

September 30th 2014

Island Drilling Company ASA

3rd Quarter Financial Report



ISLAND DRILLING

**Operations**

Operations have been satisfactory also in Q3/14 – again with an average available rig time for the Island Innovator that is in line with the budget for the quarter. The operating expenses (OPEX) are also in line with expectations. As can be seen from the accounts, this has resulted in a satisfactory operating profit (EBITDA).

The rig concluded operations on well 7120/1-4S 'Gotha' during the quarter, then changed location to well 7220/11-1 'Alta'. The relocation was part of the Lundin well programme, and the rig performed a good drill stem test.

The main focus in Q3/14 has 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 either.

Market update

The negative trend observed in the rig market in Q1/14, which intensified in Q2/14, is continuing. However, since the rig still has eight wells left under its 12-well Lundin Charter Contract, the weaker rig market has no impact on the company's profitability in the short term.

Financial update

Island Drilling reports a net profit USD 4.3 million for the third quarter 2014 (Q3/14). For the year to date (YTD Q3/14), the net profit is USD 11.1 million. Operating revenues in Q3/14 amounted to USD 42.5 million. (YTD/14 USD 125.5 million), while EBITDA in Q3/14 amounted to USD 20.3 million (YTD/14 USD 59.7 million)).

Total fixed assets as of 30 September 2014 amount to USD 719.4 million. Current assets total USD 67.7 million, of which bank deposits amount to USD 10.3 million.

Long-term liabilities amount to USD 429.8 million as of 30 September 2014, a decrease of USD 35.0 million since year-end 2013. Long-term liabilities include the senior bank loan, the bond loan and loans from related parties.

Current liabilities as of 30 September 2014 amount to USD 85.9 million, including the short-term portion of the long-term debt.

The cash flow from operating activities for the third quarter 2014 was USD 13.5 million (YTD/14 USD 29.1 million), while the cash flow from investments was minus USD 7.0 million. The cash flow from financing activities was minus USD 14.3 million. This resulted in a net cash flow of minus USD 7.7 million in Q3/14 (YTD/14 minus USD 19.0 million), decreasing the cash and cash equivalents from USD 18.0 million at 30 June 2014 to USD 10.3 million at 30 September 2014 (USD 29.3 million at year-end).

**Profit & Loss Account**

Amounts in USD 1,000s	YTD Q3 2014	Q3 2014	Q2 2014	Q1 2014	2013
Revenues	125 515	42 494	43 262	39 759	37 287
Operating expenses	65 851	22 181	21 334	22 336	22 383
EBITDA	59 664	20 312	21 928	17 423	14 904
Depreciation and amortisation	25 491	8 590	8 497	8 404	9 151
EBIT	34 173	11 722	13 431	9 020	-6 546
Net financial items	-23 087	-7 433	-8 830	-6 824	-8 877
Net pre-tax profit	11 086	4 289	4 601	2 196	-15 424
Taxes	0	0	0	0	0
Net result after taxes	11 086	4 289	4 601	2 196	-15 424
<i>EBITDA%</i>	<i>48 %</i>	<i>48 %</i>	<i>51 %</i>	<i>44 %</i>	<i>40 %</i>

Balance sheet

Amounts in USD 1,000s

Assets	30-09-14	30-06-14	31-03-14	31-12-13
<i>Fixed assets</i>				
Total intangible assets	0	0	0	0
Rig, machinery and equipment	719 392	721 434	729 982	733 023
Total Fixed Assets	719 392	721 434	729 982	733 023
<i>Current Assets</i>				
Total receivables	57 374	60 053	57 265	54 930
Cash and cash equivalents	10 328	18 053	14 934	29 342
Total Current Assets	67 702	78 105	72 199	84 272
Total Assets	787 094	799 539	802 182	817 295
Equity and Liabilities	30-09-14	30-06-14	31-03-14	31-12-13
Paid-in equity	260 333	260 333	260 333	260 333
Retained earnings	11 086	6 797	2 196	0
Total Equity	271 419	267 130	262 529	260 333
Bonds	137 001	136 787	136 572	136 358
Long term loans	292 797	307 986	312 751	328 412
Current liabilities	85 878	87 636	90 329	92 192
Total Liabilities	515 675	532 409	539 653	556 962
Total Equity and Liabilities	787 094	799 539	802 182	817 295

Cash flow statement

Amounts in USD 1,000s	YTD Q3 2014	Q3 2014	Q2 2014	Q1 2014	2 013
Cash flow from operating activities	29 091	13 549	7 983	7 559	-26 545
Cash flow from investment activities	-13 252	-7 008	-408	-5 836	-242 835
Cash flow from financing activities	-34 853	-14 265	-4 457	-16 131	234 069
Net cash flow in the period	-19 014	-7 724	3 118	-14 408	-35 310
Cash and cash equiv. at start of period	29 342	18 053	14 934	29 342	64 652
Cash and cash equiv. at end of period	10 328	10 328	18 053	14 934	29 342



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