

## **SONGA OFFSHORE ASA**

### **REPORT FOR THE 1<sup>ST</sup> QUARTER 2006**

Songa Offshore's consolidated after tax loss for the 1<sup>st</sup> quarter 2006 was USD 8.9 million.

Operating expenses of USD 6.3 million for the period are related to the refurbishment work for the Songa Venus, the Songa Mercur and the Songa Saturn as well as general overhead expenses.

Financial expenses for the period was USD 8.6 million of which USD 3.9 million is a non-cash item related to the change of value in an option issued in connection with a lease agreement for a blow out preventer entered into in October 2005.

The income for the period is related to mobilization fee from customers and management fee from the joint venture Songa Management.

#### **Main events in the 1<sup>st</sup> quarter**

- Songa Offshore entered into a memorandum of agreement for the purchase of the semi submersible drilling rig Stena Dee, to be renamed Songa Dee.
- The company issued a USD 75 million secured bond loan as part financing for the Stena Dee rig acquisition.
- A private placement issuing 6,300,000 new shares at a subscription price of NOK 58 per share was done as part financing of the Stena Dee rig acquisition.
- A drilling contract was entered into with Noble Energy for the drill ship Songa Saturn.
- A Letter of Intent for a drilling contract was entered into for Deepsea Bergen. Songa Offshore ASA owns 20.187% of Deepsea Bergen.
- Tom E. Jebsen accepted employment as Chief Financial Officer (CFO) in the Group.

## **The rigs**

### **Songa Venus**

Songa Venus is currently in Singapore for client specific upgrade at Keppel FELS yard. Contract with ENI/Inpex in Australia at USD 205,000/day for 1 year plus 2 x 6 months option at USD 225,000/day plus approx USD 15 million for mob/demob and upgrading cost. Commencement is estimated September 2006.

### **Songa Mercur**

The rig is being actively marketed, and several opportunities with potential operators are being pursued. Due to interest from potential clients, a detailed engineering study for upgrading the Mercur to 5,000 ft water depth is currently being carried out. A shortage of deepwater rigs in the coming years is anticipated, and Mercur may become one of the first new available deepwater rigs.

### **Songa Saturn**

Songa Saturn is currently at a shipyard in Turkey for reactivating, class renewal and upgrading. Contract with Noble Energy at approximately USD 338,750/day for 3 wells firm plus option for 2 additional wells in Equatorial Guinea. The upgrading project is on schedule, and the Saturn is expected to leave the yard during third quarter 2006. The company is currently in discussions with potential clients about further work in the same region.

### **DeepSea Bergen**

The DeepSea Bergen is working for Marathon Oil at approx USD144,000/day. Recently it was announced a letter of intent for a 3 year contract with Statoil at approx USD 320,000/day – with start in direct continuation from current contract – estimated between 3Q/4Q 2008.

Songa Offshore's ownership share in the DeepSea Bergen rig is classified as a financial investment. Rig values have increased, and based on valuations from rig brokers for DeepSea Bergen has an estimated value of 250 – 280 million USD on a 100 % basis. Songa Offshore have therefore increased the equity value of the investment.

### **Stena Dee – to be renamed Songa Dee**

Delivery of the Songa Dee is estimated to take place within 2 weeks. Simultaneously the rig will be bareboated back to sellers at 42,000/day until end of the Norsk Hydro charter – estimated end 2008.

There are many long term development requirements for rigs of this kind in the North Sea – for start 1Q/2Q 2009 – and the company will actively pursue these opportunities.

## **Financing and share capital issues**

In connection with the acquisition of the rig Stena Dee, Songa Offshore issued 6.3 million shares in a private placement. The subscription price of NOK 58 per share raised net gross proceeds of NOK 365.4 million.

During the first quarter a total of 5,431,189 shares were issued following conversion of freely tradable warrants. Conversion price is USD 1.50. As at 31 March 2006 a total of 13,838,044 freely tradable warrants were remaining in the market. The warrant program expires in May 2008.

As of 31 March 2006 Songa Offshore's interest bearing debt was USD 179.6 million, of which USD 108.1 million was a bond loan and USD 71.5 million was bank loan facilities. Unused bank loan facilities totaled USD 42.8 million. In addition, Songa Offshore had lease obligations totaling USD 18.8 million in connection with a lease agreement for a blow out preventer. Bank deposits and cash at 31 March 2006 was USD 26.6 million.

## **Market conditions and outlook**

The demand for drilling vessels continues to be strong in all segments. Due to limited near-term availability of drilling rigs, the market expects increases in day rates in the short to medium term.

Songa Offshore is well positioned to exploit the good market conditions. The company has established a competent management team and necessary infrastructure in order to operate its vessels under contract.

## **FINANCIAL STATEMENT**

### **Basis for preparation**

The consolidated interim financial statements of Songa Offshore Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as at year end 2005. The enclosed consolidated interim financial statements should be read together with the 2005 annual financial statements, which include a full description of the Group's accounting policies.

The interim financial statements are prepared in accordance with IAS 34

### **Events after the interim period**

Songa Offshore ASA acquired 50% of Songa Management AS, at a price of NOK 75,000 from Songa Drilling AS and becomes sole owner of Songa Management AS

Simultaneously with the purchase Songa Management AS has entered into an agreement with Songa Drilling AS to provide management services until the jack-up rigs owned by Songa Drilling AS is finished. The work is expected to be finalized in Q4 2006.

Both agreements are conditional upon the closing of Abbot Group PLC's conditional purchase of shares in Songa Drilling AS.

## Songa Offshore Group

### Consolidated income statement

for the period January - March

(IFRS - non audited figures)

Amounts in USD '000 (earnings per share in USD)	£	2006
Revenue		2 601
Other operating costs		-6 334
Finance costs		-8 611
<b>Loss before tax</b>		<b>-12 344</b>
Tax income		3 456
<b>Loss for the period</b>		<b>-8 888</b>
<b>Net earnings per share (USD):</b>		
<b>Basic</b>		<b>-0.14</b>

## Songa Offshore Group

### Consolidated balance sheet at

(IFRS - non audited figures)

	31 Mar 2006	31 Dec 2005
<b>ASSETS</b>		
<b>Total non-current assets</b>	<b>298 871</b>	<b>260 902</b>
<b>Total current assets</b>	<b>57 264</b>	<b>4 638</b>
<b>Total assets</b>	<b>356 135</b>	<b>265 540</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	11 054	9 006
Share premium	136 388	76 232
Paid in, not registered share capital	0	276
Other equity	-21 639	-24 946
<b>Total equity</b>	<b>125 803</b>	<b>60 568</b>
<b>Total non-current liabilities</b>	<b>189 228</b>	<b>165 150</b>
<b>Total current liabilities</b>	<b>41 104</b>	<b>39 822</b>
<b>Total liabilities</b>	<b>230 332</b>	<b>204 972</b>
<b>Total Equity and Liabilities</b>	<b>356 135</b>	<b>265 540</b>

## Songa Offshore ASA

### Statement of changes in equity

(IFRS - non audited figures)

Amounts in USD '000					
	Share capital	Share premium reserve	Paid in, not registered capital	Other equity	Total equity
<b>Equity at 31.12.05</b>	<b>9 254</b>	<b>75 984</b>	<b>276</b>	<b>-24 946</b>	<b>60 568</b>
Issue of share capital	956	52 825			53 781
Conversion of warrants not registered at 12/31 2005	28	248	-276		0
Conversion of warrants Jan - Mar	816	7 331	0		8 147
Employee option plan				2 101	2 101
Change in fair value of financial investment				10 094	10 094
Profit (loss) for the period				-8 888	-8 888
<b>Equity as at 31.03.2006</b>	<b>11 054</b>	<b>136 388</b>	<b>0</b>	<b>-21 639</b>	<b>125 803</b>

## Songa Offshore Group

### Consolidated statement of cash flows at

(IFRS - non audited figures)

	31 March 2006
Amounts in USD '000	
<b>Net cash flow from operating activities</b>	<b>(34 547)</b>
<b>Net cash flow used in investing activities</b>	<b>(24 288)</b>
<b>Net cash flow from financing activities</b>	<b>83 171</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>24 336</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2 220</b>
<b>Cash and cash equivalents at end of period</b>	<b>26 556</b>