

30 June 2015

Island Drilling Company ASA

2nd Quarter Financial Report



ISLAND DRILLING



Operations

Operations continue to be satisfactory also in Q2/15 – with an average available rig time for the Island Innovator above the budget for the quarter. At the same time, the operating expenses (OPEX) are well below budget. As can be seen from the accounts, this has resulted in a good operating profit (EBITDA).

The rig concluded operations on well 16/1-24 Gemini, and it then relocated to well 7220/11-2 Alta to drill a well as part of the Lundin well programme, where Lundin drilled a sidetrack to map most of the area, and performed a good drill stem test.

The rig then relocated to well 7220/11-3 Alta, to drill the well in accordance with the Lundin programme.

The main focus in Q2/15 has again been on continuing to improve operations and increasing the available rig time. A number of measures have been implemented in cooperation with the rig manager – Odfjell Drilling AS – to optimise procedures and operations, and improve technical solutions. Operational development has been good, with planned projects being completed. No lost-time incidents have been reported. We can now see the results of this continuous work in the Q2/15 performance.

Market update

The negative trend observed in the rig market throughout 2014 strengthened during the first half of 2015. However, since the rig still has four wells left under its 12-well Lundin Charter Contract, the weaker rig market has no impact on the company's profitability in the very short term. However, efforts to secure work after the fixed Lundin period have intensified – but competition is strong, with many rigs available. This will have a significant impact on the day rates achievable.

Financial update

Operating revenues in Q2/15 amounted to USD 43.8 million (Q2/14 USD 43.3 million), while EBITDA in Q2/15 amounted to USD 27.2 million (Q2/14 USD 21.9 million).

Total fixed assets as of 30 June 2015 amount to USD 643.2 million. Current assets total USD 68.4 million, USD 13.7 million of which are bank deposits. Long-term liabilities amount to USD 392.7 million as of 30 June 2015, a decrease of USD 27.9 million since year-end 2014. Long-term liabilities include the senior bank loan, the bond loan and loans from related parties. Current liabilities as of 30 June 2015 amount to USD 86.6 million, including the short-term portion of the long-term debt. The company was in compliance with the financial covenants as of 30 June 2015.

The cash flow from operating activities for the second quarter 2015 was USD 10.3 million (Q2/14 USD 8.0 million), while the cash flow from investments was minus USD 1.7 million. The cash flow from financing activities was minus USD 9.3 million. This resulted in a net cash flow of minus USD 0.7 million in Q2/15 (Q2/14 USD 3.1 million), reducing cash and cash equivalents from USD 14.4 million at 31 March 2015 to USD 13.7 million at 30 June 2015 (USD 18.1 million at 30 June 2014).



ISLAND DRILLING

Profit & Loss Account

Amounts in USD 1,000s

| | YTD Q2 2015 | Q2 2015 | Q1 2015 | 2014 |
|-------------------------------|---------------|---------------|---------------|----------------|
| Revenues | 86 645 | 43 807 | 42 837 | 167 776 |
| Operating expenses | 33 611 | 16 641 | 16 970 | 84 576 |
| EBITDA | 53 034 | 27 167 | 25 867 | 83 200 |
| Depreciation and amortisation | 16 209 | 8 104 | 8 105 | 34 082 |
| Impairment | 0 | 0 | 0 | 61 433 |
| EBIT | 36 825 | 19 063 | 17 762 | -12 315 |
| Net financial items | -21 384 | -7 865 | -13 519 | -31 149 |
| Net pre-tax profit | 15 441 | 11 198 | 4 243 | -43 464 |
| Taxes | 0 | 0 | 0 | 0 |
| Net result after taxes | 15 441 | 11 198 | 4 243 | -43 464 |
| <i>EBITDA%</i> | <i>61 %</i> | <i>62 %</i> | <i>60 %</i> | <i>50 %</i> |

Balance sheet

Amounts in USD 1,000s

| Assets | 30-06-15 | 31-03-15 | 31-12-14 |
|-------------------------------------|-----------------|-----------------|-----------------|
| <i>Fixed assets</i> | | | |
| Total intangible assets | 0 | 0 | 0 |
| Rig, machinery and equipment | 643 190 | 649 614 | 655 015 |
| Total Fixed Assets | 643 190 | 649 614 | 655 015 |
| <i>Current Assets</i> | | | |
| Total receivables | 54 628 | 44 604 | 36 174 |
| Cash and cash equivalents | 13 731 | 14 390 | 28 826 |
| Total Current Assets | 68 360 | 58 995 | 64 999 |
| Total Assets | 711 549 | 708 608 | 720 014 |
| Equity and Liabilities | 30-06-15 | 31-03-15 | 31-12-14 |
| Paid-in equity | 216 869 | 216 869 | 216 869 |
| Retained earnings | 15 441 | 4 243 | 0 |
| Total Equity | 232 310 | 221 112 | 216 869 |
| Bonds | 137 644 | 137 429 | 137 215 |
| Long term loans | 255 038 | 261 443 | 283 321 |
| Current liabilities | 86 557 | 88 624 | 82 609 |
| Total Liabilities | 479 239 | 487 496 | 503 145 |
| Total Equity and Liabilities | 711 549 | 708 608 | 720 014 |

Cash flow statement

Amounts in USD 1,000s

| | YTD Q2 2015 | Q2 2015 | Q1 2015 | 2014 |
|---|-------------|---------|---------|---------|
| Cash flow from operating activities | 19 154 | 10 297 | 8 857 | 58 167 |
| Cash flow from investment activities | -4 384 | -1 680 | -2 704 | -17 506 |
| Cash flow from financing activities | -29 864 | -9 276 | -20 588 | -41 177 |
| Net cash flow in the period | -15 094 | -659 | -14 435 | -516 |
| Cash and cash equiv. at start of period | 28 826 | 14 390 | 28 826 | 29 342 |
| Cash and cash equiv. at end of period | 13 731 | 13 731 | 14 390 | 28 826 |



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