

June 30<sup>th</sup>, 2016

*Island Drilling Company ASA*

# 2<sup>nd</sup> Quarter Financial Report



ISLAND DRILLING

### **Operations**

The rig concluded operations on well 6407/10-4 Lorry March 11<sup>th</sup>. 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 Q2/16 has been to conduct and carry through planned work for the temporary lay-up including extensive maintenance activities on the machinery and equipment, including electrical systems. The objective being to make sure that all of the equipment is well preserved and ready for a quick start up should the company win contracts for additional off-shore work.

### **Market update**

The negative trend observed in the rig market throughout 2015 – with rigs being committed at very low day rates – continues and is further aggravated in 2016.

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

### **Financial update**

As stated in the Q1/16 Financial Report, as well as the 2015 Annual Report, 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.

The Company paid interest and instalments on the senior loans provided by Eksportkreditt Norge ASA, DnB and Sparebanken Sørre Sunnmøre Q1/16, but informed the bondholders through a notice to Nordic Trustee early April that interest on the Bond Loans falling due in April 2016 would not be paid. Consequently, the Company is in default in relation to the Bond Loan.

Furthermore, 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 30.06.16 was USD 28,8 million, up from USD 20,1 million 31.03.16, 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 considered valid. As stated in previous quarterly reports 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. Formal discussions with the bond holders will commence shortly.

Operating revenues in Q2/16 amounted to USD 0 million. (Q2/15 USD 43,8 million), while EBITDA in Q2/16 amounted to minus USD 2,5 million (Q2/15 USD 27,2 million)). Net Financials amounted to

USD 7,5 million (Q2/15 USD 7,9 million) and the Pre-tax profit Q2/16 thus amounted to minus USD 14,9 million (Q2/15 USD 11,2 million)

Total fixed assets as of 30 June 2016 amount to USD 248,4 million. Current assets total USD 35,5 million, of which bank deposits amount to USD 28,8 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 30 June 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 second quarter 2016 was USD 8,9 million (Q2/15 USD 10,3 million), while the cash flow from investments was zero. Cash flow from financing activities Q1/16 was zero as well. This resulted in a net cash flow of USD 8,7 million in Q2/16 (Q2/15 minus USD 0,7 million), increasing the cash and cash equivalents from USD 20,1 million at 31 March 2016 to USD 28,8 million at 30 June 2016. (USD 13,7 million at 30 June 2015).

### **Going Concern**

'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 Q2/16 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 Q2/16 accounts are not audited.



## ISLAND DRILLING

### Profit & Loss Account

Amounts in USD 1,000s	YTD Q2 2016	Q2 2016	Q1 2016	2015
Revenues	33 686	9	33 677	169 342
Operating expenses	15 303	2 480	12 824	64 031
<b>EBITDA</b>	<b>18 383</b>	<b>-2 471</b>	<b>20 853</b>	<b>105 310</b>
Depreciation and amortisation	9 745	4 874	4 871	32 492
Impairment	0	0	0	370 103
<b>EBIT</b>	<b>8 637</b>	<b>-7 344</b>	<b>15 982</b>	<b>-297 284</b>
Net financial items	-12 759	-7 547	-5 212	-45 245
<b>Net pre-tax profit</b>	<b>-4 122</b>	<b>-14 891</b>	<b>10 770</b>	<b>-342 529</b>
Taxes	0	0	0	0
<b>Net result after taxes</b>	<b>-4 122</b>	<b>-14 891</b>	<b>10 770</b>	<b>-342 529</b>
<i>EBITDA%</i>	55 %	N/A	62 %	62 %

### Balance sheet

Amounts in USD 1,000s

Assets	30-06-16	31-03-16	31-12-15
<i>Fixed assets</i>			
Total intangible assets	0	0	0
Rig, machinery and equipment	248 394	253 139	258 010
<b>Total Fixed Assets</b>	<b>248 394</b>	<b>253 139</b>	<b>258 010</b>
<i>Current Assets</i>			
Total receivables	6 730	25 635	36 818
Cash and cash equivalents	28 789	20 062	21 751
<b>Total Current Assets</b>	<b>35 519</b>	<b>45 697</b>	<b>58 569</b>
<b>Total Assets</b>	<b>283 913</b>	<b>298 836</b>	<b>316 579</b>
Equity and Liabilities	30-06-16	31-03-16	31-12-15
Paid-in equity	137 751	137 751	137 751
Retained earnings	-267 533	-252 642	-263 411
<b>Total Equity</b>	<b>-129 782</b>	<b>-114 891</b>	<b>-125 660</b>
Bonds	0	0	0
Long term loans	0	0	0
Current liabilities	413 695	413 727	442 239
<b>Total Liabilities</b>	<b>413 695</b>	<b>413 727</b>	<b>442 239</b>
<b>Total Equity and Liabilities</b>	<b>283 913</b>	<b>298 836</b>	<b>316 579</b>

### Cash flow statement

Amounts in USD 1,000s	YTD Q2 2016	Q2 2016	Q1 2016	2015
Cash flow from operating activities	27 756	8 856	18 900	48 968
Cash flow from investment activities	-129	-128	-1	-5 590
Cash flow from financing activities	-20 588	0	-20 588	-50 452
Net cash flow in the period	7 038	8 728	-1 689	-7 074
Cash and cash equiv. at start of period	21 751	20 062	21 751	28 826
Cash and cash equiv. at end of period	28 789	28 789	20 062	21 751



## **Contact us**

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