

September 30th 2015

Island Drilling Company ASA

3rd Quarter Financial Report



ISLAND DRILLING

Operations

Operations continue to be satisfactory also for Q3/15 – however a BOP incident in July led to an average available rig time for the Island Innovator below the budget for the quarter. The operating expenses (OPEX) are well below budget, and has contributed to a good operating profit (EBITDA).

The rig concluded operations on well 7220/11-2 Alta III, where Lundin drilled two side tracks to map most of the area, and finished with a good log result.

The rig then relocated to well 7220/6-2 Neiden, for drilling the well according to the Lundin program.

The main focus in Q3/15 has been 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.

Market update

The negative trend observed in the rig market throughout 2014 is strengthened during 2015 – with rigs being committed at very low day rates. However, since the rig still has 3 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 past the fixed Lundin period is intensified – but competition is strong, with many rigs available. To date, the number of rigs being laid-up and scrapped has not been high enough to stabilize the market rates. This has a significant impact on the day rates reported in the market for new fixtures.

Financial update

Operating revenues in Q3/15 amounted to USD 39,7 million. (Q3/14 USD 42,5 million), while EBITDA in Q3/15 amounted to USD 24,5 million (Q3/14 USD 20,3 million).

Total fixed assets as of 30 September 2015 amount to USD 635,0 million. Current assets total USD 55,6 million, of which bank deposits amount to USD 16,7 million. Long-term liabilities amount to USD 371,5 million as of 30 September 2015, a decrease of USD 49,0 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 September 2015 amount to USD 86,9 million, including the short-term portion of the long-term debt. The company was in breach of one of the financial covenants as at 30 September 2015, as the Working Capital was negative (requirement is $WC > 0$). However, the banks financing the rig has granted a waiver until 31.12.2015 – and furthermore, the company was in compliance again 30.11.2015

The cash flow from operating activities for the third quarter 2015 was USD 24,5 million (Q3/14 USD 13,5 million), while the cash flow from investments was minus USD 1,0 million. The cash flow from financing activities was minus USD 20,6 million. This resulted in a net cash flow of USD 3,0 million in Q3/15 (Q3/14 minus USD 7,7 million), increasing the cash and cash equivalents from USD 13,7 million at 30 June 2015 to USD 16,7 million at 30 September 2015 (USD 10,3 million at 30 September 2014).



ISLAND DRILLING

Profit & Loss Account

Amounts in USD 1,000s	YTD Q3 2015	Q3 2015	Q2 2015	Q1 2015	2014
Revenues	126 384	39 739	43 807	42 837	167 776
Operating expenses	48 819	15 208	16 641	16 970	84 576
EBITDA	77 565	24 531	27 167	25 867	83 200
Depreciation and amortisation	24 331	8 122	8 104	8 105	34 082
Impairment	0	0	0	0	61 433
EBIT	53 234	16 409	19 063	17 762	-12 315
Net financial items	-36 941	-15 558	-7 865	-13 519	-31 149
Net pre-tax profit	16 293	852	11 198	4 243	-43 464
Taxes	0	0	0	0	0
Net result after taxes	16 293	852	11 198	4 243	-43 464
<i>EBITDA%</i>	<i>61 %</i>	<i>62 %</i>	<i>62 %</i>	<i>60 %</i>	<i>50 %</i>

Balance sheet

Amounts in USD 1,000s

Assets	30-09-15	30-06-15	31-03-15	31-12-14
<i>Fixed assets</i>				
Total intangible assets	0	0	0	0
Rig, machinery and equipment	635 982	643 190	649 614	655 015
Total Fixed Assets	635 982	643 190	649 614	655 015
<i>Current Assets</i>				
Total receivables	38 875	54 628	44 604	36 174
Cash and cash equivalents	16 719	13 731	14 390	28 826
Total Current Assets	55 594	68 360	58 995	64 999
Total Assets	691 576	711 549	708 608	720 014
Equity and Liabilities	30-09-15	30-06-15	31-03-15	31-12-14
Paid-in equity	216 869	216 869	216 869	216 869
Retained earnings	16 293	15 441	4 243	0
Total Equity	233 162	232 310	221 112	216 869
Bonds	137 858	137 644	137 429	137 215
Long term loans	233 666	255 038	261 443	283 321
Current liabilities	86 890	86 557	88 624	82 609
Total Liabilities	458 414	479 239	487 496	503 145
Total Equity and Liabilities	691 576	711 549	708 608	720 014

Cash flow statement

Amounts in USD 1,000s	YTD Q3 2015	Q3 2015	Q2 2015	Q1 2015	2014
Cash flow from operating activities	43 644	24 490	10 297	8 857	58 167
Cash flow from investment activities	-5 298	-914	-1 680	-2 704	-17 506
Cash flow from financing activities	-50 452	-20 588	-9 276	-20 588	-41 177
Net cash flow in the period	-12 106	2 988	-659	-14 435	-516
Cash and cash equiv. at start of period	28 826	13 731	14 390	28 826	29 342
Cash and cash equiv. at end of period	16 719	16 719	13 731	14 390	28 826



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