April 18th, 2016

Island Drilling Company ASA

4th Quarter Financial Report

ISLAND DRILLING

Operations

Operations continue to be satisfactory also for Q4/15 – however the BOP incident in July has led to an average available rig time for the Island Innovator YTD Q4/15 below the budget. The operating expenses (OPEX) are well below budget also in Q4/15 – and for the full year. This has contributed to a good operating profit (EBITDA) – both Q4/15 and YTD Q4/15.

The rig concluded operations on well 7220/6-2 Neiden, where Lundin drilled the well, and then temporary abandoned the well. Lundin's decision is to re-enter the well again in the summer of 2016 for completion, and testing.

The rig then relocated to well 6407/10-4 Lorry, for drilling the well according to the Lundin program.

The main focus in Q4/15 has been to continue 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 optimize 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 further during 2015 – with rigs being committed at very low day rates. This fact was becoming increasingly evident for IDC first during the "Det Norske" tender (IDC re-submitted the commercial offer 3 times), and later in relation to the Lundin tender (where IDC re-submitted the commercial tender 3 times in Q4 2015 alone).

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 has been 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.

The last well under the Lundin contract was completed mid March, 2016. Thus the "Island Innovator" is out of work following completion of well #12 under the fixed Lundin drilling contract.

To date, the number of rigs being laid-up and/or scrapped has 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.Due to the significant impairment of the rig Q4/15, both 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%).

The impairment of the rig in the amount of USD 370,1 million is based on a “Discounted Cash Flow” model, giving a Net Present Value of the rig of USD 258 million. The main assumptions of the model is the rig being idle until H2/19, a day rate commencing H2/19 of USD 300 thousand, increasing by USD 25 thousand / day per half year reaching USD 375 thousand / day in 2021 and remaining at that level throughout the period (2016 – 2036), and a discount factor of 10% p.a. Cost escalation at 1,50% p.a.

However, as the cash position as of 31.12.15 was USD 21,8 Mill. and operation also in Q1/16 is cash positive, IDC is insufficient, but not ill-liquid and thus the condition for continued operations is still valid. However, given the situation the Board of Directors have decided to appoint 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 Q4/15 amounted to USD 43,0 million. (Q4/14 USD 42,3 million), while EBITDA in Q4/15 amounted to USD 27,8 million (Q4/14 USD 23,5 million)). Due to the severe downturn in the market, caused by the sharp decrease in the oil price during 2015, the market value for drilling rigs has dropped sharply. As a consequence IDC has taken an impairment charge on the rig of USD 370,1 million in Q4/15 – which leads to a loss of USD 358,7 million for the fourth quarter 2015 (Q4/15). For the full year 2015 the loss is USD 342,4 million. Adjusted for the impairment the net profit in the fourth quarter was USD 11,4 million and USD 27,7 million for the full year.

Following the significant impairment total fixed assets as of 31 December 2015 amount to USD 258,0 million. Current assets total USD 58,4 million, of which bank deposits amount to USD 21,8 million. As a consequence of the breach of certain financial covenants, the long term senior loans as well as the bond loan and the long term loan from related parties has been re-classified as short term. Current liabilities as of 31 December 2015 thus amount to USD 442,0 million, including the long-term senior- and bond debt as well as the related parties loan.

The cash flow from operating activities for the fourth quarter 2015 was USD 5,3 million (Q4/14 USD 60,3 million), while the cash flow from investments was minus USD 0,3 million. There was no cash flow from financing activities Q4/15. This resulted in a net cash flow of USD 5,0 million in Q4/15 (Q4/14 minus USD 0,5 million), increasing the cash and cash equivalents from USD 16,7 million at 30 September 2015 to USD 21,8 million at 31 December 2015 (USD 28,8 million at 30 December 2014).

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 Q4/15 accounts reflect a situation where the Company is not liquidated and no forced sale of the rig is carried through.

While the Company is 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 Q4/15 accounts are not audited.

Profit & Loss Account

Amounts in USD 1,000s	YTD Q4 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015	2014
Revenues	169 342	42 958	39 739	43 807	42 837	167 776
Operating expenses	64 031	15 213	15 208	16 641	16 970	84 576
EBITDA	**105 310**	**27 745**	**24 531**	**27 167**	**25 867**	**83 200**
Depreciation and amortisation	32 492	8 161	8 122	8 104	8 105	34 082
Impairment	370 103	370 103	0	0	0	61 433
EBIT	**-297 285**	**-350 519**	**16 409**	**19 063**	**17 762**	**-12 315**
Net financial items	-45 245	-8 304	-15 558	-7 865	-13 519	-31 149
Net pre-tax profit	**-342 530**	**-358 823**	**852**	**11 198**	**4 243**	**-43 464**
Taxes	0	0	0	0	0	0
Net result after taxes	**-342 530**	**-358 823**	**852**	**11 198**	**4 243**	**-43 464**
EBITDA%	*62 %*	*65 %*	*62 %*	*62 %*	*60 %*	*50 %*

Balance sheet

Amounts in USD 1,000s

Assets	31-12-15	30-09-15	30-06-15	31-03-15	31-12-14
Fixed assets					
Total intangible assets	0	0	0	0	0
Rig, machinery and equipment	258 015	635 982	643 190	649 614	655 015
Total Fixed Assets	**258 015**	**635 982**	**643 190**	**649 614**	**655 015**
Current Assets					
Total receivables	36 698	38 875	54 628	44 604	36 174
Cash and cash equivalents	21 751	16 719	13 731	14 390	28 826
Total Current Assets	**58 449**	**55 594**	**68 360**	**58 995**	**64 999**
Total Assets	**316 464**	**691 576**	**711 549**	**708 608**	**720 014**

Equity and Liabilities	31-12-15	30-09-15	30-06-15	31-03-15	31-12-14
Paid-in equity	216 869	216 869	216 869	216 869	216 869
Retained earnings	-342 445	16 293	15 441	4 243	0
Total Equity	**-125 576**	**233 162**	**232 310**	**221 112**	**216 869**
Bonds	0	137 858	137 644	137 429	137 215
Long term loans	0	233 666	255 038	261 443	283 321
Current liabilities	442 040	86 890	86 557	88 624	82 609
Total Liabilities	**442 040**	**458 414**	**479 239**	**487 496**	**503 145**
Total Equity and Liabilities	**316 464**	**691 576**	**711 549**	**708 608**	**720 014**

Cash flow statement

Amounts in USD 1,000s	YTD Q4 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015	2014
Cash flow from operating activities	48 968	5 324	24 490	10 297	8 857	58 167
Cash flow from investment activities	-5 590	-292	-914	-1 680	-2 704	-17 506
Cash flow from financing activities	-50 452	0	-20 588	-9 276	-20 588	-41 177
Net cash flow in the period	-7 074	5 032	2 988	-659	-14 435	-516
Cash and cash equiv. at start of period	28 826	16 719	13 731	14 390	28 826	29 342
Cash and cash equiv. at end of period	21 751	21 751	16 719	13 731	14 390	28 826

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