

March 31st, 2016

Island Drilling Company ASA

1st Quarter Financial Report



ISLAND DRILLING

Operations

Operations continued to be satisfactory also for Q1/16. The operating expenses (OPEX) are below budget Q1/16. This has contributed to a good operating profit (EBITDA) Q1/16.

The rig concluded operations on well 6407/10-4 Lorry March 11th, This well was the last well under the Lundin Drilling contract, and the rig was subsequently sailed to Hanøytangen where it is now placed in temporary lay-up.

The main focus in Q1/16 has been to continue to improve operations and securing a high available rig time, marketing of the rig - and to start preparations for the temporary lay-up.

Market update

The negative trend observed in the rig market throughout 2015 – with rigs being committed at very low day rates – continues in 2016. On February 22nd, 2016 IDC received confirmation from Lundin through a “Letter of regret” that IDC was unsuccessful in winning the job, and that the award was given to one of IDC’s competitors. Lundin awarded the new contract to a fully winterized rig at a day rate lower than IDC’s final bid.

To date, the number of rigs being laid-up and/or scrapped have not been sufficient to stabilize the utilization and thus the market rates. This has a significant negative impact on the day rates reported in the market for new fixtures.

As a consequence of the failure to secure additional work for 2016 the rig was temporarily laid up (cold-stacked) at Hanøytangen following completion of the contract with Lundin, awaiting award of a new contract.

Financial update

The company was in breach of financial covenants as of 31 December 2015. The breaches have not been cured, and no waivers have been received – to the contrary the Company has received “Reservation of rights” – letters from both DnB as agent for the senior loans and Nordic Trustee as trustee for the Bond loan.

Due to the significant impairment of the rig Q4/15, the Working Capital (WC) as well as the Equity (and Value Adjusted Equity (VAE)) was negative at year end (requirements are WC > 0, VAE > 30%). This situation continues.

However, as the cash position as of 31.03.16 was USD 20,1 million and the discussions with the Company’s secured creditors are continuing, IDC is insufficient, but not ill-liquid and thus the condition for continued operations is still valid. However, as mentioned in the Q4/15 report and the 2015 Annual Report, the Board of Directors have appointed Clackson’s Platou Securities as financial advisors to the company, and initiated discussions with the banks and financial institutions involved in the financing of the rig. Discussions with the bond holders will commence shortly.

Operating revenues in Q1/16 amounted to USD 33,7 million. (Q1/15 USD 42,8 million), while EBITDA in Q1/16 amounted to USD 20,9 million (Q1/15 USD 25,9 million). Net Financials amounted to USD

5,2 million (Q1/15 USD 13,5 million) and the Pre-tax profit Q1/16 thus amounted to USD 10,8 million (Q1/15 USD 4,2 million)

Total fixed assets as of 31 March 2016 amount to USD 253,1 million. Current assets total USD 45,7 million, of which bank deposits amount to USD 20,1 million. As a consequence of the continuing breach of certain financial covenants, the long term senior loans as well as the bond loan and the long term loan from related parties are still classified as short term. Current liabilities as of 31 March 2016 thus amount to USD 413,7 million, including the long-term senior- and bond debt as well as the related parties' loan.

The cash flow from operating activities for the first quarter 2016 was USD 18,9 million (Q1/15 USD 8,9 million), while the cash flow from investments was zero. Cash flow from financing activities Q1/16 was minus USD 20,6 million. This resulted in a net cash flow of minus USD 1,7 million in Q1/16 (Q1/15 minus USD 14,4 million), de-creasing the cash and cash equivalents from USD 21,8 million at 31 December 2015 to USD 20,1 million at 31 March 2016. (USD 14,4 million at 31 March 2015).

Going Concern

As mentioned above 'Island Innovator' has come off its charter party for Lundin Norway ASA, and no new charter party has been found for the rig. A restructuring of the Company's balance sheet is therefore deemed necessary to enable the Company to come through the current market challenges, and the Company has initiated discussions with its finance providers in this respect. While these discussions are ongoing, the Company has decided to halt all payments of interest and amortization to all of its finance providers.

The "Going Concern"-assumption is thus based on the Company working with its finance providers to reach a sustainable solution for the Company. Consequently, the Q1/16 accounts reflect a situation where the Company is not liquidated and no forced sale of the rig is carried through.

While the Company remains confident that such sustainable solution will be reached with the relevant stakeholders, there can be no assurance or guarantee that such final solution will be reached.

During the discussions with the finance providers, the Company will continue to operate normally in all other respect. The liquidity of the Company remains stable for the period to come in anticipation of a sustainable solution with the finance providers.

The Q1/16 accounts are not audited.



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Profit & Loss Account

Amounts in USD 1,000s	Q1 2016	Q1 2015	2015
Revenues	33 677	42 837	169 342
Operating expenses	12 824	16 970	64 031
EBITDA	20 853	25 867	105 310
Depreciation and amortisation	4 871	8 105	32 492
Impairment	0	0	370 103
EBIT	15 982	17 762	-297 284
Net financial items	-5 212	-13 519	-45 245
Net pre-tax profit	10 770	4 243	-342 529
Taxes	0	0	0
Net result after taxes	10 770	4 243	-342 529
<i>EBITDA%</i>	62 %	60 %	62 %

Balance sheet

Amounts in USD 1,000s

Assets	31-03-16	31-03-15	31-12-15
<i>Fixed assets</i>			
Total intangible assets	0	0	0
Rig, machinery and equipment	253 139	649 614	258 010
Total Fixed Assets	253 139	649 614	258 010
<i>Current Assets</i>			
Total receivables	25 635	44 604	36 818
Cash and cash equivalents	20 062	14 390	21 751
Total Current Assets	45 697	58 995	58 569
Total Assets	298 836	708 608	316 579
Equity and Liabilities	31-03-16	31-03-15	31-12-15
Paid-in equity	137 751	216 869	137 751
Retained earnings	-252 642	4 243	-263 411
Total Equity	-114 891	221 112	-125 660
Bonds	0	137 429	0
Long term loans	0	261 443	0
Current liabilities	413 727	88 624	442 239
Total Liabilities	413 727	487 496	442 239
Total Equity and Liabilities	298 836	708 608	316 579

Cash flow statement

Amounts in USD 1,000s	Q1 2016	Q1 2015	2015
Cash flow from operating activities	18 900	8 857	48 968
Cash flow from investment activities	-1	-2 704	-5 590
Cash flow from financing activities	-20 588	-20 588	-50 452
Net cash flow in the period	-1 689	-14 435	-7 074
Cash and cash equiv. at start of period	21 751	28 826	28 826
Cash and cash equiv. at end of period	20 062	14 390	21 751



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