

Septembr 30th, 2016

Island Drilling Company ASA

3rd Quarter Financial Report



ISLAND DRILLING

Operations

The rig concluded operations on well 6407/10-4 Lorry March 11th. 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 Q3/16 has been to continue 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.

In addition there is class maintenance work in progress, and thus most of the rig is being re-classed and ready for long term assignment.

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 Q2/16 Financial Report, the company was in breach of financial covenants. 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 Søre 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. The interest on the senior loans was not paid in September 2016.

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. No further impairment tests have been carried through in 2016.

However, as the cash position as of 30.09.16 was USD 26,1 million, down from USD 28,8 million 30.06.16, and the discussions with the Company’s secured creditors are continuing, IDC is still 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 Q3/16 amounted to USD 0 million. (Q3/15 USD 39,7 million), while EBITDA in Q3/16 amounted to minus USD 2,2 million (Q3/15 USD 24,5 million)). Net Financials amounted to USD 6,7 million. (Q3/15 USD 15,6 million) and the Pre-tax profit Q3/16 thus amounted to minus USD 13,9 million (Q3/15 USD 0,9 million)

Total fixed assets as of 30 September 2016 amount to USD 243,6 million. Current assets total USD 32,8 million, of which bank deposits amount to USD 26,1 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 September 2016 thus amount to USD 420,0 million, including the long-term senior- and bond debt as well as the related parties' loan.

The cash flow from operating activities for the third quarter 2016 was negative with USD 2,6 million (Q3/15 USD 24,5 million), while the cash flow from investments was zero. Cash flow from financing activities Q3/16 was zero as well. This resulted in a net cash flow of minus USD 2,7 million in Q3/16 (Q3/15 USD 3,0 million), decreasing the cash and cash equivalents from USD 28,8 million at 30 June 2016 to USD 26,1 million at 30 September 2016. (USD 16,7 million at 30 September 2015).

Going Concern

'Island Innovator' is still in "warm stacked" at hanøytangen mode at Hanøytangen and market opportunities are followed closely to obtain a new charter party. 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 Q3/16 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 Q3/16 accounts are not audited.

Profit & Loss Account

Amounts in USD 1,000s

	YTD Q3 2016	Q3 2016	Q2 2016	Q1 2016	2015
Revenues	33 689	3	9	33 677	169 342
Operating expenses	17 541	2 238	2 480	12 824	64 031
EBITDA	16 149	-2 234	-2 471	20 853	105 310
Depreciation and amortisation	14 620	4 875	4 874	4 871	32 492
Impairment	0	0	0	0	370 103
EBIT	1 528	-7 109	-7 344	15 982	-297 284
Net financial items	-19 500	-6 741	-7 547	-5 212	-45 245
Net pre-tax profit	-17 972	-13 850	-14 891	10 770	-342 529
Taxes	0	0	0	0	0
Net result after taxes	-17 972	-13 850	-14 891	10 770	-342 529
<i>EBITDA%</i>	48 %	N/A	N/A	62 %	62 %

Balance sheet

Amounts in USD 1,000s

Assets	30-09-16	30-06-16	31-03-16	31-12-15
<i>Fixed assets</i>				
Total intangible assets	0	0	0	0
Rig, machinery and equipment	243 567	248 394	253 139	258 010
Total Fixed Assets	243 567	248 394	253 139	258 010
<i>Current Assets</i>				
Total receivables	6 672	6 730	25 635	36 818
Cash and cash equivalents	26 109	28 789	20 062	21 751
Total Current Assets	32 781	35 519	45 697	58 569
Total Assets	276 348	283 913	298 836	316 579
Equity and Liabilities	30-09-16	30-06-16	31-03-16	31-12-15
Paid-in equity	137 751	137 751	137 751	137 751
Retained earnings	-281 383	-267 533	-252 642	-263 411
Total Equity	-143 632	-129 782	-114 891	-125 660
Bonds	0	0	0	0
Long term loans	0	0	0	0
Current liabilities	419 980	413 695	413 727	442 239
Total Liabilities	419 980	413 695	413 727	442 239
Total Equity and Liabilities	276 348	283 913	298 836	316 579

Cash flow statement

Amounts in USD 1,000s

	YTD Q3 2016	Q3 2016	Q2 2016	Q1 2016	2015
Cash flow from operating activities	25 124	-2 632	8 856	18 900	48 968
Cash flow from investment activities	-177	-48	-128	-1	-5 590
Cash flow from financing activities	-20 588	0	0	-20 588	-50 452
Net cash flow in the period	4 358	-2 680	8 728	-1 689	-7 074
Cash and cash equiv. at start of period	21 751	28 789	20 062	21 751	28 826
Cash and cash equiv. at end of period	26 109	26 109	28 789	20 062	21 751



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