

Denne melding til obligasjonseierne er kun utarbeidet på engelsk. For informasjon vennligst kontakt Nordic Trustee ASA

To the bondholders in:

ISIN NO001067418.7 - 9.50 per cent Maracc – Marine Accurate Well ASA Second Lien Callable Bond Issue 2013/2018

Oslo, 16 March 2017

## SUMMONS TO BONDHOLDERS' MEETING

### 1 INTRODUCTION

Nordic Trustee ASA (formerly Norsk Tillitsmann ASA) (the "**Bond Trustee**") acts as trustee for the bondholders (the "**Bondholders**") in the above mentioned bond issue (the "**Bonds**" or the "**Bond Issue**") issued by Island Drilling Company ASA (formerly Maracc – Marine Accurate Well ASA) (the "**Issuer**").

Capitalized terms used herein shall have the meaning assigned to them in the bond agreement for the Bonds dated 2 April 2013 and entered into between the Issuer and the Bond Trustee (the "**Bond Agreement**"), unless otherwise stated herein or therein. References to clauses and paragraphs are references to clauses and paragraphs of the Bond Agreement.

*The information in this summons regarding the Issuer, the market conditions and the described transactions is provided by the Issuer, and the Bond Trustee expressly disclaims all liability whatsoever related to such information.*

### 2 BACKGROUND

#### 2.1 Company update

Reference is made to previous information concerning the Issuer's financial situation, including the press release issued by the Issuer on 1 April 2016 in connection with its decision to halt all payments of interest and amortisation to all of its financial providers and the Issuer's Interim Accounts for Q3 2016 available at the Issuer's website [www.islanddrilling.no](http://www.islanddrilling.no).

The Rig concluded operations on well 6407/10-4 Lorry on 11 March 2016. This well was the last well under the Existing Charter Contract with Lundin Norway AS, and the rig was subsequently sailed to Hanøytangen for temporary lay-up. As announced on 15 December 2016, the Issuer was awarded a new drilling contract with Lundin Norway AS for one well at the Edvard Grieg field with start-up 27 February 2017. In order to secure the drilling contract, the Issuer had to provide Lundin Norway AS with Quiet Enjoyment Letters ("**QEL**") from all relevant stakeholders, including more than 50% of the Bondholders. It was not time to call for a Bondholder's Meeting to authorise the Bond Trustee to provide the QEL on

behalf of the Bondholders, and consequently the Issuer approached Bondholders which the Issuer knew held more than 50% in the Bond Issue and secured QELs directly from them. For further information, see section 3.1 below.

The new drilling contract also includes options for additional wells, but the combination of the level of the compensation due thereunder and the limited duration (even if options are exercised) the contract will not remedy the Company's financial challenges.

The Issuer's financial position remains highly challenging, and the Issuer will not be able to repay its financial indebtedness in full without a restructuring of its capital structure. The Issuer has continued negotiations with the Senior Lenders under the Senior Bank Facility with the aim to agree on a financial restructuring that will enable the Issuer to survive the current market downturn. The Issuer has now agreed the main terms of such a restructuring with the Senior Lenders, and wishes to put forward the proposal for a restructuring of its capital structure more fully described in section 3 below (the "**Restructuring**").

For further information, please refer to the Company Update attached hereto as Schedule B.

### **3 THE RESTRUCTURING**

#### **3.1 Key terms of the Restructuring**

The description below is a summary of the key terms of the Restructuring. For further details, please refer to the restructuring term sheet and the structure memorandum attached hereto as Schedule C (the "**Restructuring Term Sheet**").

The proposed Restructuring consists of the following key elements:

- a) reduction of the Issuer's share capital to zero through the cancellation of all outstanding shares (the "**Capital Reduction**");
- b) the conversion of all the Outstanding Bonds (including principal and accrued and unpaid interest, totalling approximately USD 161.4 million) into new ordinary shares of the Issuer (the "**Debt-to-Equity Swap**");
- c) the transfer of the Rig, the Issuer's rights and obligations under the Senior Bank Facility and substantially all other assets, rights and obligations of the Issuer to a new wholly owned subsidiary of the Issuer ("**Newco**") as further described in the structure memorandum attached to the Restructuring Term Sheet (the "**Drop-down**");
- d) the subscription by certain shareholders of the Issuer that have guaranteed in part the Senior Bank Facility (the "**Participating Guarantors**") for new shares in Newco in a private placement in an amount of USD 5,000,000 (the "**Private Placement**");
- e) extension of the maturity of the Senior Bank Facility to 31 October 2019 and certain other amendments to the Senior Bank Facility and related documentation (the "**Senior Bank Facility Amendments**"); and

- f) new funding being raised by Newco under a subordinated interest-free convertible working capital facility in the amount of USD 25,000,000 from the Participating Guarantors (the "WCF").

Any interest (including default interest) accrued on the Outstanding Bonds between the Interest Payment Date on 3 April 2017 and completion of the Debt-to-Equity Swap will be cancelled and discharged in full, without any compensation to the Bondholders.

It is intended that completion of the Restructuring (the "**Completion**") will be accomplished as follows:

- a) The Restructuring will initially be approved at an extraordinary general meeting of the Issuer and at the Bondholders' Meeting.
- b) As soon as practicably possible after the approval of the Restructuring at the extraordinary general meeting of the Issuer and at the Bondholders' Meeting, the following steps will occur:
  - (i) the Issuer will be converted from a public limited company to a private limited company;
  - (ii) the notice period for general meetings will be reduced from two weeks to one week;
  - (iii) the existing share capital of the Issuer will be reduced to zero through the Capital Reduction; and
  - (iv) the Bonds will be converted to equity through the Debt-to-Equity Swap.

Pending completion of the Drop-down and the other remaining steps of the Restructuring, the new shares issued in the Debt-to-Equity Swap will be held in custody by the Bond Trustee on behalf of the Bondholders.

- c) Following completion of the steps described in b) above, an annual general meeting in the Issuer will be held in which the resolutions required to implement the Drop-down will be approved, including:
  - (i) approval of the annual accounts for the financial year 2016;
  - (ii) approval of an interim balance sheet for the Issuer reflecting the Debt-to-Equity Swap;
  - (iii) approval of the demerger of the Issuer as contemplated by the Restructuring Term Sheet (the "**Demerger**"); and
  - (iv) approval of a capital increase in the Issuer in which new shares in the Issuer will be issued to the Bondholders in exchange of the shares in Newco that they receive through the Demerger.
- d) Simultaneously with the annual general meeting in the Issuer, an extraordinary general meeting will be held in Newco in which the Private Placement and the WCF will be approved.

- e) Promptly following the expiry of a creditor notice period of six weeks, the Drop-down and the Private Placement will be completed, and the shares in the Issuer held in custody by the Bond Trustee will be distributed to the Bondholders through the VPS on a pro rata basis.

Following the Completion, the Bondholders will hold all the shares in the Issuer and the shares in Newco will be held as follows:

Shareholder	Number of shares	Share percentage
Issuer		24.2%
Rig Invest, LLC		37.8%
Borgstein AS		14.0%
Meteva AS		14.0%
Previous Bondholder		10.0%
<b>In total:</b>		<b>100%</b>

Rig Invest, LLC, Borgstein AS and Meteva AS will hold shares in Newco as a result of being the Participating Guarantors subscribing for all the shares in the Private Placement. The shares in Newco to be held by the previous Bondholder referred to in the matrix above (10% following Completion and after the conversion of the WCF) will be subscribed and paid for by Rig Invest, LLC as Participating Guarantor in the Private Placement and provider of the WCF and subsequently delivered to such previous Bondholder as part of the transaction that secured one of the QELs as described in section 2.1 above.

In the event that the full amount of the WCF is drawn and converted into equity in Newco, and assuming that there is no adjustment to the conversion price pursuant to the terms of the WCF or any changes in the share capital of Newco, the Issuer's shareholding in Newco will be diluted to 5.1%.

The board of directors of Newco will initially consist of Morten Ulstein, Gary Chouest and Trond Mohn.

In order to fund the Issuer's general and administrative costs following the Restructuring, an amount of NOK 500,000 will be retained by the Issuer.

### 3.2 Conditions precedent to the Restructuring

Implementation of the Restructuring shall be subject to and will only be effective upon satisfaction of the following conditions precedent (the "**Conditions Precedent**") on or before 30 June 2017:

- a) the approval of the Restructuring by the board of directors of the Issuer;
- b) the approval by the general meeting of the Issuer of:
  - (i) the conversion of the Issuer from a public limited company to a private limited company;

- (ii) the Drop-Down;
  - (iii) the Capital Reduction; and
  - (iv) the Debt-to-Equity Swap;
- c) approval of the Restructuring by the Bondholders' Meeting with a majority of at least 2/3 of the Voting Bonds represented in person or by proxy at the Bondholders' Meeting;
  - d) confirmation from the Issuer that it has not entered into any bankruptcy, liquidation, administration, receivership or any other insolvency procedure (or any analogous proceeding in any other jurisdiction), whether voluntary or involuntary; and
  - e) confirmation from the Issuer that no enforcement or acceleration or debt recovery action has been taken by or on behalf of any of the creditors and/or suppliers of the Issuer under or in connection with any indebtedness or due amounts of the Issuer.

#### 4 THE PROPOSAL

In accordance with clause 16.2.1 of the Bond Agreement, the Issuer has requested a Bondholders' Meeting to be convened to consider the Proposal (as defined below). The Issuer proposes that the Bondholders' Meeting makes the following resolutions (the "**Proposal**"):

- a) Approve the Restructuring on the terms described in Section 3 and the Restructuring Term Sheet.
- b) Authorise and instruct the Bond Trustee to take such steps on behalf of the Bondholders as may be necessary or desirable in connection with the implementation of the Restructuring, including, without limitation, to:
  - (i) prepare, finalise and enter into the necessary amendment agreements and other documentation it in its sole discretion deems appropriate in connection with documenting the decisions made by the Bondholders' Meeting according to this summons;
  - (ii) to subscribe on behalf of the Bondholders for shares in the Issuer to be issued to the Bondholders under the Restructuring Term Sheet;
  - (iii) to hold the shares in the Issuer to be issued to the Bondholders under the Restructuring Term Sheet in custody on behalf of the Bondholders in the period between the completion of the Debt-to-Equity Swap and Completion, and to represent and vote such shares in favour of any resolution in the Issuer that is required to implement the Restructuring;
  - (iv) on behalf of the Bondholders, to receive shares in Newco upon completion of the Demerger and to contribute such shares to the Issuer in exchange of new shares in the Issuer; and

- (v) for and on behalf of the Bondholders, take such further actions and negotiate, agree, enter into, sign and execute such agreements and documents that are required to complete and give effect to the Proposal, including the granting of waivers, giving of instructions, consents, approvals and directions (including to the securities depository (VPS)).
- c) Agree that the Bond Trustee may consent and agree to further amendments of the terms of the Restructuring where such amendments:
  - (i) are of a minor or technical nature;
  - (ii) are otherwise consistent with the principles of the Restructuring Term Sheet; or
  - (iii) in the opinion of the Bond Trustee do not have a material adverse effect on the rights and interests of the Bondholders.
- d) Agree that the Bond Trustee may exercise (or refuse to exercise) any discretion, consent or approval required or contemplated in the exercise (or non-exercise) of any such discretion which is connected with the matters referred to in this summons (including without limitation waive any time periods or deadlines).

## **5 EVALUATION OF THE PROPOSAL**

### **5.1 The Issuer's evaluation of the Proposal**

If the resolutions set out in this summons are not passed, or if any other condition or implementation of the Restructuring is not satisfied, the Issuer expects that the Senior Lenders will take actions to recover the amounts due under the Senior Bank Facility. Such actions would likely include the following:

- a) a demand for immediate payment of all of the outstanding under the Senior Bank Facility, which would result in an insolvency of the Issuer; and/or
- b) enforcement actions against the Issuer.

The Senior Facilities Agreement is secured by first ranking security over all of the Issuer's material assets, including the Rig. Upon enforcement actions by the Senior Lenders, the Rig and other assets of the Issuer would be sold to realise value for the Senior Lenders. Following such enforcement action, the Issuer would likely retain no, or very few, assets, and the Issuer would likely enter into bankruptcy proceedings.

If the Rig and other assets of the Issuer are sold in the current economic climate, it is expect that the net proceeds obtained would be substantially lower than the outstanding amount under the Senior Facilities. Thus, in the event of an enforcement by the Senior Lender or a bankruptcy in the Issuer, there would in all likelihood not be any return to the Bondholders under the Bonds.

Therefore, the Issuer believes that the Proposal represents the best alternative for the Bondholders and the Issuer's other stakeholders, given the current circumstances, and it is critical that Bondholders vote in favour of the proposed resolutions so that, assuming the other conditions are satisfied, the Restructuring can proceed and the Bondholders can preserve some value.

## 5.2 NON-RELIANCE

The Proposal is put forward to the Bondholders without further evaluation or recommendations from the Bond Trustee. Nothing herein shall constitute a recommendation to the Bondholders by the Bond Trustee. The Bondholders must independently evaluate whether the Proposal is acceptable and vote accordingly.

## 6 FURTHER INFORMATION

The Issuer has engaged Clarksons Platou Securities AS as the Issuer's financial advisor with respect to the Proposal. Accordingly, Bondholders may contact the Clarksons Platou Securities Corporate Finance at +47 22 01 63 98 for further information.

For further questions to the Bond Trustee, please contact

Morten S. Bredesen  
Nordic Trustee ASA  
Email: bredesen@nordictrustee.com  
Telephone: +47 22 87 94 06

## 7 SUMMONS FOR BONDHOLDERS' MEETING

Bondholders are hereby summoned to a Bondholders' Meeting:

**Time:** 30 March 2017 at 13:00 Oslo time

**Place:** The premises of Nordic Trustee ASA  
Haakon VII's gate 1 – 6th floor, Oslo, Norway

Agenda:

1. Approval of the summons
2. Approval of the agenda
3. Election of two people to co-sign the minutes together with the chairman
4. Request for adoption of the Proposal

It is proposed that the Bondholders' Meeting under agenda item 4 resolves the following (the "**Resolution**");

*"The Bondholders' Meeting approves the Proposal as described in section 4 of the summons (The Proposal) to the Bondholders' Meeting."*

\*\*\*\*\*

To approve the Resolution, Bondholders representing at least 2/3 of the Voting Bonds represented in person or by proxy at the Bondholders' Meeting must vote in favour of the Resolution. In order to form a quorum, at least 1/2 of the Voting Bonds must be represented at the Bondholders' Meeting.

Please find attached hereto a Bondholder's Form from the Securities Depository (VPS), which indicates your bondholding at the printing date. The Bondholder's Form will serve as proof of ownership of the

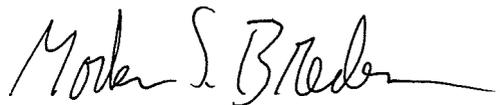
Bonds and of the voting rights at the Bondholders' Meeting. If the Bonds are held in custody - i.e. the owner is not registered directly in the VPS - the custodian must confirm: (i) the owner of the Bonds, (ii) the aggregate nominal amount of the Bonds; and (iii) the account number in VPS on which the Bonds are registered.

The individual Bondholder may authorise the Bond Trustee to vote on its behalf, in which case the Bondholder's Form also serves as a proxy. A duly signed Bondholder's Form, authorising the Bond Trustee to vote, must then be returned to the Bond Trustee in due time before the meeting is scheduled (by scanned e-mail, telefax or post).

In the event that Bonds have been transferred to a new owner after the Bondholder's Form was made, the new Bondholder must bring to the Bondholders' Meeting or enclose with the proxy, as the case may be, evidence which the Bond Trustee accepts as sufficient proof of the ownership of the Bonds.

For practical purposes, we request those who intend to attend the Bondholders' Meeting, either in person or by proxy other than to the Bond Trustee, to notify the Bond Trustee by telephone or by e-mail (mail@nordictrustee.no) within 16:00 hours (4 pm) (Oslo time) the Business Day before the Bondholders' Meeting takes place.

Yours sincerely,  
Nordic Trustee ASA



Morten Bredesen

Enclosed:

Schedule A - Bondholder's Form

Schedule B - Company Update

Schedule C - Restructuring Term Sheet

# Island Drilling Company ASA

**Company update**

**16 March 2017**



ISLAND DRILLING

# Disclaimer

This presentation (the "**Presentation**") has been prepared by Island Drilling Company ASA ("**Island Drilling**" or the "**Company**") for information purposes only. Nothing in this Presentation shall be construed as legal, tax, regulatory, accounting or investment advice.

This Presentation contains information obtained from third parties. Such information has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information to be inaccurate or misleading. This Presentation is for information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any of the securities described herein. This Presentation contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. The forward-looking statements contained in this Presentation, including assumptions, opinions and views of the Company or cited from third party sources are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause actual events to differ materially from any anticipated development. None of the Company or any of its parent or subsidiary undertakings or any such person's officers or employees provides any assurance that the assumptions underlying such forward-looking statements are free from errors nor does any of them accept any responsibility for the future accuracy of the opinions expressed in this Presentation or the actual occurrence of the forecasted developments. The Company assumes no obligation, except as required by law, to update any forward-looking statements or to conform these forward-looking statements to our actual results.

To the best of the Company's knowledge, the information contained in this Presentation is in all material respect in accordance with the facts as of the date hereof. However, no independent verifications have been made and no representation or warranty (express or implied) is made as to, and no reliance should be placed on, any information, including projections, estimates, targets and opinions, contained herein, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained herein, and, accordingly, neither the Company nor any of its officers or employees accepts any liability whatsoever arising directly or indirectly from the use of this Presentation. This Presentation does not purport to contain all of the information that may be required to evaluate any potential transaction and should not be relied on in connection with any potential transaction. This Presentation is not an offering document, nor does it constitute or form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any securities in, or assets in any jurisdiction, nor shall this Presentation (or any part of it), or the fact of its distribution, form the basis of, or be relied on in connection with, or act as an inducement to enter into, any contract or commitment whatsoever with respect to the Company.

This Presentation speaks as of 16 March 2017, except as otherwise noted. There may have been changes in matters which affect the Company subsequent to the date of this Presentation. The Company does not intend and does not assume any obligation to update or correct the information included in this Presentation, and neither the delivery of this Presentation nor any further discussions of the Company with any of the recipients shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since such date.

The distribution of this Presentation in certain jurisdictions may be restricted by law and, therefore, persons into whose possession this Presentation comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the law of any such jurisdiction.



# Background and situation overview

- Island Innovator (the "Unit") was previously employed on a 12 well contract (the "Lundin Contract") with Lundin Norway AS ("Lundin") for drilling operations on the Norwegian Continental Shelf (NCS). The Unit commenced drilling operations in September 2013, and the employment ended on 11 March 2016
- After completion of the Lundin Contract, the Unit was relocated to Hanøytangen Yard in Bergen (Norway)
- As announced on 15 December 2016, the Company was recently awarded a new drilling contract with Lundin for one well at the Edvard Grieg field (Norway). The new drilling contract also includes options for additional wells. The Unit commenced drilling operations on 27 February 2017
- The Company has been capitalized with a 1<sup>st</sup> lien bank loan of USD 247.1m (the "Senior Credit Facility") and a 2<sup>nd</sup> lien bond loan <sup>(1)</sup> of USD 140m (the "Bond Loan"), as well as certain related party loans. Since the beginning of April 2016, the Company decided to halt all payments of interest and amortization to all its finance providers
- The Company's financial position remains highly challenging, and the Company will not be able to repay its financial indebtedness in full without a restructuring of its balance sheet
- The Company has continued negotiations with the senior lenders under the Senior Credit Facility with the aim to agree on a financial restructuring that will enable the Company to survive the current market downturn
- This Presentation should be read in conjunction with the published Summons to Bondholders' Meeting ("Summons"), and contains various supplemental information to such Summons

1) 9.50 per cent Maracc – Marine Accurate Well ASA Second Lien Callable Bond Issue 2013/2018 (ISIN NO001067418.7)



# Capitalization as per 4Q16

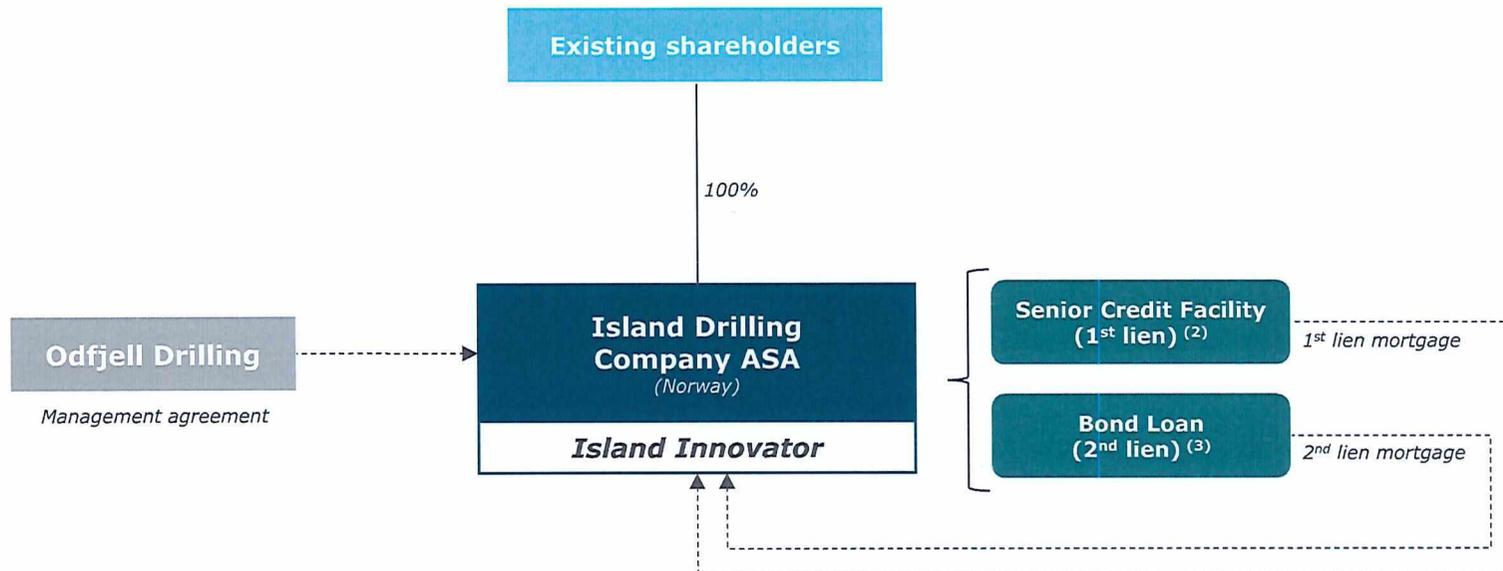
<i>Capitalization table</i>	4Q16
Cash <sup>(1)</sup>	20.2
Senior Credit Facility (1st lien)	247.1
Bond Loan (2nd lien)	140.0
Related party loan	16.2
Amortization of borrowing expense	-4.7
Agio/disagio	-4.6
<b>Total interest bearing debt</b>	<b>393.9</b>
Accrued interest	30.2
Accounts payable	0.5
Public duties payable	0.0
Other liabilities	0.4
<b>Total liabilities</b>	<b>425.2</b>
Equity	-159.3
<b>Total capitalization</b>	<b>265.9</b>

- The Company had a cash position of ~USD 20.2m as per 4Q16
  - The cash position includes ~USD 8.0m of accrued and unpaid interest on the Senior Credit Facility that will be payable to the senior lenders as part of the contemplated restructuring
- The proposed restructuring contemplates the following steps:
  - A reduction of the Company's share capital to zero through the cancellation of all outstanding shares
  - Conversion of the Bond Loan (in full, including principal, accrued and unpaid interest to the interest payment date on 3 Apr-17) into shares in a new wholly owned subsidiary of the Company ("Newco")
  - Transfer of the Unit from the Company to Newco
  - Reinstatement of a Term Loan Facility to Newco, including an extension of the maturity of the existing Senior Credit Facility and certain other amendments to the facility and related documentation
  - Newco to conduct an equity private placement of USD 5m from certain shareholders that have guaranteed in part the Senior Credit Facility (the "Participating Guarantors")
  - Participating Guarantors to contribute a USD 25m subordinated convertible working capital facility to Newco

1) 'Cash' includes accrued and unpaid interest on the Senior Credit Facility of ~USD 8.0m, but excludes the prepayment of ~USD 5.8m made to Odfjell Drilling as part of the management agreement

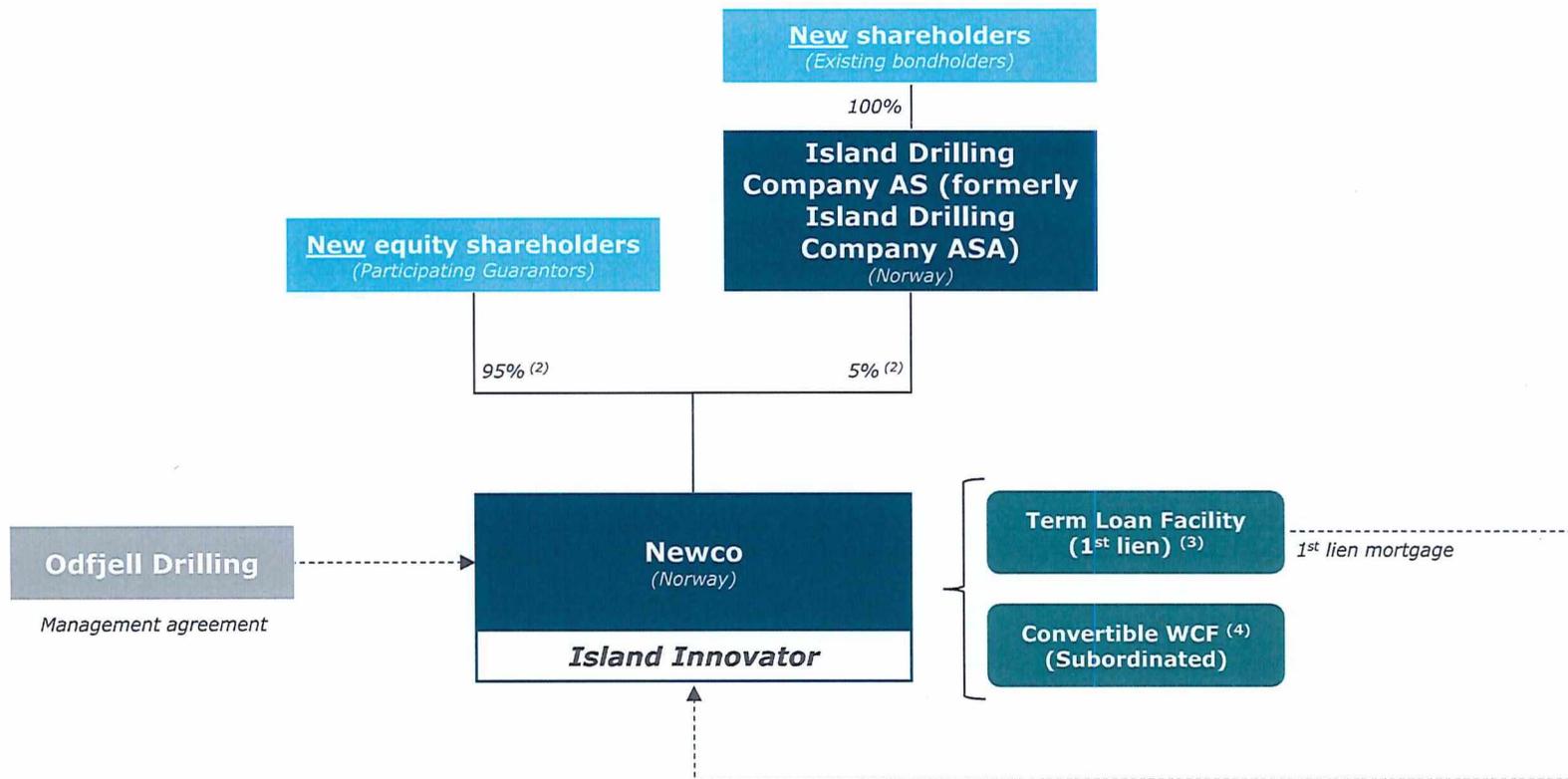


# Existing corporate structure (1)



- 1) Overview excludes any related party loans
- 2) ~USD 247.1m, guaranteed in full by GIEK and certain shareholders (USD 55.5m Alpha Marine Services LLC, USD 18.5m Borgstein AS, USD 18.5m Meteva AS, USD 7.5m Alden AS)
- 3) USD 140m, 9.50 per cent Maracc - Marine Accurate Well ASA Second Lien Callable Bond Issue 2013/2018 (ISIN NO001067418.7)

# Restructured corporate structure (1)



1) Overview excludes any related party loans

2) Ownership split assumes conversion of the USD 25m Subordinated Working Capital Facility in full

3) ~USD 247.1m, guaranteed in full by GIEK and certain shareholders (USD 55.5m Alpha Marine Services LLC, USD 18.5m Borgstein AS, USD 18.5m Meteva AS, USD 7.5m Alden AS)

4) USD 25m, Subordinated Convertible Working Capital Facility



# Conversion mechanics and ownership

Island Drilling Company - Cap table (1)	EV @ par	Impaired capital	Price (%)	Capital conv. to equity	Post EV @ par	Changes
Senior Credit Facility (1st lien)	247.1	-	0.0%	-	247.1	-
Bond Loan plus accrued/unpaid interest (2nd lien) (2)	161.4	(161.4)	1.0%	1.6	-	(161.4)
Related party loan	16.2	(16.2)	0.0%	-	-	(16.2)
Existing owners	-	-	0.0%	-	-	-
Cash per 4Q16 (3)	(12.2)				(12.2)	-
<b>Total</b>	<b>412.5</b>	<b>(177.6)</b>		<b>1.6</b>	<b>234.9</b>	<b>(177.6)</b>

New liquidity	USDm
Convertible working capital facility	25.0
New equity	5.0
<b>Total new liquidity</b>	<b>30.0</b>

Ownership - Post 'new equity'	USDm	%
Existing Bondholders	1.6	24.2%
Existing Shareholders	-	0.0%
New equity capital from Bondholders	-	0.0%
New equity capital from Participating Guarantors	5.0	75.8%
<b>Total equity</b>	<b>6.6</b>	<b>100.0%</b>

<i>Ownership, Shareholders (existing)</i>	0.0%
<i>Ownership, Bondholders (existing)</i>	24.2%
<i>Ownership, Participating Guarantors</i>	75.8%

Ownership - Post 'new equity' and conv. 'WCF'	USDm	%
Existing Bondholders	1.6	5.1%
Existing Shareholders	-	0.0%
New equity capital from Bondholders	-	0.0%
New equity capital from Participating Guarantors	5.0	15.8%
New "equity" capital from conv. WCF	25.0	79.1%
<b>Total equity</b>	<b>31.6</b>	<b>100.0%</b>

<i>Ownership, Shareholders (existing)</i>	0.0%
<i>Ownership, Bondholders (existing)</i>	5.1%
<i>Ownership, Participating Guarantors</i>	94.9%

- ~USD 161.4m<sup>(2)</sup> Bond Loan (2<sup>nd</sup> lien) converted to equity at a conversion price of ~1.0%
- New liquidity is contributed in the amount of USD 30m, of which;
  - USD 5m as new equity from the Participating Guarantors, and;
  - USD 25m will be contributed as a convertible working capital facility from the Participating Guarantors
- Existing Bondholders to own ~5.1% of Newco post restructuring and full conversion of the WCF

1) All balance sheet items as per 31 December 2016, except for the Bond Loan which includes unpaid, accrued and default interest up to and including 3 April 2017

2) USD 140m Bond Loan plus unpaid, accrued and default interest up to and including 3 April 2017

3) 'Cash' excludes; the (i) accrued/unpaid interest on the Senior Credit Facility of ~USD 8.0m, and the (ii) prepayment of ~USD 5.8m made to Odfjell Drilling as part of the management agreement



# Bond Loan – Accrued and unpaid interest

Bond Loan - Outstanding amount	USDm	%	Days
Principal amount	140.0		
Coupon due 3 Apr-16	6.7	9.50%	180
Coupon due 3 Oct-16	6.7	9.50%	180
Coupon due 3 Apr-17	6.7	9.50%	180
Default interest on coupon due 3 Apr-16	1.0	14.50%	360
Default interest on coupon due 3 Oct-16	0.5	14.50%	180
<b>Outstanding amount plus accrued/unpaid/default interest</b>	<b>161.4</b>		

- Calculation of outstanding amount under the Bond Loan includes accrued, unpaid and default interest up to and including 3 April 2017
- The Company decided to halt of payments of interest and amortization to its finance providers from and including 3 April 2016



**Island Drilling Company ASA**

Stålhaugen 5

6065 Ulsteinvik

Norway



**ISLAND DRILLING**



**ISLAND DRILLING**

**ISLAND DRILLING COMPANY ASA  
RESTRUCTURING TERM SHEET**

This non-binding indicative restructuring term sheet (the "**Term Sheet**") sets out the terms for a proposed financial restructuring (as described more particularly herein, the "**Restructuring**") of the capital structure and certain liabilities of Island Drilling Company ASA (the "**Company**"), subject to contract and definitive documentation.

This Term Sheet is not an offer to issue or sell, or a solicitation of an offer to acquire or purchase, securities in Norway, Canada, the United Kingdom, the U.S. or any other jurisdiction. Such offer or solicitation will only be made in compliance with all applicable securities laws.

No legal obligations to proceed on any matter contemplated herein shall arise hereunder, unless and until definitive agreements are duly executed and delivered.

This Term Sheet is not exhaustive, is solely indicative of the key terms of the proposal set out herein and additional terms and conditions may be included in the definitive legal documentation prepared in connection with the Restructuring consistent with the matters contemplated by this Term Sheet.

<p><b>Definitions</b></p>	<p>Words and expressions used herein shall have the same meaning when used in this Term Sheet as set out in the Senior Facility unless expressly set out herein or the context requires otherwise.</p> <p><b>"Bond Agreement"</b> means the bond agreement dated 2 April 2013 between the Company and the Bond Trustee in respect of the Bonds.</p> <p><b>"Bondholders"</b> means the holders of the Bonds from time to time.</p> <p><b>"Bonds"</b> means the bonds issued by the Company named "9.50 per cent Maracc – Marine Accurate Well ASA Second Lien Callable Bond Issue 2013/2018", with ISIN NO 001 067418.7.</p> <p><b>"Bond Trustee"</b> means Nordic Trustee ASA in its capacity as the bond trustee for the Bondholders under the Bond Agreements.</p> <p><b>"Capital Reduction"</b> means the reduction of the nominal value of the Shares of the Company from NOK 10 to NOK 0 through a share capital reduction, as approved by a shareholders meeting.</p> <p><b>"Existing Shareholders"</b> means the shareholders in the Company immediately prior to the Restructuring Implementation Date.</p> <p><b>"Guarantors"</b> means Alpha Marine Services Llc., Borgstein AS, Alden AS and Meteva AS.</p> <p><b>"Long Stop Date"</b> means 30 June 2017.</p> <p><b>"Restructuring Implementation Date"</b> means the date on which all of the conditions which are set out in section 7 have been satisfied.</p> <p><b>"Rig"</b> means the Company's rig 'Island Innovator', a GM 4000 rig</p>
---------------------------	---

		<p>designed for drilling and heavy well intervention work.</p> <p><b>"Senior Facility"</b> means the Company's USD 350,000,000 post-delivery term loan agreement dated 24 September 2012 (as amended, supplemented, extended or restated), between, <i>inter alia</i>, the Company as borrower, banks and financial institutions listed in schedule 1 thereto as lenders and DNB Bank ASA as bookrunner, mandated lead arranger and agent (the <b>"Agent"</b>).</p> <p><b>"Senior Lenders"</b> means the lenders under the Senior Facility.</p> <p><b>"Shares"</b> means the ordinary shares of the Company with the current nominal value of NOK 10.</p>
1	<b>Drop-down</b>	On and with effect from the Restructuring Implementation Date, the Rig, the Company's rights and obligations under the Senior Facility and substantially all other assets, rights and obligations of the Company (other than its rights and obligations under the Bonds) shall be transferred to a new wholly owned subsidiary of the Company ( <b>"NewCo"</b> ) as described in the structure memorandum attached as <u>Schedule 1</u> .
2	<b>Capital Reduction</b>	Since all of the Company's equity has been lost, the Company's share capital will be reduced to zero through the cancellation of all outstanding Shares.
3	<b>Conversion of the Bonds</b>	Immediately following completion of the Capital Reduction the outstanding principal amount together with any accrued and unpaid interest under the Bonds shall be converted into new Shares of the Company. The Company will at the same time be converted from a public limited company to a private limited company.
4	<b>Private placement towards some or all of the Guarantors and the Company</b>	Some or all of the Guarantors (the <b>"Participating Guarantors"</b> ) will subscribe for new Shares in NewCo in a private placement (the <b>"Private Placement"</b> ) for an aggregate amount of USD 5,000,000 at a subscription price that will give the participants in the Private Placement an equity interest in NewCo of approx.. 76% upon completion of the Private Placement. Any new Shares to be issued shall have equal rights in all respects as the Shares in NewCo held by the Company, including with respect to dividends and voting. The subscription price in the Private Placement shall be contributed to NewCo as cash equity.
5	<b>Changes to the terms and conditions of the Senior Facility</b>	<p>On and with effect from the Restructuring Implementation Date, the Senior Facility and related documentation shall be amended and restated in accordance with the below (and to reflect any additional logical or consequential changes):</p> <p>(i) NewCo will replace the Company as borrower under the Senior Facility through the drop-down described above.</p> <p>(ii) Final Maturity Date Loan A shall not be extended. Final Maturity Date Loan B shall be extended to 31 October 2019. Final Maturity Date Loan B may be extended further to 31 October 2020 on the following conditions:</p> <p>(A) On or before 30 April 2019, the Agent has received a written request from NewCo for an extension, which request shall be accompanied by a budget that demonstrates the anticipated liquidity of NewCo for the period from 1 November 2019 to 31 October 2020 (the <b>"Budget"</b>). The Budget must be based on assumptions which the Senior Lenders (in their reasonable discretion) consider to be reasonable, but shall not include the repayment of Loan B at</p>

		<p>the Final Maturity Date Loan B. The Agent (on behalf of the Senior Lenders) shall confirm whether the Budget is acceptable or not without undue delay after receipt.</p> <p>(B) Within 30 days after receipt of a confirmation from the Agent stating that the Budget is acceptable, the Participating Guarantors shall procure that the total commitment of the Participating Guarantors and any additional lender(s) under the WCF (as defined below) shall be increased by an amount sufficient to cover liquidity shortfall of NewCo for the period until 31 October 2020 (if any) as reflected by the Budget.</p> <p>(C) No Default or Event of Default shall have occurred and be continuing, and all repeating representations and warranties set out in the Senior Facility shall remain true.</p> <p>(iii) No instalments shall be payable until 31 October 2019 (or, if the Final Maturity Date Loan B is extended additionally in accordance with paragraph (iii) above, 31 October 2020). Thereafter, the repayment schedule set out in Clause 6 of the Senior Facility shall recommence, unless the Rig obtains employment (see (ix) below). Interest under the Senior Facility shall always be paid when due. Deferred instalments shall be payable on the Final Maturity Date Loan A and Final Maturity Date Loan B respectively.</p> <p>(iv) The Margin for Loan A may be amended on the Margin Review Date in accordance with Clause 8.4 of the Senior Facility. The first Margin Review Date after the date hereof shall be 31 October 2019, or 31 October 2020 if the Final Maturity Date Loan B has been extended in accordance with paragraph (iii) above.</p> <p>(v) The financial covenants set out in Clause 20 shall be amended as follows until 31 October 2019 (or, if the Final Maturity Date Loan B is extended additionally in accordance with paragraph (iii) above, 31 October 2020):</p> <p>(A) Free Liquidity to apply as set out in Clause 20.2, but with the following amended threshold:</p> <p style="padding-left: 40px;">At all times: Equal to or larger than USD 10,000,000.</p> <p>(B) Working Capital to apply as set out in Clause 20.2, provided however that interest and instalments on financial indebtedness shall be excluded when calculating current liabilities.</p> <p>(C) Debt Service Ratio to be suspended.</p> <p>(vi) As long as no Event of Default has occurred and is continuing, NewCo shall be allowed to apply its cash at hand to service interest under the Senior Facility and to cover lay-up costs for the Rig and other operating expenditure and capital expenditure (including mobilisation and demobilisation costs) of NewCo and administrative costs of the Company. NewCo shall ensure that the Rig is maintained in good condition during the lay-up period, including but not limited to such maintenance as may be required in order to</p>
--	--	---

		<p>comply with the requirements of the relevant class and classification society for the Rig. The Agent shall have the right to appoint advisers to carry out inspections in order to ensure that such maintenance is being conducted in an appropriate manner.</p> <p>(vii) NewCo shall not enter into any new charterparties or other contracts of employment, nor change the physical location of the Rig or take the Rig out of lay-up, without the prior written consent of the Agent (not to be unreasonably withheld or delayed).</p> <p>(viii) Clause 7.5 (<i>Cash Sweep</i>) to be suspended and replaced with the following: After commencement of employment of the Rig under any charterparty or other contract of employment, any Earnings shall be applied as follows:</p> <p>(A) firstly, towards payment of costs related to the Rig (including mobilisation and demobilisation costs), other operating expenditure and capital expenditure of NewCo, payment of interest under the Senior Facility and administrative costs of the Company; and</p> <p>(B) secondly, the surplus (if any) shall no later than one business day prior to each Interest Payment Date be placed on a pledged and blocked bank account in the name of NewCo with the Agent (the "<b>Sweep Account</b>").</p> <p>Disbursements from the Sweep Account may only be made if the Agent (<i>on behalf of the Finance Parties</i>) has consented thereto. The balance of the Sweep Account shall be counted as Free Liquidity in the context of the Minimum Liquidity Covenant.</p> <p>If the balance of the Sweep Account exceeds USD 5,000,000 on any Interest Payment Date, then such excess amount shall be applied towards prepayment of the last instalments falling due under the Senior Facility. If, following such prepayment, the Free Liquidity of NewCo would be less than the threshold set out in paragraph (vi) above, then the prepayment amount shall be reduced to an amount which does not trigger a breach of the Free Liquidity covenant.</p> <p>The balance of the Sweep Account, and any amounts prepaid in accordance with this clause, shall be reported in each Compliance Certificate.</p> <p>(ix) The Company and each of the Participating Guarantors shall grant to the Agent (<i>on behalf of the Finance Parties</i>) security over all of their respective shares in NewCo and any shareholder loan provided by them to NewCo from time to time.</p> <p>(x) The above terms and conditions, as well as any other terms and conditions related to the financing, will be set out in a separate term sheet to be agreed between the Agent and the Company.</p>
<p>6</p>	<p><b>Subordinated Convertible Working Capital Facility</b></p>	<p>(i) As part of the Restructuring, the Participating Guarantors will make available an irrevocable subordinated convertible working capital facility to NewCo in an amount equal to USD 30,000,000 less the amount of new equity that has been paid into NewCo</p>

		<p>(the "<b>WCF</b>").</p> <p>(ii) The WCF shall have maturity no less than three months after the Final Maturity Date Loan A (and no prepayments to be made prior to the Final Maturity Date Loan A without the consent of the Lenders). The rights of the Participating Guarantors under the WCF shall be fully subordinated to the Senior Facility, and monetary claims thereunder shall be pledged in favour of the Agent on behalf of the Finance Parties.</p> <p>(iii) The WCF will contain mechanisms that irrevocably and unconditionally oblige NewCo to request, and any and all Participating Guarantors to provide immediately upon request, such working capital if so requested by the Agent. Conditions for when such request can be made by the Agent to be agreed.</p> <p>(iv) The WCF may not be terminated, cancelled or amended without the consent of the Agent.</p> <p>(v) Upon receipt by the Participating Guarantors and NewCo of a notice from the Agent stating that an Event of Default has occurred and is continuing, the full amount remaining under the WCF will become immediately due and payable to NewCo.</p> <p>(vi) The WCF may at the option of the Participating Guarantors be converted into shares in NewCo. In the event that the full amount of the WCF is drawn and converted into equity in NewCo, and assuming that there is no adjustment to the conversion price pursuant to the terms of the WCF or any changes in the share capital of NewCo, the Company's shareholding in NewCo will be diluted to 5%.</p>
7	<b>Existing Shareholders</b>	The Company will call an extraordinary general meeting to propose that the Existing Shareholders approve the Restructuring, including (i) the Capital Reduction; (ii) the conversion of the Bonds; (iii) the Drop-Down; and (iv) the conversion of the Company from a public limited company to a private limited company (together the " <b>Required Shareholder Resolutions</b> ").
8	<b>Conditions precedent to the Restructuring</b>	<p>The implementation of the Restructuring will be conditional upon the satisfaction of the following conditions precedent (amongst other things) by the Long Stop Date:</p> <p>(i) approval of the Restructuring by the board of directors of the Company;</p> <p>(ii) the Required Shareholder Resolutions having been passed;</p> <p>(iii) approval of the Restructuring by a duly convened bondholders' meeting in the Bonds in accordance with the terms of the Bond Agreement;</p> <p>(iv) agreement of final terms and definitive legal documentation evidencing the transactions contemplated by the Restructuring;</p> <p>(v) confirmation from the Company that it has not entered into any bankruptcy, liquidation, administration, receivership or any other insolvency procedure (or any analogous proceeding in any other jurisdiction), whether voluntary or involuntary; and</p>

		(vi) confirmation from the Company that no enforcement or acceleration or debt recovery action has been taken by or on behalf of any of the creditors and/or suppliers of the Company under or in connection with any indebtedness or due amounts of the Company.
--	--	---

**Schedule 1**  
**Structure Memorandum**

# Island Drilling Company ASA

## Reorganization

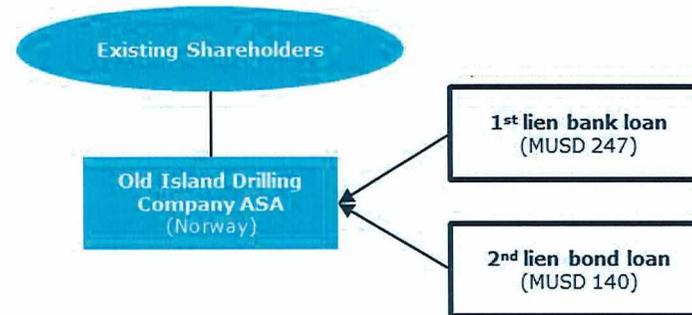
March 2017



ISLAND DRILLING

# Restructuring of Island Drilling Company ASA

- Island drilling Company ASA (called "Old Island Drilling Company ASA" in this presentation) owns the rig Island Innovater (the Rig), and has a 1st lien bank loan of approx. [MUSD 247] and a 2nd lien bond loan of [MUSD 140] (not including accrued and unpaid interest). This presentation illustrates the restructuring of Old Island Drilling Company ASA.
- The Restructuring of Old Island Drilling Company ASA's debt necessitates that the rig and the related business activities are transferred to a newly incorporated subsidiary of Old Island Drilling Company. In order to implement the transfer without any negative Norwegian tax consequences a de-merger process is proposed. The restructuring steps illustrated in this presentation can be divided in three parts:
  - Part 1 includes step 1 to 3 and implies inter alias (a) that the shares of the Existing Shareholders are redeemed and (b) that the bond is converted to equity shares. Consequently the bondholders will become the sole shareholders of Old Island Drilling Company ASA. Part I will be implemented on a Frist General Meeting of Old Island Drilling Company ASA to be held on 16 march 2017. Please see **XX** for further background and more detailed information on these steps.
  - Part 2 includes step 4 to 7 and are necessary to transfer the rig and related rig activities of Old Island Drilling Company ASA to a wholly owned subsidiary without any negative Norwegian tax consequences. Part 2 will be implemented on a Second General Meeting of Old Island Drilling Company ASA tentatively to be held on 30 March 2017.
  - Part 3 includes step 8 which implies that the Guarantors of Old Island Drilling Company ASA contributes liquidity to New Island Drilling Company ASA and becomes shareholders in New Island Drilling Company ASA. Please see **XX** for further background and more detailed information on this step.
- The simplified current corporate structure prior to the Restructuring can be illustrated as follows:



**Part 1**

Steps 1 to 3

-

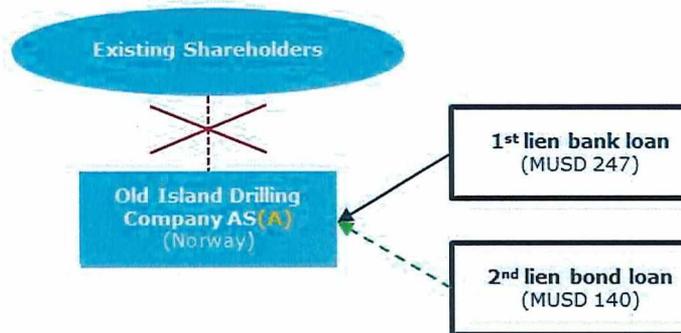
Decisions for the First General Meeting of Old Island Drilling Company ASA



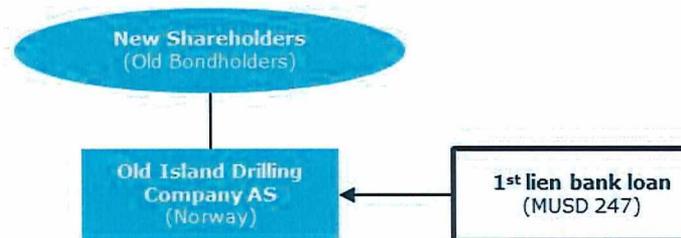
ISLAND DRILLING

# Steps 1 to 3

## Illustration of steps 1 to 3



## Corporate structure after the Initial steps



### **STEP 1: Convert ASA to AS**

- The first step is to convert Old Island Drilling Company ASA to an ordinary AS company, illustrated in **orange**. The conversion will not have any Norwegian tax consequences.
- After the conversion the company will be governed by the Norwegian Act on limited liability companies instead of the Act on Public limited liability companies.

### **STEP 2: Capital reduction/Redemption of shares**

- The second step is to redeem all shares of Old Island Drilling Company AS through a capital reduction. The share capital will be reduced to NOK 0 and all outstanding shares will be cancelled, illustrated in **red**.

### **STEP 3: Conversion of 2nd lien bond loan to equity**

- The third step is to convert the 2nd lien bond loan of MUSD 140 to equity, illustrated in **green**. The Old Bondholders will become the New Shareholders of Old Island Drilling Company AS.
- The New Shareholders (Old Bondholders) will have a tax base on their shares for Norwegian tax purposes equal to the fair market value of the shares at the time of the conversion.



**ISLAND DRILLING**

## **Part 2**

Steps 4 to 7

-

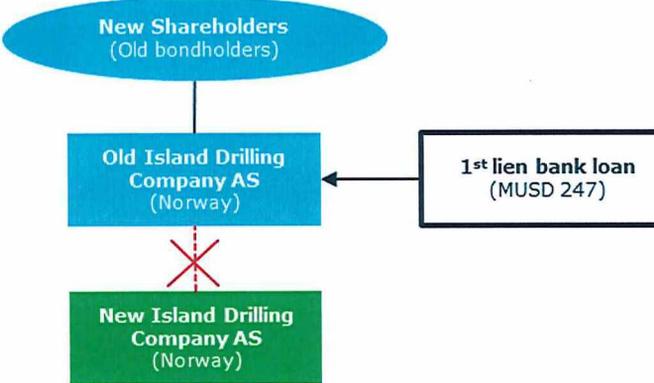
Decisions for the Second General Meeting of Old Island Drilling Company AS  
and the General Meeting of New Island Drilling Company AS



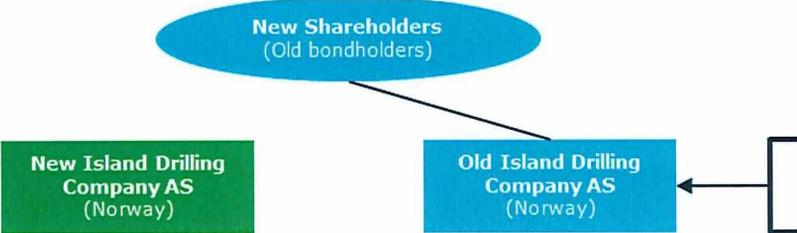
ISLAND DRILLING

# Steps 4 and 5

## Illustration of steps 4 and 5



## Corporate structure after steps 4 and 5



#### **STEP 4: New entity**

- In order to implement a demerger process, Old Island Drilling Company AS incorporates or acquires a new wholly owned subsidiary; New Island Drilling Company AS.
- Step 4 is assumed to be in place prior to the summons of the First General Meeting.

#### **STEP 5: Redeem shares in New Island Drilling Company AS**

- In order to simplify the demerger process, all outstanding shares of New Island Drilling Company AS is redeemed through a capital reduction, illustrated in red. This redemption is dependent upon the implementation of the following demerger in step 6.
- The redemption implies that New Island Drilling Company AS is not owned by Old Island Drilling Company AS, and the entity is shown next to Old Island Drilling Company AS instead of below for simplicity on next slides.

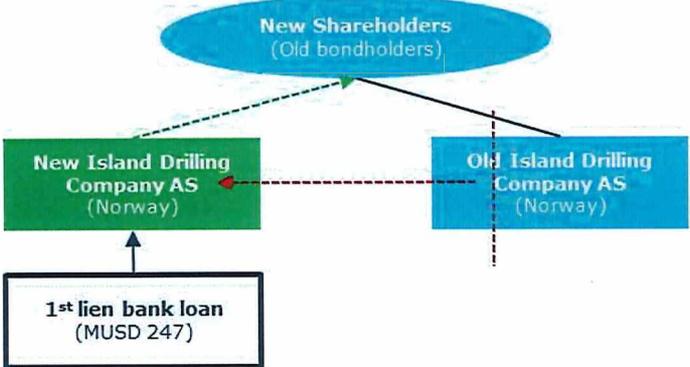
**1<sup>st</sup> lien bank loan  
(MUSD 247)**



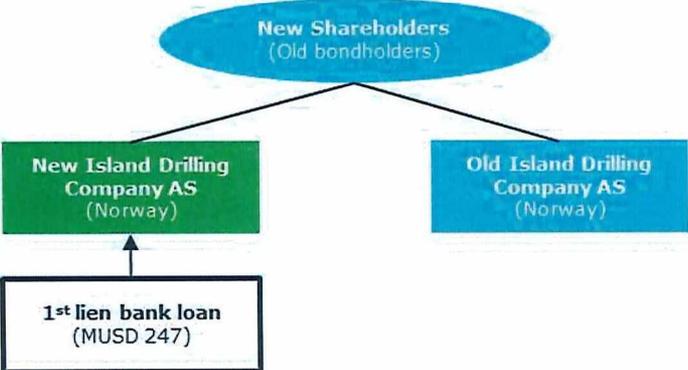
**ISLAND DRILLING**

# Step 6

## Illustration of step 6



## Corporate structure after step 6



## STEP 6: Demerger of Old Island Drilling Company AS

- Step 6 implies a demerger (split) of Old Island Drilling Company AS, whereby the share capital of Old Island Drilling company is reduced.
- The shareholders of Old Island Drilling Company AS will receive new shares in New Island Drilling Company AS as remuneration for the reduced value of Old Island Drilling Company AS, illustrated in green.
- Through the demerger the business activities of Old Island Drilling Company AS, including the Rig and the 1st lien bank loan, is transferred to New Island Drilling Company AS, illustrated in red. It is a requirement that the net equity transferred to New Island Drilling Company AS through the demerger is positive and exceeds NOK 30,000.
- The share capital of Old Island Drilling Company AS must be split between the two entities in proportion to the split of net fair market values between the two companies. At the same time it is necessary that Old Island Drilling Company AS has a minimum share capital of NOK 30,000 after the capital reduction. Old Island Drilling Company AS must also retain assets to cover the minimum share capital of NOK 30,000.

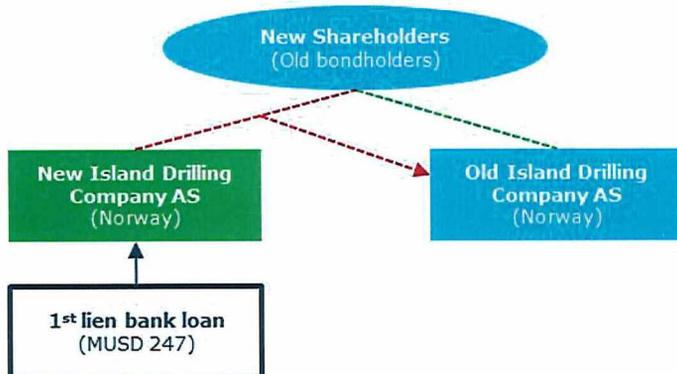


ISLAND DRILLING

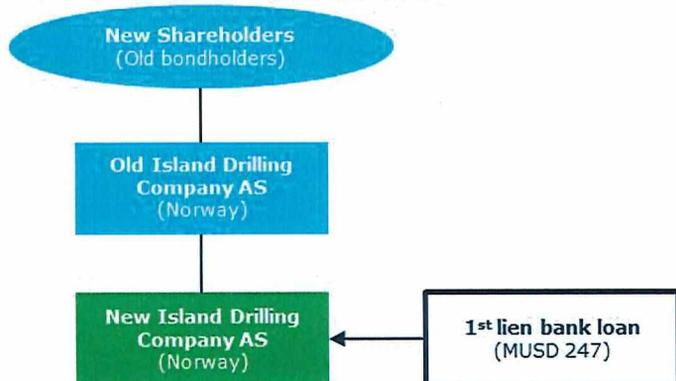


# Step 7

## Illustration of step 7



## Corporate structure after step 7



### **STEP 7: Transfer of shares as capital contribution**

- Step 7 implies a transfer of shares in New Island Drilling Company AS as a contribution in kind through a capital increase in Old Island Drilling AS.
- The capital increase can be implemented through an increase of the nominal value of the shares, instead of issuing new shares in Old Island Drilling Company AS.
- The transfer of shares requires the consent of all the New Shareholders (Old Bondholders). It is assumed that it is possible to obtain consents from all Old Bondholders.



**ISLAND DRILLING**



**Part 3**

Step 8

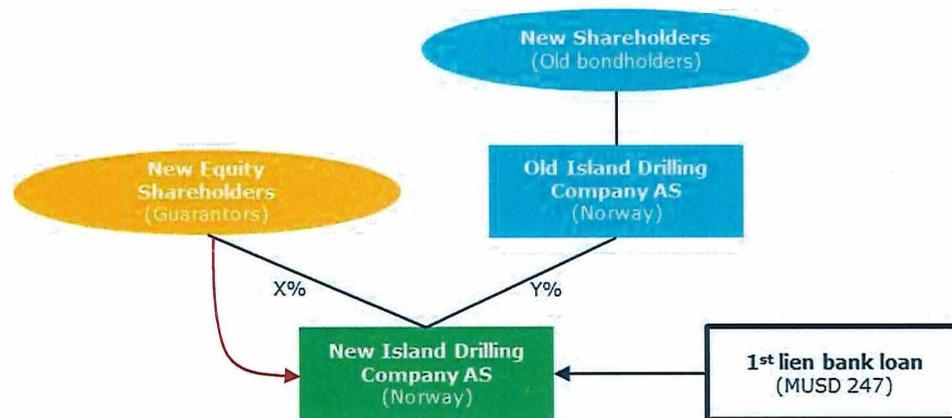
-

Decisions for the General Meeting of New Island Drilling Company AS



ISLAND DRILLING

# Step 8 and Final Structure



## STEP 8: New liquidity to New Island Drilling Company AS

- The last step is that the Guarantors provide USD 30 million in new liquidity to New Island Drilling Company AS in the form of USD 5 million in equity and USD 25 million in a convertible working capital facility, illustrated in red.
- The ownership share of the guarantors will be [79]% immediately after closing and [95]% after full conversion of the working capital facility.
- The decision will be made at the same General Meeting of New Island Drilling Company as steps 5 and 6.

## FINAL STRUCTURE

- In the final corporate structure the original offshore rig business of Old Island Drilling Company AS has been transferred to New Island Drilling Company AS, including the Rig and the 1st lien bank loan.

**Island Drilling Company ASA**

Stålhaugen 5

6065 Ulsteinvik

Norway



**ISLAND DRILLING**