



2nd Quarter 2013



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Project status

Since the Island Innovator arrived at the Bergen Group Hanøytangen yard ("BGHT") February 28, 2013, remaining carry-over and punch work, work in relation to obtaining the AoC ("SUT"), execution of the Lundin Acceptance Test Program and installation of Lundin 3rd party equipment such as ROV, mud logging equipment, well test system and wire line system has been performed.

The initial ambition prior to arriving at BGHT was to be ready for operation with Lundin Norway AS on April 1st, 2013. It soon proved that this was too ambitious, and the plan was later modified to June 15th.

Since the scope of work at the yard was significantly underestimated as well as time consuming, it led to a need for a refinancing of the company, as further described under "Financial requirement" below.

However, on May 31st, during replacement of the final sea water ballast valve, the rig started to take in water in pump room no. 4 on the port side of the rig. The leakage was due to failure on equipment used by sub-contractors, and not related to the rig itself. As soon as the incident was detected, stabilizing procedures (EM procedures) was started, as well as verification of the scope of the damage and checking that the area was properly sealed.

At the time of the incident, 100 workers were on-board the rig. 63 workers were immediately evacuated according to procedures whilst 37 workers, being the safety manning, remained onboard. In connection with the incident one worker was slightly injured and was treated by medical personnel on site.

Water had spread from pump room no. 4 also to a restricted area adjacent to pump room no. 4, including thruster room no. 5 and 6. The water inflows led to a 4 degree inclination of the rig.

All electrical equipment in the area which had been exposed to ingress of seawater, including main thruster motors in thruster rooms no 5 and 6 had to be taken ashore, dismantled and thoroughly cleaned and preserved before being reinstalled. Also, approximately 20.000 meters of cables, including the high voltage cables in the pontoon and column needed to be replaced.

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The damage caused by the flooding will be covered by the insurance policies, however, with a deductible of MUSD 2.5. The initial estimate for the total insurance claim was approx. MNOK 70 – 100, however this has later been significantly increased and now amounts to approx. MNOK 280.

The incident resulted in an impact on the start-up time under the Lundin contract. The full impact was not established at the time of the incident, but was anticipated that all mechanical work at the yard would be complete by mid-July, and that the commencement date under the Lundin contract would be approximately August 1st, i. e. a delay of approximately 40 days in respect of the current schedule.

The delay caused a need for additional funding, at the time of the incident estimated to approximately MUSD 20. This amount has later on been significantly revised.

A revised start up plan with Lundin was again established, indicating commencement under the contract August 1st, 2013.

Financial information

As the company is still in the construction phase there is no income and all expenses related to construction of the rig are capitalized. The operating profit for the 2nd quarter was MUSD -0.4 which is equal to operating expenses for the period. Expenses relate mainly to salaries as well as auditing and consultancy fees.

As at June 30th, total fixed assets amounts to MUSD 684.9, an increase of MUSD 172.7 during the two first quarters of 2013 – all linked to increased book value of the rig under construction. Total assets amounts to MUSD 747.9 as at 30th June, of which bank deposits amounts to MUSD 56.0.

The cash flow from operating activities in the period equals the operating expenses. Total cash flow from investments in the two first quarters of 2013 was MUSD 147.7 and relates to construction of the rig. Investment was funded by utilizing the available bank and bond loan funding (MUSD 139.4). This resulted in net cash flow of MUSD -8.6 during the first two quarters of 2013, decreasing the cash and cash equivalents from MUSD 64.7 to 56.0 for the period.

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Market update

The contract with Lundin Norway AS is for 12 wells is expected to provide 24 – 30 months of operation. The optional period of 3 times 4 wells has not yet been exercised.

It is expected that as soon as the rig has proven its performances, there will be even stronger interest for the unit.

Earlier reported information from Petoro indicates that the number of wells to be drilled in Norway is higher than previously estimated and recent projections calls for another one thousand new wells to be drilled in the coming years.

Financial requirement

The increased scope at the yard lead to a need for a refinancing of the company. Thus, in April 2013 a MUSD 140 bond loan was issued with at a coupon of 9,5%. The Loan proceeds were partly used to repay the existing MUSD 50 2.nd priority mezzanine loan, and partly to finance the remaining work at the yard until positive cash flow.

Profit & Loss Account

Amounts in USD 1 000

	YTD Q2 / 2013	2012
Revenues	0	0
Operating expenses	351	1 127
EBITDA	-351	-1 127
Depreciation and amortization	0	0
Impairment	0	90 000
EBIT	-351	-91 127
Net financial items	0	0
Net result before taxes	-351	-91 127
Taxes	0	0
Net result after taxes	-351	-91 127

Balance sheet

Amounts in USD 1 000

	30-06-13	31-12-12
Assets		
<i>Non-current assts</i>		
Total intangible assets	0	0
Capitalized financial costs	111 621	93 148
Rigs under construction	573 245	418 998
Total Fixed Assets	684 866	512 146
<i>Current Assets</i>		
Total debtors	7 067	8 443
Investments	0	0
Cash and cash equivalents	56 007	64 652
Total Current Assets	63 074	73 095
Total Assets	747 940	585 241
Equity and Liabilities	30-06-13	31-12-12
Paid in Equity	205 936	157 442
Equity from Conversion right	0	0
Uncovered Loss	0	0
Retained earnings	-351	0
Total Equity	205 585	157 442
Bonds	135 930	0
Long term loan	350 353	0
Current Liabilities	56 072	427 799
Total Liabilities	542 355	427 799
Total Equity and Liabilities	747 940	585 241

Cash flow statement

Amounts in USD 1 000

	YTD Q2 / 2013	2012
Cash Flow from Operating activities	-351	-1 127
Cash Flow from Investment activities	-147 656	-186 820
Cash Flow from Financing activities	139 362	249 964
Net cash flow in the period	-8 645	62 017
Cash and cash equiv. at the beginning of perio	64 652	2 635
Cash and cash equiv. at the end of period	56 007	64 652



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