



Skeie Drilling & Production

**ANNUAL
REPORT
2007**

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Introduction

Skeie Drilling & Production ASA (SKDP) was established in 2006. The purpose of the company is to own and operate offshore mobile rigs. The company's head office is in Kristiansand. The SKDP Group consists of, in addition to the parent company Skeie Drilling & Production ASA, the three 100 % owned subsidiaries Prodjack 1 Ltd., Prodjack 2 Ltd. and Prodjack 3 Ltd. These subsidiaries are all registered and located in Cyprus.

The first contract with Keppel FELS Shipyard in Singapore for the construction of an N-Class jackup rig for combined drilling and production of oil and gas was entered into in December 2006. Additional contracts were entered into with the yard in February 2007 and June 2007 for the construction of further two rigs. These contracts are identical to the first contract. The rigs are built for harsh environment and comply with the stringent regulations that apply to operation on the Norwegian continental shelf in the North Sea. The company worked for more than six months with the yard to ensure that the rig design would be able to be adapted to Norwegian regulations before signing the first contract.

Even though the rigs comply with the Norwegian continental shelf regulations, they can be used anywhere in the world and are particularly suitable for harsh environment.

The three rigs are planned to be delivered in March 2010, August 2010 and December 2010.

The rig contracts have been entered into by the three Cypriot subsidiaries, there being a separate company for each rig. The rigs will all carry Panamanian flag.

The subsidiaries have in addition entered into agreements with Procorp Management Services AS for the operation of the rigs after delivery.

Financing

The rigs have been financed by shareholders' equity, a convertible bond loan and three 2nd priority bond loans. Further the company is about to finalise first priority bank loans for the rigs.

Total paid up shareholders' equity is USD 100 million, the convertible loan is NOK 660 million at an interest rate of 6.95 % and a conversion price of NOK 30.75, three secured bond loans of a total of USD 495 million at an interest rate of 11.25 % and a bank loan of a total of USD 675 million. The bank loans are being arranged with an international bank consortium. The loan agreements are expected to be signed shortly.

Financial risk

Currency risks

The group's and the company's operational currency is USD. Around 95 % of all contracts entered into for the completion of the rigs in 2010 are in USD. The rigs have been primarily financed in USD to reduce currency risks and the company considers currency risk to be low.

Liquidity risk

The board considers the liquidity in the group and the company to be good.

The company is not exposed to changes in interest rates as the interest rates associated with the company's debt are fixed rate.

Market

The market for the rigs is best on the Norwegian continental shelf in the North Sea, as the rigs comply with the particularly stringent requirements for equipment for operation in this area. They will also be able to be used anywhere in the world provided that water depth is not greater than the capacity of the rigs. The rigs are therefore particularly adapted to the Norwegian market.

There are currently only six jack-up rigs which are approved for operation on the Norwegian continental shelf in the North Sea. There is, in addition to SKDP's three new rigs, a similar rig which is assumed to be approved for the Norwegian continental shelf and which will also be completed in 2010. The total number of jackup rigs will therefore be 10. Analysis shows that the demand for this type of rig is far greater than what can be covered. Therefore, based on the demand we see in the North Sea, the company is optimistic that it will be able to secure all the rigs contracts by 2008.

The company signed in January 2008 a letter of intent with Skeie Energy AS for the hire of one of the rigs, either rig no. 1 or rig no. 2 in SKDP's option, at a day rate which secures an income of minimum USD 470 million. The contract applies initially for a period of 3 years. Skeie Energy, however has an option until 30 September 2008 to extend the contract period by up to 5 years. It is assumed that the letter of intent will be succeeded by a fixed contract by 1 July 2008.

The construction contracts

The contracts entered into with the shipyard in Singapore are turn key contracts. The yard is therefore responsible for engineering, purchasing of all equipment, construction, assembly and commissioning/testing of the rigs. The first milestone was reached on 1 February 2008 when the cutting of steel for rig no. 1 was started on schedule. Cutting of steel for rig no. 2 was started on 31 May, which was also on schedule.

Keppel FELS is one of the most experienced and qualified yards in the world within construction of jack-up rigs and the company is confident that the rigs will be delivered in accordance with contracts.

Administration

The company has, as previously mentioned, entered into an agreement with Procorp Management Services AS for the operation of the rigs after delivery and for technical assistance in the construction period. Key personnel of this company has long and broad experience with mobile rigs, both internationally and on the Norwegian continental shelf.

An agreement has also been entered into with Skeie Technology AS for technical assistance in the construction period and commercial assistance in the construction period and after delivery.

Income statement/balance sheet

The group and the company had no income in 2007 and does not expect to generate significant income before the rigs are delivered in 2010.

The group's operating costs for 2007 were USD 1,147 million compared to USD 15 thousand in 2006. The reason for this increase is that activity levels were very low in 2006. Operating costs primarily relate to administration of the company and subsidiaries and the marketing of the rigs.

The group's profit after financial items was USD 4,680 million compared with a loss of USD 10 thousand for 2006.

Financial income and financial expenses relating to the secured bonds and the convertible loan arranged to finance rig construction, are capitalized under the construction contract in the balance sheet. Other financial income and financial expenses are booked in the profit and loss accounts.

The group had at the end of 2007 an available liquidity reserve of USD 432,0 million. This reserve is primarily intended to be used for milestone payments to the yard and to cover project costs.

The group's total assets at the end of the year were USD 781,1 million, of which the capitalization of the rigs under construction amounts to USD 349,2 million. Project costs and project administration in accordance with agreements are included in the capitalized amount for the rigs. The board considers both the financial and liquidity situation of the parent company and the group to be satisfactory.

In accordance with The Accounting Act paragraph 3-3, it is confirmed that the accounts have been based on the going concern principle.

The board believes that the annual accounts give a correct picture of the group's income, liquidity and balance sheet.

Environment, working environment/employees

The company does not pollute or release substances which can harm the external environment beyond what is normal for this type of activity.

SKDP and its subsidiaries have no own employees. The administration and follow up in the construction period is carried out by personnel provided through the agreements with Procorp Management Services AS and Skeie Technology AS. The company therefore has nothing to report with respect to the working environment or conditions associated with equal opportunities between the genders.

Kristiansand, 6 June 2008


Bjarne Skeie
Chairman


Mah Soot Khiand Edmund
Board Member


Anne Breive
Board Member


Birger Skeie
Managing Director

Skeie Drilling & Production

Income statement, Group

All figures in USD 1.000	Note	01.01.2007 – 31.12.2007	26.01.2006 – 31.12.2006
Revenues		0	0
Project costs		0	0
Employee benefit expenses		0	0
Other expenses		-1 550	-15
Operating profit		-1 550	-15
Financial income		7 766	5
Financial (expenses)		-1 536	0
Net financial income (loss)	16	6 230	5
Income (loss) before tax		4 680	-10
Tax	13	0	0
Net income (loss)		4 680	-10
Basic and diluted earnings per share		0,08	-10,00
Weighted average shares outstanding (000')		56394	1

The notes on pages 11 to 21 are an integral part of these consolidated financial statements.

Skeie Drilling & Production

Balance sheet, Group

All figures in USD 1.000	Note	31.12.2007	31.12.2006
ASSETS			
Rigs under construction	5	349 243	-
Machinery & equipment		53	-
Total non-current assets		349 296	-
Trade receivables		0	-
Inventory		0	-
Prepayments and other receivables	6	494	37 080
Cash and bank deposits	7	432 038	2 936
Total current assets		432 532	40 016
TOTAL ASSETS		781 828	40 016
EQUITY AND LIABILITIES			
Share capital and share premium	8, 9	110 542	16
Additional paid in capital	8	38 584	-
Other paid in equity		0	4 960
Other equity		4 672	(8)
Total shareholders equity		153 798	4 968
Bonds	11	582 345	-
Financial derivative		15 999	-
Total non-current liabilities		598 344	-
Trade creditors		0	8
Other current liabilities	12	29 686	35 040
Total current liabilities		29 686	35 048
TOTAL EQUITY AND LIABILITIES		781 828	40 016

The notes on pages 11 to 21 are an integral part of these consolidated financial statements.

Kristiansand, 6 June 2008


Bjarne Skeie
Chairman


Mah Soot Khiand Edmund
Board Member


Anne Breive
Board Member


Birger Skeie
Managing Director

Skeie Drilling & Production

Cash flow statement, Group

All figures in USD 1.000	01.01.2007 – 31.12.2007	26.01.2006 – 31.12.2006
Cash flow from operating activities:		
Net income (loss) for the period	4 680	-10
Adjustments for:		
Change in value derivatives	-5 186	0
Interest income	-3 065	-5
Interest expense	32	0
Changes in working capital	-3 539	-15
Change in trade and other receivables	36 586	-37 080
Change in trade/ other payables and other current liabilities	29 677	8
Cash generated from operations	62 724	-37 086
Interest income	3 065	5
Interest expense	-33 711	0
Net cash generated from (used in) operating activities	32 078	-37 081
Cash flow from investing activities:		
Purchase of fixed assets	-315 617	0
Net cash generated from (used in) investing activities	-315 617	0
Cash flow from financing activities:		
Net proceeds from issuance of share capital	89 110	16
New loans	623 531	40 000
Net cash from financing activities	712 641	40 016
Net increase (decrease) in cash and cash equivalents	429 102	2 935
Cash and cash equivalents at beginning of period	2 936	0
Effect of exchange rates on cash and cash equivalents	0	2
Cash and cash equivalents at end of period	432 038	2 936

The notes on pages 11 to 21 are an integral part of these consolidated financial statements.

Skeie Drilling & Production

Statement of changes in equity, Group

All figures in USD 1.000	Share capital	Share premium	Other paid in equity	Retained earnings	Total shareholders equity
Balance at 31 December 2005	0	0	0	0	0
Profit/(loss) for the period	0	0	0	-10	-10
Currency translation differences	0	0	0	2	2
Issuance of share capital, net of share issue cost	16	0	0	0	16
Equity component of compound financial liability (Convertible loan)	0	0	4 960	0	4 960
Balance at 31 December 2006	16	0	4 960	-8	4 968
Profit/(loss) for the period	0	0	0	4 680	4 680
Privat placement 21 February 2007	17 325	14 374	-4 960	0	26 739
Privat placement 26 February 2007	33 410	27 732	0	0	61 142
Converting debt into shares	54 600	5 400	0	0	60 000
Fund emission 30 November 2007	5 191	-5 191	0	0	0
Issue expenses	0	-3 732	0	0	-3 732
Balance at 31 December 2007	110 542	38 584	0	4 672	153 798

The notes on pages 11 to 21 are an integral part of these consolidated financial statements.

Skeie Drilling & Production

Notes to the annual financial statements, Group

NOTE 1 – GENERAL INFORMATION

Skeie Drilling & Production ASA (the Parent Company) was established in January 2006 as a long-term financial and strategic investor in the oil and offshore industry. The company's activities involve construction and operations of jack-up drilling rigs. Skeie Drilling & Production ASA is registered and domiciled in Norway with its headquarter based in Kristiansand.

The Parent Company has three subsidiaries in Cyprus, Prodjack 1 Ltd, Prodjack 2 Ltd. and Prodjack 3 Ltd, which have during 2007 entered into three building contracts with KFELS.

Skeie Drilling & Production ASA is listed on the OTC-list in Norway.

Prior to the adoption of IFRS the financial statements were prepared in accordance with Norwegian Accounting standards (NGAAP). NGAAP differs in certain respects from IFRS and certain accounting and valuation methods have been amended, when preparing these financial statements, to comply with IFRS. There are no major transition effect going from NGAAP to IFRS on the reported financial position, financial performance and cash flows of the Parent Company.

The annual IFRS financial statement was authorized for issue by the Board of Directors on 6 June, 2008.

NOTE 2 – SUMMARY OF THE MOST IMPORTANT ACCOUNTING POLICIES

A description of the most important accounting principles used to prepare the annual financial statements is given below. These policies have been consistently applied to all the interim reporting periods, unless otherwise stated.

2.1 – Basic principles

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The annual financial statements have been prepared under the historical cost convention with the following modifications: financial derivatives and financial assets and obligations valued at fair value through profit or loss.

The financial statements have been prepared under the assumption that the Skeie Drilling & Production (the Group) is a going concern.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed separately (see note 4).

Accounting policies

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007.

- IAS 1 (Amendment), Presentation of financial statements – Capital disclosures. The amendment requires additional disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 3.2.
- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- Revised guidance on implementing IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

Notes to the annual financial statements, Group

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been earlier adopted:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.*
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009.
- IFRIC 14, 'IAS 19 – The limit on a defined benefits asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.*
- IAS 1 (Revised 2007) "Presentation of Financial Statements" (effective 1 January 2009).*

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- IFRIC 11, Group and treasury shares transactions. IFRIC 11 addresses how to apply IFRS 2 – Share Based Payments to share-based payments arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Group will apply IFRIC 11 from annual periods beginning 1 January 2008.
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.*

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.*

* Have not been endorsed by the European Union. The Group will be able to apply these standards only if they are endorsed by the European Union.

2.2 – Consolidation principles

The Company has three subsidiaries under incorporation in the domicile of Cyprus as of 31 December 2006. These subsidiaries have been consolidated into the Group from the first quarter of 2007.

Subsidiaries

The subsidiaries are all entities (including special purpose entities) where the Group has a controlling interest in the entity's financial and operational strategy, usually through ownership of more than half the voting capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries will be consolidated from the date control has been transferred to the Group and will be omitted from consolidation when control ends.

The purchase method is used when accounting for acquired subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Income Statement.

Inter-company transactions, inter-company balances and unrealized profit between group companies have been eliminated. Unrealized loss is eliminated, but considered an impairment indicator of the asset transferred. Accounting policies in subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 – Segment information

A business segment is a part of the enterprise that supplies services that are subject to risk and return that differs from other business segments. A geographical segment is a part of the enterprise that supplies services that are subject to risks and returns that are different from segments operating in other economic environments.

According to the Group's internal financial reporting systems, business segments are the primary basis for segmentation. Based on IAS 14, the Group considers that the entire Group's operations constitute a single business segment which involves construction and operation of jack-up drillings rigs. The Group currently has no drilling activities, and it is not relevant with geographical segments insofar.

2.4 – Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the Currency of the primary economic environment in which the entity operates ('the functional Currency'). The financial statements are presented in US Dollars (USD), which is the Group's functional and presentation Currency.

(b) Transactions and Balance Sheet items

Transactions in foreign currency are translated to the functional currency using the transaction exchange rate. Foreign exchange gains and losses that arises before payment of such transactions and when translating cash items (assets and liabilities) in foreign currency at year-end to the exchange rate on the Balance Sheet date are entered in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Change in fair value of monetary securities in foreign currency classified as available-for-sale are split into translation differences due to change in amortized cost of securities and other changes in the book value of securities. Translation differences are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences for non-monetary items (both assets and liabilities) are included as part of the profit and loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value reserve in equity.

(c) Group companies

The results and financial position for Group entities (none with hyper-inflation) with a functional currency different from the presentation currency are translated as follows:

- i) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet
- ii) income and expenses for each Income Statement are translated at average exchange rates (The transaction rate is used, if the average does not give a fair estimate of the accumulated effects of using the transaction rate)
- iii) all resulting exchange differences are recognized as a separate component of equity.

During consolidation, the differences when translating net investment in foreign entities, and financial instruments designated as hedging of such investments, are carried directly to equity. When a foreign operation is sold or otherwise disposed of, exchange differences that were recorded in equity are recognized in the Income Statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 – Tangible fixed assets

Tangible fixed assets are carried at the acquisition cost, less accumulated depreciation. The acquisition cost includes costs directly associated with acquiring the fixed asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repair and maintenance costs are charged to the Income Statement in the period in which the cost is incurred.

Fixed assets are depreciated on a straight-line basis over the estimated useful life, adjusted for residual values and asset recycling costs. The estimated useful lives are as follows:

Machinery, equipment and systems	30 years
Loose drilling equipment	5 years
Fixture and office equipment	3-10 years
Jack-up rigs	30 years

Notes to the annual financial statements, Group

The cost of rigs has been categorized separately by its main components, and useful lives have been determined for each component. The primary portion of the rigs is depreciated over 30 years, while other components are depreciated over their useful lives. That part of the rig's cost which relates to special periodic surveys, which take place every 5 years, is depreciated over the 5 year period.

The estimated useful life of machinery, equipment and systems and jack-up rigs is an estimate by management based on a variety of factors like historical experience and expectations regarding future operations, performance and utilization of assets. The equipment and machinery on board work in conjunction with entire rig and form a part of the composite drilling unit.

The assets' residual values and useful lives are re-assessed at each Balance Sheet date and are adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Rigs under construction

New building contracts for rigs are entered in the Balance Sheet as Rigs as the installments are paid to the shipyard and classified as prepayments or Rigs under construction as appropriate. Directly attributable costs, including directly attributable borrowing costs, are also entered in the Balance Sheet as part of the acquisition cost.

2.6 – Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization but tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 – Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the Balance Sheet date.

(b) Loans and receivables

Loans and receivables are non-derivate financial assets with fixed payments that are not sold in an active market. These are classified as current assets, unless they fall due for payment more than 12 months after the balancing date. If so, they are classified as fixed assets. Loans and receivables are classified as "trade debtors and other receivables" in the Balance Sheet (Note 2.9).

(c) Financial assets available for sale

Financial assets available for sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the Income Statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Income Statement within 'other (losses)/gains – net' in the period in which they arise.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in equity are included in the Income Statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the Income Statement.

Dividends on available-for-sale equity instruments are recognized in the Income Statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's assesses at each Balance Sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the Income Statement. Impairment losses recognized in the Income Statement on equity instruments are not reversed through the Income Statement. Impairment testing of trade receivables are described in Note 2.9.

2.8 – Derivates and hedging

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of a net investment in a foreign operation (net investment hedge).

Changes in the fair value of derivative instruments are recognized immediately in the income statement.

2.9 – Trade receivables/Other current assets

Short term trade receivables are recorded at their nominal values less provisions for bad debts, as this is a reasonable approximation of the fair value of the receivables. The Group regularly reviews its accounts and estimates the amount of uncollectible receivables each period and establishes an allowance for uncollectible amounts when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is based on the age of unpaid amounts (days overdue), information about the financial capacity of the customers, and other relevant information.

2.10 – Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 – Share capital and premium

Ordinary shares are classified as equity.

Costs associated directly with issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. In the event of purchase of own shares, the payment, including any transaction costs less tax, is carried as a reduction in equity (assigned to the company's shareholders) until the shares are cancelled, reissued or sold. If own shares are subsequently sold or reissued, the payment, less direct transaction costs and associated tax effect, is entered as an increase in equity assigned to the Group's shareholders.

2.12 – Loans

Loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Income Statement over the period of the borrowings using the effective interest method.

In case of establishment of a convertible loan, the fair value of the conversion right is determined using a financial valuation method named Geometric Brownian Model for Equity. This amount is recorded as a financial derivative liability and separated from the loan amount, which is recorded on an amortized cost basis until extinguished on conversion or maturity of the bonds. The financial derivative liability is recognized and included in financial liability, and the changes in the value of the liability are recorded through profit and loss.

Loans are classified as short-term debt, unless there is an unconditional right to defer payment of the debt for more than 12 months from the Balance Sheet date.

2.13 – Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, not accounted for, it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.14 – Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.15 – Revenue recognition

The Group is involved in chartering out drilling units. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognized as follows:

(a) Charter rate contracts

Revenue derived from charter contracts, and charter related services is recognized in the period that services are rendered at rates established in the relevant contracts.

Certain contracts include mobilisation fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognized as revenue over the contract period whereas the investment is depreciated over the remaining lifetime of the asset.

In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fees are recognized as revenue over the estimated contract period. The related investment is depreciated over the estimated contract period.

For projects that are assumed to result in a loss the total estimated loss is recognized immediately.

(b) Interest income

Interest income is recognized in the Income Statement proportionally over time in accordance with the effective interest rate method. Interest income is classified as financial income, if it is part of the total cash management.

(c) Dividend Income

Dividend income is recognized when the right to receive payment is established.

2.16 – Dividend payable

Dividends are recognized as a liability in the period in which the dividends are approved by a Shareholder's meeting.

2.17 – Borrowing costs

Borrowing costs incurred during construction of fixed assets and which are directly attributable to the construction, are capitalized. Other borrowing costs are charged to the Income Statement.

NOTE 3 – FINANCIAL RISK MANAGEMENT**3.1 – Financial risk factors**

The Group is exposed to a variety of financial risks including currency risk, fair value interest risk, price risk and credit risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

However, based on an assessment of the different risks involved, no hedging contracts have been entered.

The Group has a contract risk based on the fact that at balance sheet date, no contract with customer has been entered into regarding the 3 rigs under construction.

a) Foreign currency risk

The majority of costs and investment are made in USD. The Group is also funded in this currency. Cost related to operating of the project office in Norway is mainly in NOK. However, these costs are not significant compared to total investment and the Group has not entered into any currency hedging contracts.

b) Interest rate risk

The Group's cash are placed mainly in USD with short duration, and the company is exposed to changes in the USD interest rate.

As of 31 December 2007 the Group has long term debt with fixed interest rates, and thus is not influenced by changes in interest rates.

c) Credit risk

Credit risk is not considered to be significant as of date the operations of the Group are limited.

d) Liquidity risk

The Group's strategy of handling liquidity risk is to have sufficient cash and cash equivalents at all time to pay any liabilities on maturity dates.

The Group has sufficient cash available for operating of the company and its subsidiaries until mid 2009.

The Group is engaged in signing a first priority bank loan for each of the three drilling rigs under construction. The total loan amounts for the three rigs are USD 675 mill. One of the conditions in the loan agreement is that we can draw on the loan before delivery date of the rigs. That, together with issuing new shares, gives us possibility to meet the installments to the yard and other liabilities until the rigs are delivered. Then the Group will be funded until 2010.

3.2 – Capital risk management

The main objectives of the Group when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure.

Through maintaining a satisfactory gearing ratio (connected to equity and liabilities) the Group is supporting to maximize the value of the companies' shares.

	2007
Total borrowings	598,344
Less: cash and cash equivalents	(432,038)
Net debt	97,611
Total equity	153,798
Total capital	163,559
Gearing ratio	60 %

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are evaluated continuously and are based on historical experience and other factors, including expectations regarding future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Fair value of Compound financial liability

The fair value of financial liabilities and equity instrument is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

NOTE 5 – JACK-UP RIGS UNDER CONSTRUCTION

All figures in USD 1.000	Prodjack 1	Prodjack 2	Prodjack 3	Book value 31.12
Opening balance 01.01.2007				
Change in 2007				
Instalments yard	92 700	117 896	80 479	291 075
Change orders, engineering, supervision and management	9 953	8 272	6 264	24 489
Capitalized interest	12 656	11 213	9 810	33 679
Book value per 31.12.2007	115 309	137 381	96 553	349 243
Contract price yard	370 800	392 987	402 394	
Paid instalments to yard	92 700	117 896	80 479	
Paid instalments to yard	25 %	30 %	20 %	

	1Q 08	2Q 08	3Q 08	4Q 08	2009	2010	SUM
Remaining instalments to yard							
Prodjack 1	55 620				37 080	185 400	278 100
Prodjack 2		78 597				196 494	275 091
Prodjack 3			60 360		80 478	181 077	321 915

Funding and capex**Funding**

Equity	150 000
Convertible bonds	110 000
High yield bonds	495 000
Take-out financing	\$675 000
Total funding	1 430 000

Capex

Keppel Fels (turnkey) unit #1, #2 and #3	1 166 000
Variation orders, engineering, supervision and management	30 000
Handling tools, pipes and spare parts	30 000
Capitalized net interest cost during construction	180 000
Financing fees	24 000
Total capex	1 430 000

The three jack-up rigs under construction in Singapore are N-Class Harsh Environment Jack-up rigs, for combined drilling and production of oil & gas. The rigs will all be approved for operating on the Norwegian Continental Shelf.

NOTE 6 – PREPAYMENTS AND OTHER RECEIVABLES

All figures in USD 1.000	2007	2006
Prepayment to yard		37 080
Account receivables	372	
Call derivate	122	
Total prepayments and other receivables	494	37 080

NOTE 7 – CASH AND CASH EQUIVALENTS

All figures in USD 1.000	2007	2006
Cash in bank and on hand	432 038	2 936
Short term bank deposits	0	0
Cash and cash equivalents	432 038	2 936

The carrying amounts of cash approximate fair value. Currently, there is no credit facility for the Group.

NOTE 8 – SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital	Share premium	Total
Issuance of share capital	1 000	16 000	0	16 000
At 31 December 2006	1 000	16 000	0	16 000
Share split 1: 10	10 000	16 000	0	16 000
Conversion of USD 60 Mill.	33 750 000	54 600 000	5 400 000	60 000 000
Private placement February 2007	31 150 000	50 735 000	42 106 000	92 841 000
Fund emission 30 November 2007	3 200 000	5 191 000	-5 191 000	0
Issue expense			-3 731 000	(3 731 000)
At 31 December 2007	68 110 000	110 542 000	38 584 000	149 126 000

The shareholders Skeie Group AS and Keppel Fels Ltd. have given the company an interest-free short term loan of USD 40 Mill. The loan facility has a due date of 14 June 2007, but the shareholders can convert the loan facility to new shares at a subscription price of NOK 100 per share. The conversion right may be exercised at any time up to 14 June 2007. The agreement provides for dilution.

NOTE 9 – SHAREHOLDERS

The Share capital of USD 110 542 000 consists of 68 110 000 shares each NOK 10 (USD 1,62). All shares have equal rights.

List of the 20 major shareholders 31.12.07:

Shareholder name	Shares	Per cent
Skeie Technology AS	33 300 960	48,89 %
Nerland Investments AS	5 537 000	8,13 %
Wideluck Enterprises Ltd.	3 659 040	5,37 %
Bear Stearns Securities Corp.	2 732 000	4,01 %
Morgan Stanley & Co. Intl. Plc.	2 420 000	3,55 %
Barclay Bank Plc	1 229 500	1,81 %
Credit Suisse Securities	956 500	1,40 %
Goldman Sachs & Co. Equity	825 000	1,21 %
Skarpebo Invest AS	791 600	1,16 %
Jce Group AB	750 000	1,10 %
Svenska Handelsbanken S.A. HM	603 000	0,89 %
Wilhelmsen Capital AS	500 000	0,73 %
Wakco AS	437 000	0,64 %
Watrium AS	437 000	0,64 %
Watrium Eiendom AS	437 000	0,64 %
MM Invest AS	429 250	0,63 %
Odin Offshore	380 500	0,56 %
Invest Sør AS	325 000	0,48 %
Byggvirksomhet AS	300 000	0,44 %
Olympia Holding AS	300 000	0,44 %
Total	38 837 960	57,02 %
Others shareholding	29 272 040	42,98 %
Total no. of shares	68 110 000	100,00 %

Birger Skeie, CEO of Skeie Drilling & Production ASA, owns through his 100 % owned company Biscon AS, 200.000 shares.

NOTE 10 – EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

All figures in USD 1.000	2007	2006
Income/loss attributed to equity holders of the Company	4 680	(10)
Weighted average shares outstanding (thousands)	56 394	1
Basic and diluted earnings per share (USD per share)	0,08	(10,00)

NOTE 11 – BOND LOANS

All figures in USD 1.000		Rate of interest %	Effective interest rate %	Maturity	Carrying amount 31 Dec 2007	Carrying amount 31 Dec 2006
11,25 % bond loan – face value USD 165 million	Fixed	11,25 %	11,84 %	2 013	161 121	-
11,25 % bond loan – face value USD 165 million	Fixed	11,25 %	11,84 %	2 013	161 121	-
11,25 % bond loan – face value USD 165 million	Fixed	11,25 %	11,84 %	2 013	160 875	-
6,95 % convertible bond loan – face value NOK 660	Fixed	6,95 %	12,17 %	2 013	99 228	-
Total					582 345	-
Current portion					-	-
Non-current portion					582 345	-

Call options on bond loans

	Termination 2010	Termination 2011	Termination 2012
Bond loans issued in 2007			
11,25 % bond loan – face value USD 165 million	106 %	104 %	102 %
11,25 % bond loan – face value USD 165 million	106 %	104 %	102 %
11,25 % bond loan – face value USD 165 million	106 %	104 %	102 %
6,95 % convertible bond loan – face value NOK 660 *			

* borrower may redeem the loan during 5 July 2007 to 4 July 2008 at 140 %, and during 5 July 2008 to 4 January 2009 at 109 %.

Put option on bond loans

Until listing of the Borrowers shares on an exchange, each bond holder may sell his bonds to the Borrower at 103 % if Bjarne Skeie (or a company directly or indirectly controlled by him) ceases to own at least 33,4 % of the shares in the Borrower. This put option applies for the three 11,25 % bond loans.

The 6,95 % convertible bond loan may be redeemed if a shareholder or affiliated shareholders (other than Bjarne Skeie and/or companies directly or indirectly controlled by him) directly or indirectly acquire the right to cast more than 50 % of the votes that may be cast at a general meeting of the Borrower, each Bondholder may have its bonds redeemed by the borrower during 5 July 2007 to 4 July 2008 at 150 % and 5 July 2008 to 5 July 2012 at 101 %.

The three 11,25 % bond loans are secured by pledge in the rigs and the assignment of rig insurances.

Convertible bond

The carrying amount and fair value of the convertible bond are as follows:

The company issued a 6.95 % convertible bond loan at par value of NOK 660 mill. The bond is denominated in NOK, each with a face value of NOK 500.000. The bonds mature 5 years from the issue date at their nominal value of NOK 660 mill, or can be converted into shares at the holder's option at the maturity date at the rate of NOK 30.75 per share. The conversion right/option right is valued at market value based on the "Geometric Brownian model for equity".

The following assumptions and parameters are used in the valuation of the conversion right:

Parameter	Value
Risk free rate	5,45 - 5,98
Volatility	35 %
Maturity	5 July 2012
Dividends	-
Spot rate for equity	NOK 19
Conversion price	NOK 30.75
Issuer's call option 1	140 % of notional
Issuer's call option 2	150 % of notional
Date of pricing	31 December 2007

The values of the liability component and the option right (conversion right) were determined at issuance of the bond on 5 July 2007. The functional currency of the company is USD, and the convertible loan is nominated in USD. Accordingly, the conversion right is classified as a financial derivative liability. Subsequent changes in fair value from issuance is recorded through profit and loss as "Financial expenses". The convertible bond recognized in the balance sheet is calculated as follows:

	2007
Face value of convertible bond issued on 5 July 2007	113 232
Financial derivative liability	21 185
Net loan on initial recognition at 5 July 2007	92 047
Interest expense accrued	3 800
Interest paid	0
Net loan at 31 December 2007:	99 228

NOTE 12 – OTHER CURRENT LIABILITIES

All figures in USD 1.000	2007	2006
Liabilities to Skeie Technology AS	1 361	
Liabilities to Norsupply AS	187	
Liabilities to other creditors	493	35 040
Accrued interest	27 645	
Other current liabilities	29 686	35 040

NOTE 13 – TAXES

Deferred income tax assets and liabilities are offset when the deferred income taxes relate to the same fiscal authority. Net deferred tax in the balance sheet:

All figures in USD 1.000	2007	2006
Deferred income tax assets	0	0
Deferred tax liabilities	0	0
Deferred income tax liabilities (net)	0	0

Movement in deferred tax:

Beginning of the year	0	0
Income statement charge	0	0
End of the year	0	0

Deferred tax asset on tax loss carried forward is capitalized when it is probable that the Group can offset the tax loss against future taxable profit. At year end the Group has tax asset of USD 7 331 (2006: USD 0). The tax loss relates to Skeie Drilling & Production ASA. It is not expected that operation in these companies will generate taxable profit in the future, and the deferred tax asset is therefore not recognized.

Income tax expense

All figures in USD 1.000	2007	2006
Current tax	0	0
Changes in deferred tax	0	0
	0	0

NOTE 14 – EMPLOYEE BENEFIT EXPENSES

The Group has not paid salary or other remuneration to the board of directors in 2007. The Group has no employees.

NOTE 15 – PROVISIONS FOR OTHER LIABILITIES AND CHARGES

There are no provisions for other liabilities and charges as of 31 December 2007.

NOTE 16 – FINANCIAL INCOME AND EXPENSES

Financial income and expenses for the period ended:

All figures in USD 1.000	2007	2006
Financial income:		
Interest income	3 065	5
Other financial income	3 197	0
Interest expense	(32)	0
Total financial income	6 230	5

NOTE 17 – RELATED-PARTY TRANSACTIONS

Skeie Technology and Norsupply, both companies controlled by the Board Chairman Mr. Bjarne Skeie, have entered into contracts with Skeie Drilling & Production to do commercial and technical management of the companies and to follow up the construction of the rigs. These agreements are running to delivery date of the rigs. The agreement with Skeie Technology may be terminated with a 12 months notice and with Norsupply the termination must be done with a 6 months notice. During 2007 Skeie Technology has invoiced SKDP for USD 4.3 Mill. and the amount invoiced from Norsupply was USD 1.2 Mill.

NOTE 18 – CONTINGENCIES

The Group has recognized no contingent liabilities as of 31.12.2007 and 31.12.2006.

NOTE 19 – SERVICES PROVIDED BY THE COMPANY'S AUDITOR AND NETWORK FIRMS

Audit required by law is charged by USD 7.588 in 2007 and other assistance is charged by USD 112.204.

NOTE 20 – EVENTS AFTER THE BALANCE SHEET DATE**a) Payments to yard**

2nd instalment on Prodjack 1, USD 55.620.000 was paid on 1 February 2008.

b) Steel strike

Steel strike for rig no. 1 started 1 February 2008, and steel strike started for rig no. 2 31 May 2008.

Skeie Drilling & Production ASA

Income statement, Parent Company

All figures in USD 1.000	Note	01.01.2007 – 31.12.2007	26.01.2006 – 31.12.2006
Revenue		0	0
Total revenue		0	0
Hired services		0	0
Other expenses		871	15
Total operating expenses		871	15
Operating profit/loss		-871	-15
Interest income		15 865	0
Changes in market value of financial current assets		7 217	0
Interest cost		-44 659	0
Other financial expense		0	5
Net financial items		-21 578	5
Ordinary result before taxes		-22 450	-10
Tax on ordinary result	5	0	0
Ordinary result		-22 450	-10
Disclosure:			
Share premium		-22 450	0
Other equity		0	-10
Total disposed		-22 450	-10

Skeie Drilling & Production ASA

Balance sheet, Parent Company

All figures in USD 1.000	Note	31.12.2007	31.12.2006
ASSETS			
Non-current assets:			
Investments in subsidiaries	1	310 096	0
Loans to group companies		6 100	0
Total financial non-current assets		316 196	0
Total non-current assets		316 196	0
Current assets:			
Trade receivables		364	0
Other receivables		8	0
Receivables PetroJack Ltd u/incorporation		0	37 080
Total receivables		372	37 080
Bank deposits, cash in hand, etc.		432 037	2 936
Total current assets		432 410	40 016
TOTAL ASSETS		748 605	40 016
EQUITY AND LIABILITIES			
Share capital	3, 4	110 542	16
Share premium reserve	3	16 125	0
Total paid-in equity		126 667	16
Other equity		0	-8
Total equity		126 667	8
Non-current liabilities:			
Bond loan	7	483 117	0
Convertible loan	7	111 307	0
Total non-current liabilities		594 423	0
Current liabilities:			
Accounts payable		1 942	8
Liabilities Skeie Group and Keppel FELS		0	40 000
Accrued Interest		25 573	0
Total current liabilities		27 515	40 008
Total liabilities		621 938	40 008
TOTAL EQUITY AND LIABILITIES		748 605	40 016

Kristiansand, 6 June 2008


Bjarne Skeie
Chairman


Mah Soot Khiand Edmund
Board Member


Anne Breive
Board Member


Birger Skeie
Managing Director

Skeie Drilling & Production ASA

Cash flow statement, Parent Company

All figures in USD 1.000	01.01.2007 – 31.12.2007	26.01.2006 – 31.12.2006
Cash flow from operations:		
Result before taxes	-22 450	-10
Change in value in current debtors and creditors	38 642	-37 080
Changes in other provisions	25 573	10
Net cash flow from operations	41 765	-37 080
Cash flow from investments:		
Purchase of shares and investments in other companies	-316 196	0
Net cash flow from investments	-316 196	0
Cash flow from financing:		
Proceeds from long term loans	614 423	40 000
New equity received	89 110	16
Net cash flow from financing	703 533	40 016
Net change in cash and cash equivalents	429 102	2 936
Cash and cash equivalents at the beginning of the period	2 936	0
Cash and cash equivalents at the end of the period	432 037	2 936

Skeie Drilling & Production ASA

Notes to the annual financial statements, Parent Company

Accounting policies

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Classification and valuation of balance sheet items

Assets intended for long term ownership or use have been classified as fixed assets. Assets expected to be realised in, or is intended for sale or consumption in the entity's normal operating cycle have been classified as current assets. Receivables are classified as current assets if they are expected to be realised within twelve months after the transaction date. Similar criteria apply to liabilities.

Current assets are valued at the lower of cost and fair value. Short term liabilities are reflected at nominal value.

Fixed assets are carried at historical cost. Fixed assets whose value will deteriorate are depreciated on a straight line basis over the asset's estimated useful life. Fixed assets are written down to net realisable value if a value reduction occurs which is not expected to be temporary. Except for accruals, long term liabilities stated in Norske Kroner (NOK) are reflected in the balance sheet at nominal value on the establishment date. Accruals are discounted to present value if the time value of money is material.

Subsidiaries

Investments in subsidiaries is valued at cost in the company accounts. The investment is valued as cost of acquiring shares, providing they are not impaired.

Group contributions to subsidiaries, with tax deducted, are reflected as increases in the purchase costs of the shares.

Dividends and group contributions are recognized in the same year as they are recognized in the subsidiary/ associated company accounts. If dividends exceed retained earnings after acquisition, the exceeding amount is regarded as reimbursement of invested capital and the distribution will reduce the recorded value of the acquisition in the balance sheet.

Trade and other receivables

Trade and other receivables are recognized in the balance sheet at nominal value after deduction of provision for bad debts. The provision for bad debts is estimated on the basis of an individual assessment of each major receivable. In addition, for the remainder of the receivables, a general provision is made based on estimated expected losses.

Cost of emission and loan raising

The cost on emission is entered directly against equity. The cost on loan raising is entered into the balance sheet, and is charged as an expense over the term of the loan.

Foreign currencies

Items denominated in foreign currencies are translated into NOK at the exchange rate on the balance sheet date.

Taxes

The tax expense in the income statement consists both of taxes payable for the accounting period, and the period's changes in deferred tax. Deferred tax is calculated as 28 % of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Deferred tax assets and deferred tax liabilities are presented net in the balance sheet.

Tax on company contributions given, booked as an increase in the purchase price of shares in other companies, and tax on company contribution received booked directly to equity, have been booked directly against tax items in the balance sheet (offset against tax payable if the Group contribution has affected tax payable, and offset against deferred taxes if the Group contribution has affected deferred taxes).

Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term highly liquid investments with maturities of three months or less from the purchase date.

NOTE 1 – INVESTMENTS IN SUBSIDIARIES

All figures in USD 1.000	Ownership	Fair value	Book value
Prodjack 1 Ltd	100 %	101 600	101 600
Prodjack 2 Ltd	100 %	122 996	122 996
Prodjack 3 Ltd	100 %	85 500	85 500
Total		310 096	310 096

NOTE 2 – INTERCOMPANY BALANCES WITH GROUP COMPANIES

All figures in USD 1.000	Trade receivables		Other receivables	
	2007	2006	2007	2006
Group companies	0	0	0	0
Total	0	0	0	0

NOTE 3 – EQUITY

All figures in USD 1.000	Share capital	Share premium reserve	Other equity	Total
Balance at 31 December 2006	16	0	-8	8
Profit/(loss) for the period	0	-22 458	8	-22 450
Private placement 21 February 2007	17 325	14 374	0	31 699
Private placement 26 February 2007	33 410	27 732	0	61 142
Converting debt into shares	54 600	5 400	0	60 000
Fund emission 30 November 2007	5 191	-5 191	0	0
Issue expenses	0	-3 732	0	-3 732
Balance at 31 December 2007	110 542	16 125	0	126 667

NOTE 4 – SHARE CAPITAL AND SHAREHOLDER INFORMATION

The Share capital of USD 110 542 000 consists of 68 110 000 shares each NOK 10 (USD 1,62). All shares have equal rights.

List of the 20 major shareholders 31.12.07:

Shareholder name	Shares	Per cent
Skeie Technology AS	33 300 960	48,89 %
Nerland Investments AS	5 537 000	8,13 %
Wideluck Enterprises Ltd.	3 659 040	5,37 %
Bear Stearns Securities Corp.	2 732 000	4,01 %
Morgan Stanley & Co. Intl. Plc.	2 420 000	3,55 %
Barclay Bank Plc	1 229 500	1,81 %
Credit Suisse Securities	956 500	1,40 %
Goldman Sachs & Co. Equity	825 000	1,21 %
Skarpebo Invest AS	791 600	1,16 %
Jce Group AB	750 000	1,10 %
Svenska Handelsbanken S.A. HM	603 000	0,89 %
Wilhelmsen Capital AS	500 000	0,73 %
Wakco AS	437 000	0,64 %
Watrium AS	437 000	0,64 %
Watrium Eiendom AS	437 000	0,64 %
MM Invest AS	429 250	0,63 %
Odin Offshore	380 500	0,56 %
Invest Sør AS	325 000	0,48 %
Byggvirksomhet AS	300 000	0,44 %
Olympia Holding AS	300 000	0,44 %
Total	38 837 960	57,02 %
Others shareholding	29 272 040	42,98 %
Total no. of shares	68 110 000	100,00 %

Birger Skeie, CEO of Skeie Drilling & Production ASA, owns through his 100 % owned company Biscon AS, 200.000 shares.

NOTE 5 – INCOME TAXES**Calculation of deferred tax/deferred tax asset**

All figures in USD 1.000	2007	2006
Temporary differences:		
Net temporary differences	0	0
Tax losses carried forward	-26 182	-12
Total	-26 182	-12
28 % deferred tax	-7 331	-3
Deferred tax assets not recognized	7 331	3
Deferred tax in the balance sheet	0	0
Basis for income tax expense, changes in deferred tax and tax payable:		
Profit/loss before income tax	-22 450	-10
Permanent differences	-3 732	-2
Basis for the tax expense of the year	-26 182	-12
Changes in temporary differences	0	0
Basis for tax payable in the profit and loss statement	-26 182	-12
+/- Group contributions paid/received	0	0
Basis for tax payable liability	-26 182	-12
Components of the income tax expense:		
Tax payable (28 % of the basis for tax payable in the profit and loss statement)	0	0
Insufficient/excess provision last year	0	0
Total tax payable	0	0
Change in deferred tax	0	0
Total tax expense	0	0

NOTE 6 – EMPLOYEE BENEFITS EXPENSE, NUMBER OF EMPLOYEES, LOANS TO EMPLOYEES AND AUDITOR'S FEE

The Company has not paid salary or other remuneration to the Board of Directors in 2007. The Company has no employees.

Auditor

The expensed fees to the company's auditor consist of the following (VAT excluded):

All figures in USD 1.000	2007	2006
Statutory Audit	7 588	2 612
Other assurance services	112 204	0
Total fee to the auditor	119 792	2 612

NOTE 7 – BOND LOANS

All figures in USD 1.000		Rate of interest %	Maturity	31 December 2007
11,25 % bond loan - face value USD 165 million	Fixed	11,25 %	2 013	161 121
11,25 % bond loan - face value USD 165 million	Fixed	11,25 %	2 013	161 121
11,25 % bond loan - face value USD 165 million	Fixed	11,25 %	2 013	160 875
6,95 % convertible bond loan - face value NOK 660	Fixed	6,95 %	2 013	111 307
Total				594 423
Current portion				-
Non-current portion				594 423

Call options on bond loans

The Company has call options to buy back the bonds, with a premium, in the future, before the loans mature.

	Termination 2010	Termination 2011	Termination 2012
Bond loans issued in 2007			
11,25 % bond loan - face value USD 165 million	106 %	104 %	102 %
11,25 % bond loan - face value USD 165 million	106 %	104 %	102 %
11,25 % bond loan - face value USD 165 million	106 %	104 %	102 %
6,95 % convertible bond loan - face value NOK 660 *			

* borrower may redeem the loan during 5 July 2007 to 4 July 2008 at 140 %, and during 5 July 2008 to 4 January 2009 at 109 %.

Put option on bond loans

Until listing of the Borrowers shares on an exchange, each bond holder may sell his bonds to the Borrower at 103 % if Bjarne Skeie (or a company directly or indirectly controlled by him) ceases to own at least 33,4 % of the shares in the Borrower. This put option applies for the three 11,25 % bond loans.

The 6,95 % convertible bond loan may be redeemed if a shareholder or affiliated shareholders (other than Bjarne Skeie and/or companies directly or indirectly controlled by him) directly or indirectly acquire the right to cast more than 50 % of the votes that may be cast at a general meeting of the Borrower, each Bondholder may have its bonds redeemed by the borrower during 5 July 2007 to 4 July 2008 at 150 % and 5 July 2008 to 5 July 2012 at 101 %.

The three 11,25 % bond loans are secured by pledge in the 3 rigs under construction in the subsidiaries and the assignment of rig insurances.

Convertible Bond

The company issued a 6.95 % convertible bond loan at par value of NOK 660 mill. The bond is denominated in NOK, each with a face value of NOK 500.000. The bonds mature 5 years from the issue date at their nominal value of NOK 660 mill, or can be converted into shares at the holder's option. Fair value of the conversion right is not separated from the host contract in the stand-alone financial statement for the company as per 31 December 2007.

In the consolidated financial statement for the Group, the conversion right is valued at market value based on the Geometric Brownian at the maturity date at the rate of NOK 30.75 per share model for equity.

The following assumptions and parameters are used in the valuation of the conversion right in the consolidated financial statement:

Parameter	Value
Risk free rate	5,45 - 5,98
Volatility	35 %
Maturity	5 July 2012
Dividends	-
Spot rate for equity	NOK 19
Conversion price	NOK 30.75
Issuer's call option 1	140 % of notional
Issuer's call option 2	150 % of notional
Date of pricing	31 December 2007

The values of the liability component and the conversion right were determined at issuance of the bond on the 5 July 2007. The functional currency of the company is USD, and the convertible loan is nominated in USD. Accordingly, the conversion right is classified as a financial derivative liability. Subsequent changes in fair value from issuance is recorded through profit and loss as "Other in/loss - net".

To the Annual Shareholders' Meeting of Skeie Drilling and Production ASA

Auditor's report for 2007

We have audited the annual financial statements of Skeie Drilling and Production ASA as of December 31, 2007, showing a loss of USD 22 450 000 for the parent company and a profit of USD 4 680 000 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statements of the group comprise the balance sheet, the statement of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of December 31, 2007, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Kristiansand, June 9, 2008

PricewaterhouseCoopers AS

Torstein S Robstad
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.



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