

# FIRST QUARTER 2008 REPORT

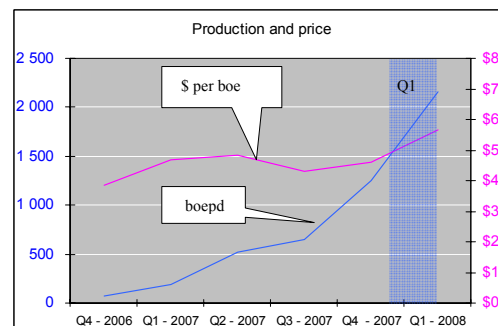
*Rocksource aims to be an innovative, fast growing E&P company. Our vision is to deliver amongst the highest exploration success rates in the industry by appropriate application of technology. Our strategy is to build an early cash flow position in the US, while at the same time building a sustainable exploration-led portfolio in the North Sea. In the longer term the Company aims to build further reserves and production in basins where we can leverage out EM and reservoir technology.*

## KEY FINANCIAL FIGURES

NOK '000	QUARTERLY RESULTS		FULL YEAR	
	Q1 2008	Q1 2007	2007	2006
<b>Operating income</b>	59 931	4 019	66 708	17 606
<b>Exploration costs</b>	(22 952)	(4 719)	(147 712)	(46 136)
<b>EBITDA <sup>*)</sup></b>	16 984	(24 015)	(174 986)	(97 969)
<b>Income tax</b>	21 438	4 091	182 825	17 087
<b>Net profit/(loss)</b>	<b>3 540</b>	<b>(26 439)</b>	<b>(45 358)</b>	<b>(88 252)</b>
Investment <sup>**)</sup>	24 594	37 892	171 634	25 215
Net production boepd	2 163	193	656	68

*\*)Earnings before interest, taxes, depreciation and amortisation*

*\*\*Investments in assets – cash effect*



## FINANCIAL HIGHLIGHTS

*All figures in million NOK (m)*

### High production and prices fuels top line

- Operating income in first quarter was NOK 59.9m, up from NOK 4.0m same quarter 2007 and up from NOK 33.3 last quarter. Average production in first quarter was 2 163 boepd, an increase of 74% compared to previous quarter. Average price per boe in the quarter was \$56.8, up from \$46.2 last quarter.
- EBITDA was NOK 17.0m in the quarter, up from negative NOK 24.0m from same quarter 2007.
- After taxes of NOK 21.4m relating to NCS in the quarter, the net profit for the Group was NOK 3.5m.

### High NCS exploration focus

- External exploration cost before the tax refund was NOK 23.0m in the quarter, on same level as previous quarter. This includes acquisition of seismic data in preparation for the 20th licensing round on NCS.
- The maturing of own prospects, as well as preparation for the APA 2008 and the 20th licensing round on NCS explains the income tax of NOK 21.4m in the quarter.

### Investments onshore US

- The second drilling campaign has been completed during the quarter, and all wells have been tied up to production. The capital expenditure in the quarter was NOK 23.0m, and this includes the cash effect of an earn-out payment of NOK 5.3m due to sustained production exceeding targets as defined at the time of the purchased of Sandhawk Energy LLC.

## OPERATIONAL HIGHLIGHTS

### Onshore production US

- 2008 year-end production target of 2 000 boepd was met in January 2008. Revised target is now an average production for the year of 2 300 boepd.
- Average production in March was 2 261 boepd, giving an average for the quarter of 2 163 boepd.
- All wells have been put on stream, and two further wells have been sanctioned for drilling and additional wells are under evaluation.
- There is no report of spill, falling objects or near miss/LTA from this operation.
- An exploration well on the Shockaloo prospect is being prepared for drilling late in second quarter.

### Preparations for operator role on NCS

- Joined “NCS 2”, a rig consortium initiated by Rig Management Norway. Partnering is ongoing and discussions with drilling contractors have been initiated. The objective is to secure drilling rig capacity for 3 years, starting end of 2009.
- Establishing a sound HSE mindset throughout the organisation is important for the Group. Key events has been hiring a HSE responsible and establishing a HSE/QA reporting system.
- Rocksource is now member of NHO and OLF.

### Exploration

- The partnerships in the licenses awarded in the APA 2007 have started maturing the prospectivity in the licenses.
- Preparation for 20th round are progressing both technically and commercially. Discussions with partners are ongoing.
- Several opportunities have been evaluated for access to short-term drilling opportunities. Objective to participate in wells during 2008 is maintained.
- Maturing opportunities for joint exploration activities with ONGC.

## HIGHER PRODUCTION AND INCREASING PRICES

*The first quarter 2008 was again a strong one for Rocksource, where the profit as well as the cash flow was positively influenced by higher production as well as increased oil and gas prices. The exploration activity remains high in preparation for upcoming licensing rounds and in maturing license portfolio. Focus remains on NCS activities, as well as inorganic international growth.*

### FINANCIAL HIGHLIGHTS

The turnover in the first quarter is the highest recorded, and reflects further production increases on the back of the well program onshore US. The increase in oil and gas prices more than made up for the negative impact from exchange effects from a weakening US dollar. A total of NOK 59.9m was generated in turnover, compared to NOK 4.0m in first quarter 2007, and an 80% increase from NOK 33.3 in fourth quarter 2007.

The exploration activities remains at the same level as previous quarter, resulting in external exploration costs of NOK 23.0m, up from NOK 4.7m in first quarter 2007. Focus remains on preparation for the 20th licensing round and APA 2008 on the NCS, as well as maturing owned licenses. In parallel inorganic opportunities are continuously being evaluated. Total exploration cost, including internal costs was NOK 27.2m in the first quarter.

EBITDA in the quarter was NOK 17.0m showing that the revenue from the production covered all operational costs in the quarter and provides a comfortable cash flow for the Group. This is a considerable improvement from previous quarters, but going forward the EBITDA is expected to fluctuate with production, oil and gas prices, as well as exploration activity levels.

Income tax relates to the tax refund on NCS exploration. The income tax in first quarter this year was NOK 21.4m, down from NOK 76.5m in fourth quarter last year. The income tax related mostly to acquisition of seismic data and the EM processing undertaken, as well as a continued focus on NCS due to APA 2008 and 20th Round preparation. The processing of EM surveys has been undertaken in the 100% owned subsidiary Rocksource Geotech AS. Rocksource ASA has a unique access to the subsidiary's proprietary software and processing skills, which are vital to the Group's exploration programme.

The Group had a positive cash impact of NOK 68.4m in the quarter. This includes NOK 100.0m related to the drawdown of the DnBNOR

exploration credit facility. Investments in the well program in the US subsidiaries totalled NOK 23.0m. Cash balance at the end of the quarter was NOK 155.4m.

The net profit for the quarter was NOK 3.5m. With the continuous build-up of onshore production the cash generation will cover the running cost of the Group and will also contribute towards financing our offshore exploration activities.

The Group's working capital at the end of the quarter is NOK 204.0m, down NOK 9.5m from previous quarter. The equity was NOK 392.8m, up NOK 6.5m from previous quarter, giving the Group an equity ratio of 52.0%, down from 58.9% previous quarter, mostly as a result of the drawdown of the credit facility.

### OPERATIONAL HIGHLIGHTS

Overall, first quarter 2008 has been a very positive quarter for the Group, with significant production growth driving financial results, new license awards and partnerships, positive portfolio developments, and strong progress towards accessing high impact, short-term drilling opportunities.

#### Onshore Production

The average production in the quarter was 2 163 barrels of oil equivalents per day (boepd), an increase of 74% compared to the production in previous quarter. All wells have now been put on stream, and additional wells have been sanctioned. Rocksource achieved its 2008 year-end production target of 2 000 boepd 11 months ahead of time in January, and has now raised its target to an average production for 2008 at 2 300 boepd. There has been no report of spill, falling objects or near miss/LTA from the US operation.

#### Pre-qualified as operator

After being awarded its first operated license in the APA 2007 round Rocksource is focusing on maturing its role as an operator on NCS. The Group joined "NCS 2", a rig consortium initiated by Rig Management Norway.

Partnering is ongoing and discussions with drilling contractors have been initiated. The objective for the consortium is to secure drilling rig capacity for 3 years, starting end of 2009. A substantial focus has been put on establishing a sound HSE mindset throughout the organisation. Key events were the hiring of an HSE responsible and the establishment of a HSE/QA reporting system. Rocksource also became a member of NHO/OLF during the quarter.

### **Exploration**

The Royal Ministry of Oil and Energy awarded Rocksource in total three licenses on the NCS in the APA 2007 Licensing Round in February 2008, and work programs have now been established in the partnerships. After EM analysis on some of the owned licenses the Group decided

earlier in the quarter to relinquish two licenses, while two licenses with positive EM anomalies will be further matured. Inorganic opportunities internationally have been reviewed and remains in focus. The Group expects to access exploration opportunities which can be matured based on its proprietary technology, and add short-term drilling opportunities in the portfolio. Preparation for the 20th round has been a key activity for the Group in the quarter. The EM data acquired during 2007 is proving to be an excellent tool to prioritise and identify attractive opportunities. The Royal Ministry of Oil and Energy has suggested blocks for the round, and these suggestions are now subject to a public hearing. Applications for licenses are expected to be submitted during 2008 with awards expected early 2009.

# ROCKSOURCE ASA

01.01 - 31.3.08

## CONSOLIDATED INCOME STATEMENT

NOK '000

	Q1 2008 IFRS	Q1 2007 IFRS	2007 IFRS
<b>Operating income</b>			
Revenue	59 931	4 019	66 708
<b>Total operating income</b>	<b>59 931</b>	<b>4 019</b>	<b>66 708</b>
<b>Operating expenses</b>			
Operating costs oil and gas	(7 146)	(2 242)	(18 085)
Payroll and related costs	(11 208)	(12 982)	(58 178)
Depreciation and amortisation	(18 348)	(3 746)	(25 120)
Exploration costs	(22 952)	(4 719)	(147 712)
Other operating expenses	(1 641)	(8 090)	(17 718)
<b>Total operating expenses</b>	<b>(61 295)</b>	<b>(31 779)</b>	<b>(266 813)</b>
<b>Operating profit/(loss)</b>	<b>(1 365)</b>	<b>(27 761)</b>	<b>(200 106)</b>
<b>Financial income/(expenses)</b>			
Financial income	708	834	6 747
Foreign currency profit/(loss)	(11 265)	(3 588)	(18 650)
Financial expenses	(5 976)	(16)	(16 174)
<b>Net financial income/(expenses)</b>	<b>(16 533)</b>	<b>(2 770)</b>	<b>(28 077)</b>
<b>Profit/(loss) before taxes</b>	<b>(17 898)</b>	<b>(30 530)</b>	<b>(228 183)</b>
Income tax	21 438	4 091	182 825
<b>Net profit/(loss)</b>	<b>3 540</b>	<b>(26 439)</b>	<b>(45 358)</b>
<b>Attributable to:</b>			
Equity holders of the parent	3 228	(26 436)	(45 533)
Minority interest	312	(3)	175
Basic earnings per share (NOK)	0,006	(0,050)	(0,079)
Diluted earnings per share (NOK)	0,005	(0,050)	(0,079)

## CONSOLIDATED BALANCE SHEET

NOK '000	31.3.2008 IFRS	31.03.2007 IFRS	31.12.2007 IFRS
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Intangible non-current assets</b>			
Deferred tax assets	10 915	-	7 998
Patents and development costs	2 084	2 911	2 290
Seismic library	12 040	18 567	13 377
Goodwill	154 563	154 563	154 563
Capitalised exploration and acquisition costs	-	24 154	-
<b>Total intangible non-current assets</b>	<b>179 601</b>	<b>200 195</b>	<b>178 229</b>
<b>Tangible non-current assets</b>			
Oil- and gas properties	179 512	51 576	183 938
Furniture, fixtures and office machines	5 754	5 069	4 928
Tax-receivable NCS, long-term	18 521	4 102	-
<b>Total tangible non-current assets</b>	<b>203 787</b>	<b>60 747</b>	<b>188 866</b>
<b>Total non-current assets</b>	<b>383 388</b>	<b>260 942</b>	<b>367 095</b>
<b>CURRENT ASSETS</b>			
Accounts receivable	28 792	5 213	22 659
Tax-receivable NCS, short-term	171 108	17 087	171 108
Other receivables	16 614	13 786	7 823
Cash and cash equivalents	155 402	121 821	86 996
<b>Total current assets</b>	<b>371 916</b>	<b>157 907</b>	<b>288 586</b>
<b>Total assets</b>	<b>755 304</b>	<b>418 849</b>	<b>655 681</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	146 001	145 686	145 711
Treasury shares	(25)	(25)	(25)
Share premium reserve	105 338	102 939	105 338
Additional paid in capital	137 450	347 459	134 760
<b>Total paid in capital</b>	<b>388 764</b>	<b>596 059</b>	<b>385 785</b>
<b>Retained earnings</b>			
Retained earnings/(loss carried forward)	3 228	(209 126)	-
<b>Total equity attributable to equity holders of the parent</b>	<b>391 992</b>	<b>386 933</b>	<b>385 785</b>
Minority interest	779	68	467
<b>Total equity</b>	<b>392 771</b>	<b>387 001</b>	<b>386 251</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax	-	5 458	-
Bond loan	194 655	-	194 393
<b>Total non-current liabilities</b>	<b>194 655</b>	<b>5 458</b>	<b>194 393</b>
<b>Current liabilities</b>			
NCS credit facility	99 325	-	-
Accounts and other payables	44 381	10 909	44 208
Tax payable	10 101	-	10 101
Other current liabilities	14 070	15 481	20 728
<b>Total current liabilities</b>	<b>167 878</b>	<b>26 390</b>	<b>75 037</b>
<b>Total liabilities</b>	<b>362 533</b>	<b>31 848</b>	<b>269 430</b>
<b>Total equity and liabilities</b>	<b>755 304</b>	<b>418 849</b>	<b>655 681</b>

## CONSOLIDATED CASH FLOW STATEMENT

NOK '000

	Q1 2008 IFRS	Q1 2007 IFRS	2007 IFRS
<b>Cash flow from operating activities</b>			
Profit/(loss) from operations before exploration costs	21 588	(23 042)	(52 393)
- Exploration costs	(22 952)	(4 719)	(147 712)
<b>Operating profit/(loss)</b>	<b>(1 365)</b>	<b>(27 761)</b>	<b>(200 106)</b>
<b>Adjustments for:</b>			
Tax refund NCS exploration cost	-	-	22 064
Depreciation and amortisation	18 348	3 746	25 120
Share-based remuneration	(72)	3 186	11 976
Interest received	3	133	6 625
Interest paid	(3 156)	(1)	(11 055)
Foreign currency profit/(loss)	(11 265)	(3 588)	(18 650)
Changes in accounts receivable	(6 134)	(3 340)	(20 786)
Changes in accounts and other payables	173	(7 717)	25 582
Changes in other current balance sheet items	(3 194)	15 257	45 011
<b>Net cash from operating activities</b>	<b>(6 661)</b>	<b>(20 085)</b>	<b>(114 218)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(24 594)	(37 892)	(171 634)
<b>Net cash flow from investing activities</b>	<b>(24 594)</b>	<b>(37 892)</b>	<b>(171 634)</b>
<b>Cash flow from financing activities</b>			
Net capital increase	290	74 062	73 813
Proceeds from issuance of long-term debt	-	-	194 321
Proceeds from issuance of short-term debt	100 000	-	-
<b>Net cash flow from financing activities</b>	<b>100 290</b>	<b>74 062</b>	<b>268 134</b>
Effect of changes in exchange rates on cash and cash equivalents	(629)	(69)	(1 090)
<b>Net change in cash and cash equivalents</b>	<b>68 406</b>	<b>16 016</b>	<b>(18 809)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>86 996</b>	<b>105 805</b>	<b>105 805</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>155 402</b>	<b>121 821</b>	<b>86 996</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOK '000	Share capital	Treasury shares	Share premium reserves	Additional paid in capital	Retained earnings	Currency translation differences	Total majority	Minority interest	Total equity
Equity 1 January 2008	145 711	(25)	105 338	125 111	-	9 649	385 785	467	386 251
Net capital increase	290	-	-	-	-	-	290	-	290
Share-based remuneration	-	-	-	(72)	-	-	(72)	-	(72)
Currency translation differences	-	-	-	-	-	2 762	2 762	-	2 762
<b>Total transactions recognised directly in equity</b>	<b>146 001</b>	<b>(25)</b>	<b>105 338</b>	<b>125 039</b>	<b>0</b>	<b>12 411</b>	<b>388 764</b>	<b>467</b>	<b>389 231</b>
Net profit/(loss) for the period	-	-	-	-	3 228	-	3 228	312	3 540
<b>Equity 31 March 2008</b>	<b>146 001</b>	<b>(25)</b>	<b>105 338</b>	<b>125 039</b>	<b>3 228</b>	<b>12 411</b>	<b>391 992</b>	<b>779</b>	<b>392 771</b>
<b>Number of shares a NOK 0,25</b>	<b>Ordinary</b>	<b>Weighted<sup>(1)</sup></b>							
Issued on 1 January 2008 in 1.000	582 845	582 845							
- Treasury shares in 1.000	(100)	(100)							
Issued on 10 March 2008 in 1.000	1 160	255							
<b>Total number of shares in 1.000</b>	<b>583 906</b>	<b>583 000</b>							

<sup>(1)</sup> Weighted average number of outstanding ordinary shares are used in calculations of basic earnings per share.

## ROCKSOURCE Group - Notes first quarter 2008

### Principles and reporting

These financial statements are the unaudited interim consolidated financial statements of Rocksource ASA and its subsidiaries (hereafter “the Group”) for the three-month period ended 31 March 2008. The Interim Financial Statements are prepared in accordance with the International Accounting Standard 34 (IAS 34). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2007, as they provide an update of previously reported information. The accounting policies used in the Interim Financial Statements are consistent with those used in the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements.

### Note 1: Segment information

The Group’s main business segments are:

1. Onshore oil & gas activities
2. Offshore oil & gas activities
3. Geo-technical activities

The transactions between the segments include internal project and administrative support.

### Reporting segments

NOK '000	Onshore - Oil & Gas activities		Offshore Oil & Gas activities		Geo-technical activities		Non-allocated		Total	
	Q1		Q1		Q1		Q1		Q1	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	59 324	5 348	-	-	6 046	580	(5 439)	(1 910)	59 931	4 019
Operating cost oil and gas	(7 146)	(3 329)	-	-	-	-	-	1 087	(7 146)	(2 242)
Payroll and related costs	(3 667)	(2 089)	(5 992)	(3 766)	(1 549)	(7 127)	-	-	(11 208)	(12 982)
Depreciation and amortisation	(16 163)	(1 710)	(538)	(263)	(1 648)	(1 772)	-	-	(18 348)	(3 746)
Exploration costs	(2 965)	(31)	(19 988)	(4 688)	-	-	-	-	(22 952)	(4 719)
Other operating expenses	(964)	(813)	(4 544)	(3 448)	(1 467)	(4 653)	5 335	823	(1 641)	(8 090)
<b>Operating profit/(loss)</b>	<b>28 419</b>	<b>(2 625)</b>	<b>(31 061)</b>	<b>(12 165)</b>	<b>1 381</b>	<b>(12 971)</b>	<b>(104)</b>	<b>-</b>	<b>(1 365)</b>	<b>(27 761)</b>
Net financial income/(expenses)	(5 380)	(1 086)	(10 568)	(1 948)	(585)	265	-	-	(16 533)	(2 770)
<b>Profit/(loss) before tax</b>	<b>23 039</b>	<b>(3 711)</b>	<b>(41 630)</b>	<b>(14 113)</b>	<b>796</b>	<b>(12 707)</b>	<b>(104)</b>	<b>-</b>	<b>(17 898)</b>	<b>(30 531)</b>
Tax income/(expenses)	-	-	21 438	4 091	-	-	-	-	21 438	4 091
<b>Net profit/(loss)</b>	<b>23 039</b>	<b>(3 711)</b>	<b>(20 191)</b>	<b>(10 022)</b>	<b>796</b>	<b>(12 707)</b>	<b>(104)</b>	<b>-</b>	<b>3 540</b>	<b>(26 439)</b>
<b>Total assets</b>	<b>235 764</b>	<b>89 007</b>	<b>655 680</b>	<b>144 308</b>	<b>194 493</b>	<b>185 535</b>	<b>(330 632)</b>	<b>-</b>	<b>755 304</b>	<b>418 849</b>
<b>Capital expenditure</b>	<b>23 371</b>	<b>37 097</b>	<b>3 740</b>	<b>47</b>	<b>(2 518)</b>	<b>748</b>	<b>-</b>	<b>-</b>	<b>24 594</b>	<b>37 892</b>

### Note 2: Related parties /share based remuneration

Reference is made to detailed information disclosed in the Annual Report for 2007 regarding related parties transactions.

Options under the share based remuneration program were following the approval in the Extraordinary General Meeting on 23 February 2006 and the General Meeting on 9 May 2007 recognised in the financial statements from the grant dates. Due to a reversal of over accruals of bonus options, there is a minor positive effect relating to share options in the first quarter.

**Note 3: Tax**

Companies operating on the Norwegian Continental Shelf can claim a 78% refund of their exploration costs limited to the taxable losses for the year. In the first quarter the Group has accounted a positive income tax of NOK 21.4m (fourth quarter 2007 NOK 76.5m). Deferred tax assets of NOK 10.9m relates to deferred taxation from NCS activities.

NOK '000	QUARTERLY		FULL YEAR	
	Q1 2008	Q1 2007	2007	2006
Tax refund this year, NCS	18 521	4 102	171 108	17 087
Tax refund from prior year, NCS	-	-	4 977	-
Deferred income tax, NCS	2 917	-	6 050	-
Deferred income tax from acquisition	-	-	10 790	-
Payable taxes, onshore activities	-	-	(10 101)	-
<b>Total tax income/(expense) in PL</b>	<b>21 438</b>	<b>4 102</b>	<b>182 825</b>	<b>17 087</b>
Tax refund paid	-	-	22 064	-

**Note 4: Purchase of Sandhawk Energy LLC**

Following the success in the drilling campaign initiated after the purchase of Sandhawk Energy LLC in 2006, success earn-outs to the former owners have been triggered. In addition to the original purchase price of USD 2.5m, USD 2m have in total been paid following sustained production in excess of 500 boepd from each of the two Morian areas. These earn-outs are booked in the balance sheet and depreciated.

**Note 5: Exploration costs**

Internal exploration costs are from Q3 2007 and onwards included in "Payroll and related cost" and "Other operating expenses". In previous periods these costs have been included in the exploration line.

NOK '000	QUARTERLY		FULL YEAR	
	Q1 2008	Q1 2007	2007	2006
Exploration cost, external	(22 952)	(4 719)	(147 712)	(46 136)
Exploration cost, internal	(4 285)	(864)	(87 548)	(11 753)
<b>Total exploration cost</b>	<b>(27 237)</b>	<b>(5 583)</b>	<b>(235 260)</b>	<b>(57 889)</b>