of issued shares as per 30 June 2008 were 87,499,000, each with a par value of USD 0.01. PetroProd's largest shareholder is Petrojack ASA, with approximately 42% direct and indirect ownership.

Cash flow

2Q08 and 2Q07

Cash outflow from operations during 2nd quarter 2008 was USD 1.2 million compared to 2nd quarter 2007 net loss of USD 13.1 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 on charter, loss on embedded derivative, unrealized gain on debt securities held, unrealized forex and other movements in the working capital. Cash outflows from investing activities were mainly related to installments paid to Jurong and other suppliers for the construction of the 1st CJ70 and conversion of the 1st FPSO and cash paid for investment in associate. Total cash outflows from investing and financing during 2nd quarter 2008 amounted to USD 55.9 million and USD 14.8 million respectively. Cash outflows from financing activities consisted of mainly interest paid on the bonds issued.

There were minimum cashflow movements in 2nd quarter 2007. The main cashflow movements arose from working capital changes, cash inflows from the second bond loan issued and private placement, as well as cash outflows for the acquisition of the vessels.

Market Demands

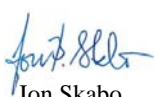
Despite the recent slight decline in the oil price, the fundamentals in the world demand for petroleum products is anticipated to remain strong in the medium to long term. The rise in offshore exploration and production activities is expected to continue but is restrained mainly by limited access to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

The company is well positioned to tap into the market.

PetroProd's BoD expects high demand and favourable market terms to remain strong for the product and services offered by the company.

Statement by Directors and Chief Executive Officer

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2008 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the 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 review of important events that have occurred during the first six months of the financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year.



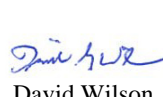
Jon Skabo
Chairman of the
Board



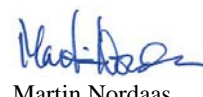
Kevin Mundie
Board Member



Per Hojgard
Board Member



David Wilson
Board Member



Martin Nordaas
Chief Executive Officer

21st August 2008

FINANCIAL REPORT 2ND QUARTER 2008

Condensed Consolidated Income Statement					
All figures in USD (1000)					
	Unaudited 2Q 2008	Unaudited 2Q 2007	Unaudited YTD up to 2Q 2008	Unaudited YTD up to 2Q 2007	Audited Year ended 2007
Operating revenues	3 103	1 047	5 665	1 047	3 520
Operating expenses	-9 615	-6 500	-17 820	-6 596	-26 853
Operating loss before depreciation	-6 512	-5 453	-12 155	-5 549	-23 333
Depreciation	-1 701	0	-3 403	0	-4 537
Operating loss	-8 213	-5 453	-15 558	-5 549	-27 870
Net financial income/expenses(-)	- 4 845	-2 112	1 962	-3 704	-4 043
Net result before taxes	-13 058	-7 565	-13 596	-9 253	-31 913
Tax	0	0	0	0	0
Net result	-13 058	- 7 565	-13 596	- 9 253	-31 913
Basic / Diluted earnings / (loss) per share (average shares) (USD)	-0.1492	-0.3362	-0.1554	-0.4112	-0.4817
Basic / Diluted earnings / (loss) per share (total shares) (USD)	-0.1492	-0.0865	-0.1554	-0.1057	-0.3647

Condensed Consolidated Balance Sheet			
All figures in USD (1000)			
Assets	Unaudited 30.06.2008	Unaudited 30.06.2007	Audited 31.12.2007
Construction contract of drilling rig	231 459	1 270	94 097
Vessel conversion in progress	99 213	19 307	51 931
Vessels	26 087	34 027	29 490
Investment in associates	6 000	0	0
Total non-current assets	362 760	54 604	175 518
Other debtor	3 298	8 095	3 960
Inventories	69	736	704
Other liquid assets	81 086	0	73 963
Cash and cash equivalents	148 674	411 173	341 157
Total current assets	233 127	420 005	419 784
Total assets	595 887	474 609	595 302

Equity and liabilities	Unaudited 30.06.2008	Unaudited 30.06.2007	Audited 31.12.2007
Share capital	875	875	875
Share premium fund	142 171	144 949	142 171
Retained earnings	-45 498	-9 241	-31 902
Total equity	97 548	136 583	111 144
Bonds	469 956	327 021	460 768
Total non-current liabilities	469 956	327 021	460 768
Accounts payable	13 553	515	6 432
Short term portion of long term liabilities	0	0	0
Payable tax	0	0	0
Other current liabilities	14 829	10 490	16 958
Total current liabilities	28 382	11 005	23 390
Total liabilities	488 339	338 026	484 158
Total equity and liabilities	595 887	474 609	595 302
Book equity per share (end of period shares)	1.1148	1.5610	1.2702
Equity ratio	16%	29%	19%

Condensed Consolidated Statement of Changes in Equity			
All figures in USD (1000)			
	Unaudited 30.06.2008	Unaudited 30.06.2007	Audited 31.12.2007
Equity period start	111 144	47 611	47 611
Loss for the period	-13 596	-9 253	-31 913
Currency translation difference	0	0	0
Other gains and losses charged directly to equity	0	0	0
Total gains and losses charged directly to equity	-13 596	-9 253	-31 913
Total recognized income for the period	-13 596	-9 253	-31 913
New equity by contributions in cash	0	98 225	98 225
Expenses related to share issues (net of tax)	0	0	-2 779
Total contribution from shareholders in the period	0	98 225	95 446
Total change of equity in the period	-13 596	88 972	63 533
Equity at period end	97 548	136 583	111 144

Condensed Consolidated Cash Flow Statement					
All figures in USD (1000)					
	Unaudited 2Q 2008	Unaudited 2Q 2007	Unaudited Acc 2Q 2008	Unaudited Acc 2Q 2007	Audited Year ended 2007
Net cash flow from operating	-1 238	-731	-1 886	-7 340	-85 040
Net cash flow from investing	-55 916	-50 228	-165 271	-47 968	-154 230
Net cash flow from financing	-14 820	255 338	-25 326	420 589	534 535
Net change in cash and cash equivalents	-71 974	204 379	-192 483	365 281	295 265
Cash and cash equivalents at beginning of period	220 648	206 794	341 157	45 892	45 892
Cash and cash equivalents at period end	148 674	411 173	148 674	411 173	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 (2006). 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 30 June 2008:

	Construction contract of drilling rig	Vessel conversion in progress	Vessels	Total
All figures in USD (1000)				
Balance at 1 Jan 2008 (Audited)	94 097	51 931	34 027	180 055
Acquisition cost:				
Purchased tangibles (including interest cost capitalized) for period ended 30 June 2008 (Unaudited)	137 362	47 282	0	184 644
Acquisition cost at 30 June 2008	231 459	99 213	34 027	364 699
Depreciation:				
Balance at 1 January 2008 (Audited)	0	0	4 537	4 537
Depreciation for the period ended 30 June 2008 (Unaudited)	0	0	3 403	3 403
Balance at 30 June 2008	0	0	7 940	7 940
Carrying amount:				
Balance at 30 June 2008	231 459	99 213	26 087	356 759
Balance at 31 December 2007	94 097	51 931	29 490	175 518

Note 3 Segment Information

All figures in USD (1000)

Six months ended 30 June 2008	Vessel chartering	CJ 70 drilling rig	FPSO	Unallocated	Total
Revenue – Third party	5 665	0	0	0	5 665
Results					
Depreciation	-3 403	0	0	0	-3 403
Operating expenses	-5 197	-3 911	-5 851	-2 861	-17 820
Segment result					-15 558
Net finance income					1 962
Loss before income tax					-13 596
Tax expense					0
Net loss for the period					-13 596

Six months ended 30 June 2007	Vessel chartering	CJ 70 drilling rig	FPSO	Unallocated	Total
Revenue – Third party	1 047	0	0	0	1 047
Results					
Depreciation	0	0	0	0	0
Operating expenses	-1 463	0	-4 748	-385	-6 596
Segment result					-5 549
Net finance expense	-2 128	0	-3 022	1 446	-3 704
Loss before income tax					-9 253
Tax expense					0
Net loss for the period					-9 253