



discover petroleum

Report second quarter 2008

1. Highlights first half year 2008

- Four new licenses from the APA 2007 confirmed
- Appointed operator of license 481
- 9 new employees recruited in the first half of 2008
- PetroMarker survey program covering licenses and open areas progressing
- Revolving bridge loan facility of NOK 600 million signed
- NOK 37 million of equity and USD 20 million bond loan raised
- Seismic survey of license 396 completed

2. Portfolio development

APA 2007

Discover Petroleum AS was awarded four licenses in the APA 2007 concession round; a 30 % participating interest in production license 469, a 30 % interest in license 483S, a 30 % interest in license 491, and a 50 % interest and operatorship in license 481.

PL 469 is located southwest of the Draugen field in the Norwegian Sea. Gaz de France is operator of the license. Aker Exploration has farmed into the license reducing the equity shares of Gas de France and Discover Petroleum to 52,5% and 22,5%, respectively. As compensation, Aker will provide the license with a drilling rig which plan to spud the first commitment well during spring 2009.

PL 483S is located east of the Norne field in the Norwegian Sea. The work commitment for the license includes an exploration well which is planned for 3rd or 4th quarter 2009.

PL 481, Discover Petroleum operated, is located in the Norwegian Sea, south-east of the Norne field. Acquisition of EM data will be conducted during the summer of 2008, and acquisition of 3D seismic is planned for 2009.

PL 491 is located in the Barents Sea, approximately 30 km north of the Snøhvit field. The work commitment is to acquire 200 km² 3D seismic data and decide on drill or drop in 2010.

APA 2008 and 20th concession round

The preparation for APA 2008 and the 20th concession round has been initiated. The application date for APA 2008 is 3rd of October 2008 and license award is expected in December 08 or January 09. The application date for the 20th round is set to 7th of November 2008 and the award is expected to take place in the 1st or 2nd quarter 2009.

3. License work

PL 396

The work commitment in PL 396 comprises approximately 600 km² 3 D seismic and one optional well. The acquisition of 3D seismic data was completed during spring 2008. Data processing is ongoing. An EM survey conducted by OHM was finalized in 2007. All data will be analyzed and a decision on whether to drill a well will be taken in 2009.

PL 446

3 D data has been reprocessed as part of the work commitment. In addition, a Petromarker EM survey has been conducted summer 2008. The data is now being analyzed and will make the basis for a decision on whether to drill a well in 2009.

PL 449

The work commitment comprises approximately 670 km² 3 D seismic. The data will be acquired during 3 Q 2008. If the evaluation of the data reveals drillable prospects, a decision on an exploration well will be taken in 2009.

4. Petroleum Resource base

The risked resources in Discover's portfolio has been increased from 35 mmboe to approximately 170 mmboe through award of 4 new licenses in APA 07.

5. PetroMarker EM survey program

This year's program for collection of electromagnetic ("EM") data using the PetroMarker technology started in April and will continue through the middle of October. The operation has been carried out without any serious incidents. The equipment has been improved since last year and has resulted in better quality data and successful operations on higher water-depths.

The surveys have been carried out on certain of the Company's licenses and on prospects for APA 2008 and 20th concession round, providing new and substantially improved data for the license applications. Some of these surveys have also been carried out under cooperation and cost sharing agreements with other companies, providing third party evaluation of the technology and a basis for cooperation in the forthcoming license rounds.

6. Organization

At the end of the first half year 2008, Discover Petroleum had 25 employees, out of which 21 are located in Tromsø and 4 in Stavanger. In addition the company has partnering support agreements with network companies.

7. Quality and HSE

Discover Petroleum works with HSE-related issues systematically and on a continuous basis. Our main objective is to prevent incidents that can lead to accidents resulting in personal injury, fatality, the discharge or emission of toxic waste, or other environmental damage or financial loss.

Discover Petroleum has completed the first two months of this years EM survey program with no accidents or injuries.

Focus areas within QHSE has been duty-to-see-to towards suppliers, risk assessments and preparations for safety operations of the EM survey program and environmental evaluations related to preparations for APA 2008 and the 20th concession round applications.

8. Financial Statements for the first half year and as at 30th June, 2008

The results of operations for the first half year of 2008 was a loss of NOK 120 million, compared with 29,7 million for the same periods in 2007. Net loss after tax was NOK 30,3 million compared with 7,5 million for the first half year 2007.

The increased operating cost compared with 2007 reflects a higher activity in the Company, due to a comprehensive PetroMarker survey program and seismic and EM programs in the licenses.

The Norwegian Petroleum Tax Regime allows for a refund of the "tax value" of exploration costs at a tax rate of 78%. The claim for tax refund is classified as a short term receivable. The remaining loss before tax is the basis for a deferred tax asset.

9. Liquidity and financing

At 30th June, 2008, the Company had a net equity of NOK 76,1 million. The cash balance was NOK 45,8 million. Amounts drawn under the new exploration loan facility was NOK 125 million out of the total facility of NOK 600 million.

The company successfully closed a share issue of NOK 37 million towards present shareholders during the first half of 2008 and a further share issue is planned for the second half of 2008 to finance the 2009 exploration program.

In July, 2008, the Company also issued a USD 20 million bond loan, which, together with the exploration loan facility, secured financing of the Company's exploration program well into the first half 2009.

Tromsø, 4. September, 2008
Lars T. Bjerke
CEO

Discover Petroleum AS

Profit & Loss Statement

	First half year 2008	First half year 2007	Full year 2007
Operating income	<u>0</u>	<u>0</u>	<u>326520</u>
Operating expenses			
Exploration costs	93 020 410	14 462 323	102 459 276
Personell costs	13 991 964	8 657 571	25 073 866
Depreciation	1 968 030	1 337 268	2 235 109
Other operating expenses	<u>10 999 327</u>	<u>5 241 469</u>	<u>11 363 122</u>
Total operating expenses	<u>119 979 731</u>	<u>29 698 631</u>	<u>141 131 373</u>
Operating result	-119 979 731	-29 698 631	-140 804 853
Financial items - net	<u>-4 580 842</u>	<u>-1 255 544</u>	<u>-1 048 460</u>
Loss before tax	-124 560 573	-30 954 175	-141 853 313
Income taxes	<u>94 230 000</u>	<u>23 500 000</u>	<u>112 046 629</u>
Net loss after tax	<u>-30 330 573</u>	<u>-7 454 175</u>	<u>-29 806 684</u>

Discover Petroleum AS

Balance Sheet

Assets	Notes	30.06.2008	31.12.2007
Fixed assets			
Deferred tax assets	3	75 758 430	98 703 175
Capitalized technology rights	2	4 166 667	5 000 000
Furniture, equipment and software	2	3 454 301	4 121 822
Investments		2 143 900	
Total fixed assets		<u>85 523 298</u>	<u>107 824 997</u>
Current assets			
Tax refund	3	162 399 031	44 799 031
Other receivables		13 894 203	5 339 162
Bank deposits		45 811 680	18 506 706
Total current assets		<u>222 104 914</u>	<u>68 644 899</u>
Total assets		<u>307 628 212</u>	<u>176 469 896</u>
Shareholders' equity and liabilities			
Shareholders' equity	1	<u>76 105 546</u>	<u>68 552 258</u>
Pension obligation		<u>1 329 825</u>	<u>1 329 825</u>
Short-term liabilities			
Revolving credit facility	4	163 372 000	40 472 000
Accounts payable		37 233 744	8 930 764
Withheld taxes		2 085 400	2 043 237
Other short-term debt		27 501 698	55 141 812
Total short-term debt		<u>230 192 842</u>	<u>106 587 813</u>
Total Shareholder's equity and liabilities		<u>307 628 213</u>	<u>176 469 896</u>

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Notes to the Financial Statements 30.June, 2008

Note 1 Shareholders' equity

	Share Capital	Share premium	Other paid-in equity	Other equity	Total
Shareholders' equity 1.1.2008	172 657	65 492 707	2 886 894		68 552 258
Share issue 2008	20 649	38 179 909			38 200 558
Share issue cost net of tax		-1 093 504			-1 093 504
Share option cost			776 807		776 807
Net loss 1.1-30.6 2008				-30 330 573	-30 330 573
Shareholders' equity 30.6.2008	193 306	102 579 112	3 663 701	-30 330 573	76 105 546

Note 2 Fixed assets

	Furniture and Office equipment	Software	Technology rights	Total
Cost at 1.1.2008	1 578 499	6 615 025	5 000 000	13 193 524
Additions	83 831	383 345		467 176
Cumulative depreciation	-1 367 939	-3 838 460	-833 333	-6 039 732
Book value 30.6.2008	294 391	3 159 910	4 166 667	7 620 968

Note 3 Taxes

Reconciliation of taxes in Profit & Loss Statement

	2008	2007
Loss before tax for the nine-month period ending 30.June	-124 560 573	-30 954 175
78% of income before tax	-97 157 247	-24 144 257
Tax effect of share option cost	605 910	833 900
Tax effect of lower tax rate for financial items and other differences	2 321 337	-189 360
Taxes in Profit & Loss Statement	-94 230 000	-23 499 717

Specification of deferred tax assets and tax refund claim in accordance with the Petroleum Tax Act

	Deferred Tax Assets	Tax Refund Claim	Total
Balance at 1.1. 2008	98 703 175	44 799 031	143 502 206
Changes during the period	-22 944 745	117 600 000	94 655 255
Balance at 30.6, 2008	75 758 430	162 399 031	238 157 461

Note 4 Revolving credit facility

The Company has established a revolving credit facility for financing of exploration costs eligible for tax refund under the Norwegian Petroleum Tax Act. At 30th June, 2008, NOK 125 million has been drawn under this facility during 2008 and NOK 166,8 mill on a cumulative basis. Repayment will be made upon receipt of refund of tax value of exploration costs.

Capitalized borrowing costs are costs related to establishing the credit facility and will be amortized over the loan period.

Note 5 Other Short-term debt

Other short-term debt include accrual for Petromarker September EM-survey program of NOK 33 mill.

Note 6 Related party transactions

The Company has a contract with an affiliated company, Petromarker AS, for services related to electromagnetic surveys . on the Norwegian Continental Shelf. During the six month period ended 30th June, 2008, the Company has incurred costs related to such services of NOK 40,2 million.

The Company has purchased administrative services from affiliated companies of NOK 2,1 million during the nine-month period. Such services are invoiced at cost.

Note 7 Subsequent events

In July, 2008, the Company signed a revised and extended loan and guarantee facility agreement with a limit of NOK 600 million.

The purpose of the loan facility is to finance 70 % of exploration costs which are eligible for tax refund under the Norwegian Petroleum Tax Act. The agreement is for a three-year draw-down period starting 1.1.2008 and final repayment on 31. December, 2011.

Also in July, 2008, the Company entered into an agreement for a USD 20 mill bond loan and issued 4 375 000 warrents to bondholders with a sunscription price of NOK 23,125.