Island Drilling Company ASA
Statement of comprehensive income
01.01 - 31.12

USD thousands	Note	2015	2014
Revenues	5	170 961	169 523
Salaries	6	-34 547	-47 858
Depreciation	11	-32 492	-34 082
Other operating expenses	6,7	-31 104	-38 465
Impairment of fixed assets	11	-370 103	-61 433
Operating profit (-loss)		**-297 284**	**-12 315**
FINANCE INCOME AND EXPENSES			
Interest income	7	104	131
Borrowing cost	7	-29 728	-31 825
Other financial items	7	-15 621	545
Net financial items		**-45 245**	**-31 149**
PROFIT (- LOSS) BEFORE TAX		**-342 529**	**-43 464**
Income tax expense	10	-	-
PROFIT (- LOSS) FOR THE YEAR		**-342 529**	**-43 464**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income for the year		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-342 529**	**-43 464**
EARNINGS PER SHARE (USD)			
Earnings per share	17	-4,15	-0,53
Diluted earnings per share	17	-4,15	-0,53

Island Drilling Company ASA
Statement of Financial Position 31.12

USD thousands	Note	**2015**	**2014**
FIXED ASSETS			
Intangible assets			
Deferred tax asset	10	-	-
Total intangible assets		**-**	**-**
Property, plant and equipment			
Rig under construction	11	-	-
Rig	11	258 010	655 015
Total tangible assets		**258 010**	**655 015**
Total fixed assets		**258 010**	**655 015**
CURRENT ASSETS			
Receivables			
Account receivables	8, 18	28 391	15 374
Other short term receivables	8, 18	8 427	20 800
Total receivables		**36 818**	**36 174**
Cash and cash equivalents	13, 18	21 751	28 825
Total current assets		**58 569**	**64 999**
TOTAL ASSETS		**316 579**	**720 014**

Island Drilling Company ASA
Statement of Financial Position 31.12

USD thousands	Note	**2015**	**2014**
EQUITY			
Paid in equity			
Share capital	14	137 751	137 751
Share premium		-	79 118
Total paid in equity		**137 751**	**216 869**
Retained earnings/uncovered loss			
Uncovered loss		-263 411	-
Total retained earnings/uncovered loss		**-263 411**	**-**
Total equity		**-125 660**	**216 869**
LIABILITIES			
Other long term liabilities			
Borrowings	12, 18	-	399 675
Other long term liabilities	16, 18	-	20 861
Total long term liabilities		**-**	**420 536**
Current liabilities			
Borrowings	12, 16, 18	412 680	41 176
Account payables	18	6 245	14 448
Other short term liabilities	9, 15, 18	23 314	26 985
Total current liabilities		**442 239**	**82 609**
Total liabilities		**442 239**	**503 145**
TOTAL EQUITY AND LIABILITIES		**316 579**	**720 014**

Oslo, May 26 2016

Øivind Lund Chairman of the Board	Morten Ulstein Board Member	Dionne Rochelle Chouest Board Member
Maria Loen Board Member	Jan Svein Krokeide Board Member	Roger Simmenes Chief Executive Officer

Island Drilling Company ASA
Statement of cash flow
01.01 - 31.12

USD thousands	**2015**	**2014**
Cash flow from operating activities		
Profit (-loss) before tax	-342 529	-43 464
Adjustments for:		
Taxes paid in the period	-	-
Borrowing costs	-	-
Unrealized agio on long term loans	-291	-4 892
Depreciation	32 492	34 082
Amortization of loan costs	1 711	1 834
Imparement of fixed assets	370 103	61 433
Changes in working capital:		
Interest expense - net	37 027	29 871
Change in account receivables	-13 017	6 538
Change in account payables	-8 203	-20 760
Change in other short term receivables and other provisions	8 703	23 397
Cash used in operations before interest	**85 996**	**88 039**
Interest paid	-37 027	-29 871
Net cash flows used in operating activites	**48 969**	**58 167**
Cash flows from investing activities		
Cash paymens related to rig	-5 590	-17 506
	-	-
Net cash flows used in investing activities	**-5 590**	**-17 506**
Cash flows from financing activities		
Proceeds from capital increase	-	-
Repayment of long term loans	-50 453	-41 177
Proceeds from new borrowings		
Net cash flow from financing activities	**-50 453**	**-41 177**
Net change in cash and cash equivalents	-7 074	-516
Cash and cash equivalents at beginning of year	28 825	29 342
Cash and cash equivalents at end of year	**21 751**	**28 825**
Of which restricted cash	21	30

Island Drilling Company ASA
Statement of changes in equity

USD thousands	Share capital	Share premium	Other paid in equity	Uncovered loss	Total equity
Balance 31 December 2013	**137 751**	**230 341**	**-**	**-**	**368 093**
Balance 1 January 2014	137 751	230 341	-	-	368 093
Profit (-loss) for the year		-43 464	-	-	-43 464
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-43 464	-	-	-43 464
Contributions by and distributions to shareholders	-	-	-	-	-
Total contributions by and distributions to shareholders	**-**	**-**	**-**	**-**	**-**
Balance 31 December 2014	**137 751**	**79 118**	**-**	**-**	**216 869**
Balance 1 January 2015	137 751	79 118	-	-	216 869
Profit (-loss) for the year		-79 118	-	-263 411	-342 529
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-79 118	-	-263 411	-342 529
Contributions by and distributions to shareholders	-	-	-	-	-
Total contributions by and distributions to shareholders	**-**	**-**	**-**	**-**	**-**
Balance 31 December 2015	**137 751**	**-**	**-**	**-263 411**	**-125 660**

Island Drilling Company ASA – Notes to the financial statements

Note 1. General Information

Island Drilling Company ASA (“the Company) is a public limited company incorporated and domiciled in Norway and OTC listed in Oslo. The address of its registered office is Stålhaugen 9, 6056 Ulsteinvik.

These separate financial statements were approved by the Board of Directors on 26 May 2016.

The purpose of the Company, is to build and operate rigs and appliances for support of operations in the offshore oil industry. The Company has currently one rig which started operations on 25 September 2013.

Note 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the EU as of 31.12.2015, and Norwegian disclosure requirements listed in the Norwegian Accounting Act as of 31.12.2015.

The measurement basis used is historical cost, with the exception of financial derivatives at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The accounting policies adopted are consistent with those of the previous financial year. There are no new accounting standards or amendments in IFRS in 2015 which has had any effect for the Company's financial statements.

(b) New and amended IFRS and IFRICs with future effective dates

Standards and interpretations that are issued up to the date of issuance of the separate financial statements, but not yet effective are disclosed below. The Company’s intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the separate financial statements are issued.

IFRS 9 Financial Instruments

In July 2014 the IASB published the final element in IFRS 9 and the standard is now complete. IFRS 9 results in amendments to classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instrument: Recognition and Measurement. The parts of IAS 39 that have not been amended as part of this project has been transferred and included in IFRS 9. The standard shall be implemented retrospectively, with the exception of hedge accounting, but it is not a requirement to prepare comparative figures. The rules for hedge accounting shall mainly be implemented prospectively, with certain few exceptions. The Company has no plans regarding early implementation of the standard. The standard is not yet approved by the EU. For enterprises outside the EU/EEA with a statutory obligation to keep accounts, the amendments will be effective for accounting periods beginning on or after 1 January 2018.

The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 15 Revenue from Contracts with Customers
The IASB and FASB has published a new converged standard for revenue recognition; IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). IFRS 15 shall be implemented using either the fully retrospective or modified method. The standard is not yet approved by the EU. For entities outside the EU/EEA with a statutory obligation to keep accounts, the amendments will be effective for accounting periods beginning on or after 1 January 2018. The Company is yet to assess IFRS 15's full impact.

IFRS 16 Leasing
In January 2016 the IASB published the new leasing standard. For enterprises outside the EU/EEA with a statutory obligation to keep accounts, the standard will be effective for accounting periods beginning on or after 1 January 2019. The Company has not yet considered if 16 Leasing will impact the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2 Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). USD is both the functional currency and the presentation currency for the Company.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'finance income and expenses'.

2.3 Rig
The Company has one rig and the rig was ready for its intended use on 25 September 2013 when it commenced operations. The rig is stated at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition.

The cost of the Rig includes its original purchase price and all costs necessary to bring the Rig to working condition for its intended use. Subsequent expenditure on repair and maintenance is recognised as an expense in the income statement, while expenses that are expected to generate future economic benefits are capitalised.

If an item of the Rig has different parts with different useful lives, the parts are depreciated separately if the cost is significant in relation to the total cost of the Rig. The cost of the Rig is depreciated to the residual value over the asset's useful life. Useful life for the components of the rig is estimated and presented in the notes. Depreciation is calculated on a straight-line basis.

The depreciation period and method are assessed annually. The same applies to residual value. When the carrying amount of the Rig exceeds the estimated recoverable amount, the value is written down to the recoverable amount.

2.4 Impairment of non-financial assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Financial assets

2.5.1 Classification
In accordance with IAS 39, Financial instruments: Recognition and measurement, financial instruments within the scope of IAS 39 are classified in the following categories: at fair value with changes in value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
The Company has forward exchange contracts that are measured at fair value with gains or losses through profit or loss. The financial instruments are classified as current assets or liabilities or non-current assets or liabilities based on the maturity of the financial instrument. Gains or losses are recognised on an ongoing basis in the period they arise and are recognised in finance income or finance expense in the income statement.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

2.5.2 Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise.

2.6 Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.7 Hedge accounting
The Company uses forward currency contracts to reduce currency exposure, but does not use hedge accounting associated with the currency instruments.

2.8 Cash and cash equivalents
In the statement of cash flows and balance sheet, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.10 Accounts receivable

Accounts receivables are recognised at fair value less impairment losses. Nominal value does not normally fluctuate significantly from amortised cost.

2.11 Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.13 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Defined contribution plan
Pension premiums relating to the Company's defined contribution plan are recognised as an expense as it is incurred.

2.16 Provisions
Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

2.17 Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value-added tax, returns, rebates and discounts. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities.

The Company's revenues are derived from day-rate based drilling contracts. Revenue is recognized when the drilling is performed and at the rates specified in the contracts.

In connection with drilling contracts, the Company may receive lump sum fees for the mobilization of equipment and personnel or for capital additions and upgrades prior to commencement of drilling services. These up-front fees are recognized over the contract term.

Reimbursements received for the purchases of supplies, personnel services and other services provided on behalf of and at the request of the customers in accordance with a contract or agreement are recorded as revenue. The related costs are recorded as reimbursable expenses in the same period.

2.18 Mobilization and demobilization expenses
Mobilization costs incurred as part of a drilling contract are capitalized and expensed over the contract term.

2.19 Capitalized periodical maintenance
Costs related to periodic overhauls of drilling units are capitalized under drilling units and amortized over the anticipated period between overhauls, which is generally 5 years. Related costs are primarily yard costs and the cost of employees directly involved in the work. Amortization costs for periodic overhauls are included in depreciation and amortization expense. Costs for other repair and maintenance activities are included in other operating expenses and are expensed as incurred.

2.20 Related parties
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. All transactions between the related parties are based on the principle of arm's length.

2.21 Dividend distribution
Dividend distribution to the company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Earnings per share
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

2.23 Cash flow statement
The statement of cash flows has been prepared using the indirect method.

2.24 Events after balance sheet date
The amounts recognised in the financial statements are adjusted to reflect new information received after the balance sheet date that provide evidence of conditions that existed at the balance sheet date ("adjusting events"). The amounts recognised in the financial statements are not adjusted to reflect new information that are indicative of conditions that arose after the reporting period ("non-adjusting events"), but non-adjusting events are disclosed if material.

Note 3. Financial risk management

3.1 Financial risk factors

The Company's activities are exposed to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD/NOK. Foreign exchange risk arises from accounts payables, cash and cash equivalents and future commercial transactions.

Management seeks to minimize the effects of foreign exchange risk by balancing cash deposits held in different currencies and to some extent by using derivative financial instruments.

A change in the USD/NOK currency rate would not have any significant impact on the Company's financial statements as of 31.12 2015.

(ii) Cash flow interest rate risk

A change in variable interest rates will have impact on the profit and loss of the Company. An estimated increase in LIBOR interest rate of 1% in 2015 would increase the total interest cost by approximately 9,70% in 2015.

(b) Credit risk

The Company's credit risk exposure is limited to bank deposits and account receivables. All bank deposits are held with DNB Bank ASA and the bank has credit rating A. The account receivables are towards Lundin Norway AS which is a large and sound customer with limited risk of loss.

(c) Liquidity risk

The Company's management is responsible for continuous monitoring and reporting of the group's liquidity position. The group's liquidity risk is mainly related to losses on expected revenues.

The Company foresees serious economic challenges in the future. As described under Note 19 "Going concern" a restructuring of the Company's balance sheet is 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. Without operating revenues the Company is not in a position to pay full debt service going forward.

While the discussions with creditors are ongoing, the Company has decided to halt all payments of interest and amortization to all of its finance providers. 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. Due to the breach of financial covenants total borrowings on 412,7 MUSD as of 31.12.15 are classified as short term, including the long-term senior loan facility and the USD 140 000 000 bond that was issued in April 2013. The total value is classified as current in less than three months as the financial creditors may require repayment on demand as a result of breaches of loan covenants.

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management monitors capital on the basis of the equity ratio, working capital and liquidity, since the debt among other covenants requires an equity ratio of minimum 30%, positive working capital and free liquidity cash, please see more details in note 12. The equity ratios at 31 December 2015 and 2014 were as follows:

	2015	2014
Total assets	316 579	720 014
Total equity	-125 660	216 869
Equity ratio	-40%	30 %

As of 31.12.2015 the company was in breach of financial covenants, 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%).

3.3 Fair value estimation

The Company has entered into currency swap agreements with DNB Markets as counterparty. These are measured at fair value based on mid-rates as determined by DNB Markets based on available market rates at year end. See note 15 for more information.

Note 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of rig

There has been made an impairment at 370,1 MUSD at year end 2015, in addition to previous accumulated impairment at 273,7 MUSD at year end 2014. The recoverable amount was determined based on a value in use calculation. See note 11 for further information.

(b) Deferred tax asset

The deferred tax asset has not been recognised in the balance sheet since the probability of future taxable profit in Norway is considered to be not probable.

(c) Provisions for claims

The Company has had an outstanding claim regarding the yard stay in Bergen for the period May to September 2013 from Odfjell Drilling Technology AS. The total claim from Odfjell Drilling Technology AS was 16.4 MUSD. The Company had made a provision related to this claim as of 31.12.2014. This was based on best estimate for expected settlement. This claim was solved in 2015 by arbitration, and as of 31.12.15 there are no other provisions for material claims.

Note 5 Revenues / Segment information

The Company's rig started its operations in the North Sea late September 2013. All revenues are nominated in USD.
The rig was on a contract for 12 wells with Lundin. The contract completion was mid March 2016.
As Island Drilling is a single purpose company, segment information is not considered relevant since all activities are within the same segment.

Note 6 Employee benefits expense, number of employees, loans to employees and auditor's fee

	2015	2014
Salaries and wages	452	762
Employer`s national insurance contributions	97	129
Pension expenses	10	13
Other benefits	338	438
Hired personnel	33 649	46 516
Total personnel expenses	**34 547**	**47 858**
No. of employees (annual average)	2	2

The rig is operated by Odfjell Drilling AS and all offshore personnel are employed by the operator.

Management and Boad of Directors

Roger Simmenes was employed as CEO in March 2013. He has a termination agreement equivalent to nine months' salary.

Compensation Roger Simmenes

	2015	2014
Salary	361	450
Bonus	117	111
Other remuneration	18	24
Total compenstation	**497**	**585**

Renumeration to the Board Of Directors

	2015	2014
Total	128	130

The board of directors consist of Øivind Lund, Morten Ulstein, Dionne Rochelle Chouest, Maria Loen and Jan Svein Krokeide.
No loans/securities have been granted to the CEO, chairman of the board or other related parties.
The CEO and Boad of Directors have no post employment agreements.

Auditor fee

	2015	2014
-Statutory Audit	50	57
-Tax advisory fee	4	28
-Other services	7	2
Total auditor fee	61	87

VAT is not included in the fee specified above.
The company's chosen auditor is Ernst & Young AS.

Note 7 Combined items, income statement

Other operating expenses

	2015	2014
Hired services, subcontractors and stand-in employees	15 900	17 740
Repair and maintenance	9 413	13 337
Insurance, guarantee and service costs	3 985	4 971
Office rent and warehouses	129	138
Fees for financial and legal assistance	1 277	1 666
Inspection	103	184
Travel expenses	56	103
Other operating and administrative expenses	240	326
Total other operating expenses	**31 104**	**38 465**

Financial income/expenses

	2015	2014
Interest income		
Interest income	104	131
Interest income from related parties	-	-
Total interest income	**104**	**131**
Borrowing cost		
Interest incurred	(25 488)	(28 032)
Guarantee commission	(2 528)	(1 949)
Amortizated borrowing costs	(1 711)	(1 834)
Other borrowing expenses	(2)	(10)
Total borrowing cost	**(29 728)**	**(31 825)**
Other financial items		
Currency gain	906	7 272
Other financial income	-	-
Currency loss	(7 413)	(6 716)
Other financial expenses	(9 114)	(11)
Total other financial items	**(15 621)**	**545**

Note 8 Account receivables and other receivables

Account receivables	**2015**	**2014**
Account receivables	28 246	15 338
Earned, not yet invoiced operating revenues	145	36
Provision for impairment of account receivables	-	-
Account receivables - net	**28 391**	**15 374**

Other current receivables	**2015**	**2014**
Prepaid expenses	6 733	7 937
Reimbursable expenses	-	10 697
Outstanding VAT	1 694	2 166
Total	8 427	20 800

The fair value of trade receivables and other receivables are as follows:	**2015**	**2014**
Account receivables	28 391	15 374
Other receivables	8 427	20 800
Total	**36 818**	**36 174**

As the account receivables are due in short term, the fair value is approximately equal to the carrying amount, and the future cash flows are not discounted.

The carrying amounts of the account receivables are denominated in the following currencies:

	2015	**2014**
USD	28 391	15 374
NOK	-	-
Other	-	-
Total	**28 391**	**15 374**

The ageing of the account receivables, not impaired:	**2015**	**2014**
Not due	28 158	14 344
0 to 3 months	34	18
3 to 6 months	199	-
Over 6 months	-	1 012
Total	**28 391**	**15 374**

Note 9 Other short term liabilities

	2015	**2014**
Prepayments from customers	-	-
Deferred revenue	-	-
Accrued employee tax	39	54
Accrued interest	11 695	16 989
Holiday pay	61	64
Employee bonus provisions	-	-
Accrued expenses	4 345	5 470
Unrealized disagio currency swaps	7 174	4 408
Total other short term liabilities	**23 314**	**26 985**

Note 10 Tax

Components of the income tax expense:	2015	2014
Tax payable	-	-
Changes in deferred tax	-	-
Changes in deferred tax to equity	-	-
Total income tax expense	-	-

Deferred tax / (deferred tax asset)	Fixed assets	Borrowings	Financial instruments	Tax losses carried forwad	Deferred tax asset not recognised	Deferred tax / (deferred tax asset)
1 January 2011	2 461	1 430		-33 436	29 545	-
Change in deferred tax during the period	-27 401	1 225		-1 626	27 803	-
31 December 2012	-24 941	2 654		-35 062	57 349	-
Change in deferred tax during the period	28 609	-202		-34 093	5 687	-
31 December 2013	3 668	2 452		-69 155	63 036	-
Change in deferred tax during the period	27 119	-299		-23 772	-3 047	-
31 December 2014	30 787	2 152		-92 928	59 988	-
Change in deferred tax during the period	-57 692	-863	-1 793	4 484	55 865	
31 December 2015	-26 905	1 289	-1 793	-88 444	115 853	

Deferred tax asset is calculated with a rate of 25 % in 2015. In 2014 the rate was 27 %.

Explanation why profit before tax differs from the amount that would arise using the 27 % tax rate:

	2015	2014
Profit/loss before income tax	-342 529	-43 464
27 % of profit before income tax	-92 483	-11 735
Permanent differences*	36 618	14 782
Not recognised change in deferred tax asset	55 865	-3 047
Total income tax expense	**-**	-
Effective tax rate in %	0,0 %	0,0 %

*) Permanent differences mainly relates to currency translation effects since the tax return is prepared in NOK

The deferred tax asset has not been recognised in the balance sheet, since the probability of future taxable profit in Norway is considered to not be likely.

Note 11 Rig

2015	Rig	Top Side Equipment	Subsea Equipment	Periodic maintenance	Total tangible assets
Acquisition cost at 01.01.15	751 157	154 691	51 130	15 000	971 979
Additions	3 113	1 241	1 236	0	5 590
Disposals	0	0	0	0	0
Additions capitalized finance cost	0	0	0	0	0
Acquisition cost 31.12.15	**754 271**	**155 932**	**52 366**	**15 000**	**977 569**
Accumulated depreciation 31.12.15	-38 839	-22 884	-7 210	-6 791	-75 723
Accumulated impairment loss 31.12.15					-643 836
Net carrying value at 31.12.15	**715 432**	**133 048**	**45 156**	**8 209**	**258 010**
Depreciation of the year	15 680	10 368	3 458	2 985	32 492
Impairment loss of the year	370 103	0	0	0	370 103
Accumulated capitalized finance cost	114 183				114 183

2014	Rig	Top Side Equipment	Subsea Equipment	Periodic maintenance	Total tangible assets
Acquisition cost at 01.01.14	742 735	154 691	42 046	15 000	954 473
Additions	8 422		9 084	-	17 506
Disposals	-	-	-	-	-
Additions capitalized finance cost	-	-	-	-	-
Acquisition cost 31.12.14	**751 157**	**154 691**	**51 130**	**15 000**	**971 979**
Accumulated depreciation 31.12.14	-23 158	-12 516	-3 751	-3 805	-43 231
Accumulated impairment loss 31.12.14	-273 733	-	-	-	-273 733
Reversed impairment loss 31.12.14	-	-	-	-	-
Net carrying value at 31.12.14	**454 266**	**142 175**	**47 379**	**11 195**	**655 015**
Depreciation of the year	18 136	8 388	3 751	3 805	34 082
Impairment loss of the year	61 433	0	0	0	61 433
Accumulated capitalized finance cost	119 897				119 897
Useful lifetime	30 years	15-30 years	15-30 years	5 years	
Depreciation schedule	Straight line	Straight line	Straight line	Straight line	

All expenses which are related to construction of the rig are capitalized. Administration expenses are not capitalized.

All interest on borrowings and bonds has been capitalized. Interest income on bank deposits reduce capitalized finance cost. The rig has been depreciated for 12 months in 2015 equivalent to time of operations in 2015. Useful life for the rig is assessed for each type of component of the rig, specified above. The depreciation schedule is straight line.

As of year end 2014 the accumulated impairment of the rig was at a total of MUSD 273.7 as a consequence of cost overruns related to completion and mobilisation of the rig as well as difficult market conditions.
At year end 2015 there was made an additional impairment at MUSD 370.1 due to worsening market conditions for rigs.

Fair value of the rig has been estimated to MUSD 258 as of year end 2015.

Fair value has been calculated based on a value in use model where expected cash flows are discounted over the rig's estimated remaining useful life.
Incorporated in the model, one has assumed that the rig market will be challenging until 2019 before it turns into a gradual recovery.
Therefore, incorporated in the model, one assumes the rig will be idle until the second half of 2019. It is assumed a dayrate of tUSD 300 at the 2nd half of 2019, gradually increasing with tUSD 25/day per half year reaching tUSD 375 in 2021 and remaining at that level throughout the rest of the rig's useful life. Cost escalation is assumed at 1.5 % p.a.

The model assumes a WACC of 10%, remaining useful life of 20 years and a long-term utilization of 90%.

Sensitivity:

The company has prepared a sensitivity analysis of the value in use model by varying two central assumptions, the discount rate (WACC) and the long-term dayrate.

WACC	Value of rig	Change in impairment
8%	321 695	-63 686
9%	288 022	-30 012
10%	*258 010*	*0*
11%	232 082	25 928
12%	208 816	49 194

Percentage change in long-term dayrates	Value of rig	Change in impairment
-27%	96 968	161 042
-13%	177 650	80 360
0%	*258 010*	*0*
13%	339 013	-81 003
27%	419 694	-161 684

Note 12 Borrowings

Borrowings

	2015	2014
Non-current		
Bank/bond borrowings	-	399 675
Other long term liabilities	0	20 861
Current		
Bank/bond borrowings incl accrued interests	413 081	58 165
Other short term liabilities	11 294	0

The carrying value of the bank/bond borrowings are specified below

	2015	2014
Nominal value of borrowings from Eksportkreditt Norge AS - Loan A	191 176	220 588
Nominal value of borrowings from bank syndicate - Loan B	76 471	88 235
Nominal value of bond loan	140 000	140 000
Payments included in calculation of amortised cost	-6 261	-7 972
Accrued interests	11 695	16 989
Total	**413 081**	**457 840**

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2015	2014
USD	413 081	457 840

The Company has no undrawn borrowing facilities.

Loan A and B

Loan A and B are regulated by a joint agreement. In the original agreement from May 2011 the total facility amounted to 280 MUSD, where Loan A constituted 180 MUSD and Loan B 100 MUSD. 31.12.2011 the Company had drawn 145 MUSD of the facility. During 2012 the remaining 135 MUSD of the facility was drawn, in addition to that Loan A was increased from 180 MUSD to 250 MUSD. After loan A was increased the facility was 350 MUSD in total.

The interest terms for Loan A is LIBOR 6 months + 0.57% for the first tranche and LIBOR 6 months + 1.20 % for the second tranche. The loan is secured by a first priority pledge in the rig. In addition, GIEK has given a guarantee for the loan. The Company pays a 2.2 % p.a. guarantee commission for the drawn amount. The guarantee is included in the loan agreement. Since the company pays the guarantee commission to the loan agent, the guarantee has been included in the calculation of effective interest. Effective interest for the loan is approximately LIBOR 6 months+ 3,0% including the guarantee.

The interest terms for Loan B is LIBOR 3 months + 4,0%. The loan is secured by a second priority pledge in the rig.

In addition, some of the Company's shareholders have given a guarantee for the loans. The Company pays a 2% p.a. guarantee commission for the guarantee given. Details about the guarantees are given in note 16. The guarantee commissions are paid directly to the shareholders. Effective interest for the loan is approximately LIBOR 6 months + 6 % including the guarantee.

A summary of the covenants for the loans is given below:
- Market value of the rig is required to be minimum 150% of the loans
- Working capital > 0, where 50% of next twelve months installments are included in the calculation of working capital (post delivery).
- Minimum free liquidity of 15 MUSD.
- EBITDA/total loan payments next twelve months > 1,1 (post delivery).
- Equity ratio > 30%.
- Book equity for Alpha Marine Services LLC (shareholder guarantor) > 120 MUSD, and free liquidity > 10 MUSD.
- Change of control clauses.
- No dividend payments without the concent of the lenders

The Company was in breach with financial covenants as of 31.12 2015 and has not received a waiver before the balance sheet date, hence the loans are classified as current liabilities.

Bond loan facility

In 2013 the Company entered into a 2nd lien bond loan facility agreement totalling 140 MUSD. The interest rate on the bond loan is fix at 9,5% p.a. and the original maturity was set to April 2018.

The bond loan has one financial covenant which is that the Company at all times should have 10 MUSD in free liquidity until June 2015 and 15 MUSD after that.

The boand loan is classified as short term as there is a cross default clause in the loan agreement.

The table below shows the estimated nominal repayment profile including interest and guarantee provisions for the loans after the balance date.

	2016	2017	2018	2019	2 020	Subsequent	Total
Loan A	197 114	0	0	0	0	0	197 114
Loan B	79 969	0	0	0	0	0	79 969
Bond loan	153 300	0	0	0	0	0	153 300
Other liabilities	11 972	0	0	0	0	0	11 972
Total instalments	**442 355**	**0**	**0**	**0**	**0**	**0**	**442 355**

	2015	2014
Debt secured by pledges:	413 081	457 840
Pledged assets:		
Rig	258 010	655 015
Sum	**258 010**	**655 015**

Note 13 Cash and cash equivalents

	2015	2014
Bank deposits	21 751	28 825

Of the total bank deposits, the following is restricted:

	2015	2014
Tax withholding	21	30
Total	**21**	**30**

Note 14 Share capital and shareholder information

The share capital of the company is registered in Norwegian Kroner (NOK). The share capital in the financial statement is calculated in USD.
There is only one class of shares, and all shares have the same rights.

The share capital consists of:

	Shares	Nominal value NOK	Registered in NOK	Book value in USD Share capital	Book value in USD Total equity
Shares/share capital 31.12.2014	82 518 796	10	825 187 960	137 750 915	216 869 418
Changes in 2015	-	0	-	-	(342 529 402)
Shares 31.12.2015	**82 518 796**	**10**	**825 187 960**	**137 750 915**	**(125 659 984)**

The Company's equity is lost. It is refered to statement of changes in equity for closer details.

The largest shareholders as of 31.12.15

	Shares	Ownership	Voting rights
ISLAND OFFSHORE V AS	26 284 650	31,9 %	31,9 %
RIG INVEST, L.L.C.	26 308 500	31,9 %	31,9 %
MOHN	8 303 079	10,1 %	10,1 %
ISLAND OFFSHORE XII AS	4 505 001	5,5 %	5,5 %
DANSKE BANK A/S	3 922 382	4,8 %	4,8 %
SVENSKA HANDELSBANKEN AB	2 930 682	3,6 %	3,6 %
METEVA AS	1 782 409	2,2 %	2,2 %
BORGSTEIN AS	1 782 409	2,2 %	2,2 %
ISLAND OFFSHORE INVEST AS	1 069 184	1,3 %	1,3 %
EUROCLEAR BANK S.A./N.V. ('BA')	1 035 936	1,3 %	1,3 %
NAUSTNESET AS	988 287	1,2 %	1,2 %
IMPERATOR AS	625 048	0,8 %	0,8 %
BCM EUROPEAN HIGH YIELD FUND LTD	349 788	0,4 %	0,4 %
MP PENSJON PK	279 365	0,3 %	0,3 %
J.P. MORGAN CHASE BANK N.A. LONDON	263 532	0,3 %	0,3 %
ARNE LOEN AS	251 783	0,3 %	0,3 %
BENZEN AS	242 186	0,3 %	0,3 %
HABER NORGE AS	225 295	0,3 %	0,3 %
BAKKELY INVEST A/S	191 137	0,2 %	0,2 %
INGER M KRISTENSEN AS	184 988	0,2 %	0,2 %
Total 20 largest shareholders	81 525 641	98,8 %	98,8 %
Other shareholders	993 155	1,2 %	1,2 %
Total	**82 518 796**	**100,0 %**	**100,0 %**

In addition to the 26 308 500 shares owned directly, Rig Invest LLC owns an additional 1 035 936 shares through nominee accounts in Euroclear Bank.
Rig Invest LLC also have a non-controlling interest in Island Offshore V AS, which in return owns 31.9 % of the shares in Island Drilling Company.
Rig Invest owns 46.28 % of the shares in Island Offshore V AS.

Rig Invest LLC is a subsidiary of Alpha Marine Services LLC, which has an indirect non-controlling interest in Island Offshore XII AS.

Borgstein AS own 7.23 % of the shares in Island Offshore V AS and has indirect ownership in Island Offshore XII AS and Island Offshore Invest AS.

Shares owned by Members of the board and CEO	
Morten Ulstein	See below
Dionne Chouest	See below

Morten Ulstein owns shares indirectly through his indirect ownership in Island Offshore V AS, Island Offshore Management AS,
Island Offshore Invest AS, Island Offshore XII Ship AS, Naustneset AS, Borgstein AS and Sneingen AS.

Dionne Chouest has no direct og indirect ownership in Island Drilling Company ASA

Note 15 Other financial instruments

The Company has entered into swap agreements with DNB Markets as counterparty. The Company hedges its curreny risk by selling USD and buying NOK forward.

	2015	2014
Amount sold forward as of 31.12 in USD	51 900	50 000
Present value of entered contracts (MTM)	(7 174)	(4 408)

The market values are calculated using mid-rates (excluding margins) as determined by DNB Markets based on availiable market rates at year end.
A positive present value represents an asset for the Company while a negative value represent a liability.

Note 16 Related parties

The Company has hired management services from the company Island Offshore Shipping AS, which is 100 % owned by Borgstein AS.

The Company pays a fixed mothly rate for management and construction supervision. In addition the Company pays for travel expenses and other out of pocket expenses.

The following transactions were carried out with related parties:

Purchase of services:	2015	2014
Management from Island Offshore Shipping AS	336	28
Sum	**336**	**28**

	2015		2014	
Guarantees given by shareholders	Guarantee amount	Guarantee commission accrued	Guarantee amount	Guarantee commission accrued
Alpha Marine Services LLC	55 500	1 110	55 500	1 110
Borgstein AS	18 500	370	18 500	370
Meteva AS	18 500	370	18 500	370
Alden AS	7 500	150	7 500	150
Sum	**100 000**	**2 000**	**100 000**	**2 000**

Year end balances arising from transactions with related parties:

	2015	2014
Other short-term receivables from related parties	-	-
Account payables to Island Offshore Management AS	-	-
Loan Island Offshore Management AS	5 667	15 097
Loan Meteva AS	5 627	5 763

The loans to Island Offshore Management AS and Meteva AS are maturing June 30th 2016.

Note 17 Earnings per share

Earnings per share is calculated by dividing the result attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Profit for the year attributable to shareholders	-342 529	-43 464
Weighted average number of ordinary shares	82 518 796	82 518 796
Weighted average number of shares for calculation of dilluted earnings	82 518 796	82 518 796
Earnings per share (USD)	-4,15	-0,527
Diluted earnings per share (USD)	-4,15	-0,527

Note 18 Financial assets and liabilities by category

This note gives an overview of the carrying and fair value of Island Drilling Company ASA's financial instruments and the accounting treatment of these instruments. The table is the basis for further information regarding financial risk.

The maturity of all current assets and liabilities are within 12 months, while borrowings are measured at amortised cost.

Financial assets:	**Category:**	**2015**	**2014**
Receivables	1)	28 391	36 174
Bank deposits	1)	21 751	28 825
Sum		**50 142**	**64 999**

Financial liabilities:	**Category:**		
Accounts payables and other payables*	3)	33 679	57 886
Borrowings, incl accrued interest	3)	401 386	440 852
Financial instruments at fair value	2)	7 174	4 408
Sum		**442 239**	**503 145**

1): Loans and receivables
2): Fair value through profit and loss
3): Other financial liabilities, amortised cost

* Statutory liabilities are excluded from accounts payables and other payables as this analysis is only required for financial instruments

31.12.2015

	Financial instruments at fair value through profit and loss	Financial instruments at fair value comprehensive income	Financial liabilities measured at amortised cost	Deposits and receivables	Total	Fair value
Assets						
Account receivables	-	-	-	28 391	28 391	28 391
Other current receivables	-	-	-	8 427	8 427	8 427
Cash and cash equivalents	-	-	-	21 751	21 751	21 751
Total financial assets	**-**	**-**	**-**	**58 569**	**58 569**	**58 569**
Liabilities						
Borrowings including current	-	-	401 386	-	401 386	308 947 *
Other short term liabilities	-	-	11 294	-	11 294	11 294
Accounts payable and other current liabilities	-	-	-	22 385	22 385	22 385
Unrealized disagio currency swaps	7 174				7 174	7 174
Total financial liabilities	**7 174**	**-**	**412 680**	**22 385**	**442 239**	**349 800**
Total financial instruments	**(7 174)**	**-**	**(412 680)**	**36 184**	**(383 670)**	**(291 231)**

*
The bond loan has an estimated fair value as of 31.12.2015 of 29,5 % of its nominal value. This is based upon price provided by Norwegian Securities Dealers Association. Other borrowings do not have quoted prices and fair value is estimated as nominal value.

31.12.2014

	Financial instruments at fair value through profit and loss	Financial instruments at fair value comprehensive income	Financial liabilities measured at amortised cost	Deposits and receivables	Total	Fair value
Assets						
Account receivables	-	-	-	15 374	15 374	15 374
Other current receivables	-	-	-	20 800	20 800	20 800
Cash and cash equivalents	-	-	-	28 825	28 825	28 825
Total financial assets	**-**	**-**	**-**	**64 999**	**64 999**	**64 999**
Liabilities						
Borrowings including current	-	-	440 852	-	440 852	442 174 **
Other long term liabilities	-	-	20 861	-	20 861	20 861
Accounts payable and other current liabilities	-	-	-	37 025	37 025	37 025
Unrealized disagio currency swaps	4 408				4 408	4 408
Total financial liabilities	4 408	-	461 712	37 025	503 145	504 467
Total financial instruments	**(4 408)**	0	-461 712	27 975	-438 146	**569 466**

**
The bond loan has an estimated fair value as of 31.12.2014 of 95,5 % of its nominal value. This is based upon price provided by Norwegian Securities Dealers Association. Other borrowings do not have quoted prices and fair value is estimated as nominal value.

Note 19 Going concern / Subsequent events

The Island Innovator started on its charter party for Lundin Norway ASA on 28 September 2013. The rig has been performing according to Lundin's expectations and plans throughout the charter period, and Lundin has been satisfied, technically and operationally. The Company's main focus in 2015 has been on continuing to improve operations and increasing 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. Operations have shown a positive development, with planned projects being completed.

However, 'Island Innovator' came off its charter party for Lundin Norway ASA in March 2016, 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. The "Going Concern"-assumption is thus based on the Company working with its finance providers to reach a sustainable solution for the Company. While these discussions are ongoing, the Company has decided to halt all payments of interest and amortization to all of its finance providers. Restructuring of debt implies postponement of installments and / or issuance of new equity.