Awilco Drilling Limited

Report and Financial Statements

Period from incorporation to 31 December 2010

Directors

Sigurd Einar Thorvildsen (appointed 30 December 2009)
Tom Furulund (appointed 6 January 2010)
Henrik Fougner (appointed 6 January 2010)
Mark Andrew Russell (appointed 12 February 2010)
Hege Hidle (appointed 12 February 2010)
Daniel Allen Gold (appointed 30 November 2010)

Secretary

SH Company Secretaries Limited
One, St. Pauls Churchyard
London
EC4M 8SH

Auditors

Ernst & Young LLP
Registered Auditor
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Bankers

DnB Nor Bank ASA
N-0021 Oslo

Registered office

One St. Paul's Churchyard
London
EC4M 8SH

Directors' report

The directors present their report and financial statements for the period ended 31 December 2010. These consolidated financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

The company was incorporated on 30 December 2009.

Results and dividends

The profit after taxation for the period (from incorporation to 31 December 2010) amounted to US$12 million. The directors do not recommend a dividend.

Principal activity

The principal activity of the group is the owner and operator of two semi-submersible drilling rigs. One of the rigs, WilHunter (formerly GSF Arctic IV) operated for most of the period under a bareboat charter to Transocean. The WilPhoenix (formerly GSF Arctic II) was idle and was relocated to the Remontowa shipyard in Poland in April 2010 to undergo a major upgrade and modification project. Both rigs are currently undergoing upgrade project work and are expected to be redelivered from the shipyard well within the start-up window of the firm contracts. The rigs are then scheduled to operate under contract in the UK sector of the North Sea.

Business review

The group purchased two semi-submersible drilling rigs from Transocean in January 2010. The purchase was financed by an equity issue and by a sellers credit facility granted by Transocean. The sole source of revenues during the period was in respect of a bareboat charter of WilHunter to Transocean who was operating the rig on behalf of one of their clients. This was a continuation of contractual arrangements in place at the time of acquisition. The bareboat charter continued through 15 November 2010 at which time the rig was relocated to the Remontowa shipyard in Poland to undergo survey, repair and modification work. During the course of the period focus has been on establishing an infrastructure to enable effective management and control of the drilling rigs both during the project period and in preparation for the operating periods. The establishment of the onshore organisation is virtually complete and substantial progress has been made on the recruiting of the offshore work force.

The rig projects continue in the Remontowa shipyard, Gdansk and are projected to be delivered on time and within budget.

The anticipated upturn in UKCS drilling tender activity has materialised with numerous independent operator, major operator and well management tenders being issued in January 2011. The level of demand is higher than anticipated indicating healthy rig utilisation levels during 2011.

A contract has been signed for the WilPhoenix with AGR Petroleum Services for one firm well and six optional wells. The contract represents AGR's multi well multi-client 2011 drilling programme and drilling operations are expected to commence early May 2011. A Memorandum of Understanding has been signed for the WilHunter with SPD Limited for one firm well plus six optional wells and a contract has been signed with Nautical Petroleum plc, as part of the SPD multi well multi-client drilling programme, for one firm well plus one optional well. Drilling operations are expected to commence early May 2011. The rigs continue to be marketed to all UKCS customers for work commencing Q3/Q4 of 2011.

Directors' report

Business review (continued)

The group's financial performance during the period is as follows:

	From incorporation to 31December 2010 US$000
Revenue	54,963
Operating profit	34,422
Profit for the period attributable to equity shareholders	12,444
Gross profit %	72%
Number of employees and contractors at period end	104

The total revenue for the period relates to a bareboat contract with Transocean for WilHunter. The group had rig operating expenses of US$15 million relating to operating and lay-up costs, and general and administration expenses of US$5 million.

Key performance indicators (KPIs)

The use of KPIs in assessing the performance of the group and management during 2010 has been limited due to the non-operational mode of the organisation. The principal focus for 2010 has been to establish the group, implement management systems and co-ordinate the upgrade projects to ensure timely delivery and be within budget. KPIs for the operational phase of the group will include the following KPIs which will be reviewed on a regular basis by management and subsequently reported to the board of directors. Principal KPIs will be as follows:

Financial (actual versus budget)

Revenue
Operating expenses
Gross margin
Utilisation percentage

Quality health safety environment (QHSE)

Total recordable incident rate (TRIR)
Uncontrolled spills/discharges
Compliance with audit program

Operations

Non productive time (NPT)
Customer feedback
Overdue work orders
Maintenance time versus repair time

Human resources (HR)

Personnel turnover – onshore
Personnel turnover – offshore
Personnel retention
Sickness/absenteeism
Training compliance
Competence compliance

Directors' report

Business review (continued)

It should be noted that the applicability of KPIs may vary subject to the benefit of either retaining the above KPIs or identifying additional KPIs that will assist in determining the overall effectiveness of the organisation.

Principal risks and uncertainties

The primary risks are ones that impact utilisation rates for each of the rigs, (QHSE) issues associated with our operations and exposure to liquidity and credit risk.

Utilisation rates for the rigs

The risk to utilisation rates may arise through deferred commencement of drilling contracts either through delays incurred on the shipyard project work or delays encountered by operators not able to commence in accordance with plan. There is also the possibility of gaps and idle periods during the year due to the unpredictable nature of the well management contracts. Additionally there is a utilisation risk associated with the possibility of mechanical down time following major modification upgrades.

QHSE

To mitigate any risk with regards to QHSE the group has in place a QHSE management plan which attempts to ensure that all our operations are conducted within normal industry standards and procedures. We also seek to ensure safe and efficient operations, with no accidents, injuries, environmental incidents or damage to assets.

Liquidity

As described in note 23 to the financial statements the group's objective is to maintain sufficient liquidity in order to support the needs of the business and meet the repayments of the debt and commitments as they fall due. In order to achieve this, the group has access to additional working capital facilities from Transocean and the prospect of issuing new equity. As described in note 24, the company has also entered into a short term loan agreement to ensure sufficient liquidity buffer for the 12 month period from first day of listing.

Credit

As the group begins to provide services to new customers it will become exposed to credit risk. Management are currently developing policies to address this.

Future developments

The group is currently undergoing a legal entity restructure. The principal part of this process involved the transfer of the rig assets and related debt from the UK operating companies, Awilco Arctic II Ltd and Awilco Arctic IV Ltd to two Maltese entities, WilPhoenix (Malta) Ltd and WilHunter (Malta) Ltd respectively. This transfer was concluded on 1 February 2011. Additionally, the company names of the UK operating companies, Awilco Arctic II Ltd and Awilco Arctic IV Ltd have been renamed WilPhoenix (UK) Ltd and WilHunter (UK) Ltd. The formation of a Singapore company for the provision of personnel services to the UK operating entities is currently underway and will be completed in March 2011.

The company is undertaking a listing process on the Oslo Axess stock exchange and progress is going according to plan. The application for listing will be made in March 2011 and the first day of listing is expected in early May 2011.

Directors' report

Directors

The directors who served during the period were those listed below:

Sigurd Einar Thorvildsen (appointed 30 December 2009)
Tom Furulund (appointed 6 January 2010)
Henrik Fougner (appointed 6 January 2010)
Mark Andrew Russell (appointed 12 February 2010)
Hege Hidle (appointed 12 February 2010)
Daniel Allen Gold (appointed 30 November 2010)

Insurance

The company insures its directors and officers, against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Going Concern

Management has prepared cash flow forecasts for a period of 24 months from the balance sheet date. This demonstrates the ability of the group to pay its debts as they fall due for at least the next 24 months. The group has access to sufficient working capital facilities from Transocean and shareholders, and the prospect of issuing new equity The group has also reported a profit and positive net asset value as appears on the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

On this basis, management has concluded that group will remain a going concern for at least 12 months from the day of approval of the financial statements and have therefore prepared the financial statements on the going concern basis.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving the report is aware, there is no relevant audit information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the group and the company and the financial performance and cash flows of the group and the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

Directors' report

Statement of directors' responsibilities (continued)

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and the company's financial position and financial performance;

- state that the group and the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and

- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement

Each of the directors listed on page 1 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group and the undertakings included in the consolidation taken as a whole; and

- The directors' report include a fair review of the development and performance of the business and position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

Sigurd Einar Thorvildsen
Director
24 March 2011

Independent auditors' report

to the members of Awilco Drilling Limited

We have audited the financial statements of Awilco Drilling Limited for the period ended 31 December 2010 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company statement of cash flow and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on pages 5 and 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 December 2010 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Awilco Drilling Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst + Young LLP.

Moira Lawrence (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

25 March 2011

Consolidated statement of comprehensive income

for the period ending 31 December 2010

	Notes	*From incorporation to 31 December 2010 US$000*
Revenue	5	54,963
Cost of sales		(15,168)
Gross profit		39,795
General and administrative expenses		(5,373)
Operating profit	6	34,422
Finance income	9	511
Finance expense	10	(17,650)
Profit before taxation		17,283
Income tax expense	11	(4,839)
Profit for the period attributable to equity shareholders		12,444

There is no comprehensive income other than the profit for the period.

Basic and diluted earnings per share	12	0.85

Total comprehensive income for the period is attributable to the owners of the company, as there is no non-controlling interest.

Consolidated statement of financial position

31 December 2010

	Notes	31 December 2010 US$000
Non-current assets		
Property, plant and equipment	13	209,323
		209,323
Current assets		
Inventory		4,517
Trade and other receivables	15	912
Derivative financial instruments	16	392
Cash and cash equivalents	17	67,707
		73,528
Total assets		282,851
Current liabilities		
Trade and other payables	18	19,834
Loans	19	9,250
		29,084
Non-current liabilities		
Deferred tax liabilities	11	4,839
Loans	19	125,097
Total liabilities		159,020
Net assets		123,831
Equity		
Called up share capital	21	271
Share premium account	21	111,116
Retained earnings		12,444
Total Shareholders' funds		123,831

The notes on pages 16 to 33 are an integral part of the financial statements. These financial statements were approved by the board of directors on 24 March 2011.

Signed on behalf of the board

Sigurd Einar Thorvildsen
Director

Company statement of financial position

at 31 December 2010

	Notes	31 December 2010 US$000
Non-current assets		
Property, plant and equipment	13	626
Investment in subsidiaries	14	200
Amount due from subsidiary undertakings	22	49,785
		50,611
Current assets		
Trade and other receivables	15	531
Cash and cash equivalents	17	56,854
		57,385
Total assets		107,996
Current liabilities		
Trade and other payables	18	1,911
Total liabilities		1,911
Net assets		106,085
Equity		
Called up share capital	21	271
Share premium account	21	111,116
Retained earnings		(5,302)
Total Shareholders' funds		106,085

The notes on pages 16 to 33 are an integral part of the financial statements. These financial statements were approved by the board of directors on 24 March 2011.

Signed on behalf of the board

Sigurd Einar Thorvildsen
Director

Consolidated statement of changes in equity

for the period ended 31 December 2010

	Share Capital US$000	*Share premium US$000*	*Retained earnings US$000*	*Total equity US$000*
At incorporation	-	-	-	-
Issued during the period (note 21)	271	115,752	-	116,023
Transaction costs (note 21)	-	(4,636)	-	(4,636)
Total comprehensive income for the period	-	-	12,444	12,444
At 31 December 2010	271	111,116	12,444	123,831

Company statement of changes in equity

for the period ended 31 December 2010

	Share capital US$000	*Share premium US$000*	*Retained earnings US$000*	*Total equity US$000*
At incorporation	-	-	-	-
Issued during the period (note 21)	271	115,752	-	116,023
Transaction costs (note 21)	-	(4,636)	-	(4,636)
Total comprehensive income for the period	-	-	(5,302)	(5,302)
At 31 December 2010	271	111,116	(5,302)	106,085

Consolidated statement of cash flows

for the period ended 31 December 2010

	Notes	From incorporation to 31 December 2010 US$000
Operating activities		
Profit before tax		17,283
Adjustments to reconcile profit before tax to net cash flows:		
Revenue utilised for loan repayment		(33,772)
Depreciation		11,995
Net fair value gains on derivative financial instruments		(392)
Net interest		16,069
Unrealised loss on exchange		44
Working capital adjustments:		
Increase in trade and other receivables		(38)
Increase in inventory		(155)
Increase in prepayments		(872)
Increase in trade and other payables		993
Increase in other payables and accruals		7,895
Interest paid		(13,582)
Interest received		119
Net cash flow from operating activities		5,587
Investing activities		
Purchase of property, plant and equipment		(55,263)
Net cash flow used in investing activities		(55,263)
Financing activities		
Proceeds from issue of share capital		116,019
Equity issue costs		(4,636)
Issue of loans		6,000
Net cash flow from financing activities		117,383
Net increase in cash and cash equivalents		67,707
Cash and cash equivalents at beginning of period		–
Cash and cash equivalents at end of period	17	67,707

Company statement of cash flows

for the period ended 31 December 2010

	Notes	*From incorporation to 31 December 2010 US$000*
Operating activities		
Loss before tax		(7,363)
Adjustments to reconcile loss before tax to net cash flows:		
Depreciation		32
Interest income		(93)
Working capital adjustments:		
Increase in prepayments		(531)
Increase in trade and other payables		746
Increase in other payables and accruals		1,170
Interest received		93
Net cash flow in operating activities		(5,946)
Investing activities		
Purchase of property, plant and equipment		(658)
Investment in newly incorporated subsidiary undertakings		(200)
Cash advanced to subsidiary undertakings		(53,951)
Cash received from subsidiary undertakings		6,226
Net cash flow used in investing activities		(48,583)
Financing activities		
Proceeds from issue of share capital		116,019
Equity issue costs		(4,636)
Net cash flow from financing activities		111,383
Net increase in cash and cash equivalents		56,854
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	17	56,854

Notes to the financial statements

at 31 December 2010

1. General information

The group and company financial statements of Awilco Drilling Limited for the period ended 31 December 2010 were authorised for issue by the board of directors on 25 March 2011. The company was incorporated in the United Kingdom under the Companies Act 2006. The address of the registered offices is given on page 1. The nature of the group's operations and its principal activities are set out in the directors' report.

2. Accounting policies.

Going concern

Management has prepared cash flow forecasts for a period of 24 months from the balance sheet date. This demonstrates the ability of the group to pay its debts as they fall due for at least the next 24 months. The group has access to sufficient working capital facilities from Transocean and shareholders, and has the prospect of issuing new equity. The group has also reported a profit and positive net asset value in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

On this basis, management has concluded that the group will remain a going concern for at least 12 months from the day of approval of the financial statements and have therefore prepared the financial statements on the going concern basis.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the group for the period ended 31 December 2010 and applied in accordance with the provisions of the Companies Act 2006.

The group has elected to take the exemption under section 408 of the Companies Act 2006 to not present the company income statement. The loss recorded by the company for the period was US$5.3 million.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the company, using consistent accounting policies.

Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using United States Dollars (US$) "the functional currency". The consolidated financial statements are presented in (US$) and all values are rounded to the nearest thousand dollars (US$000) except when otherwise indicated, which is the company's functional currency and presentation currency. All subsidiaries have US$ as their functional currency.

Transaction and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the income statement. The principal foreign currencies used by the group are Pounds Sterling (£), Euro (€) and Norwegian Kroner (NOK)

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Revenue recognition

Revenue derived from charter-hire contracts or other service contracts is recognized in the period that services are rendered at rates established in the relevant contracts. Certain contracts include mobilization fees payable at the start of the contract. In cases where the fee covers a general upgrade of a rig or equipment which increases the value of the rig or equipment beyond the contract period, the fee is recognized as revenue over the firm contract period whereas the investment is depreciated over the remaining lifetime of the asset. In cases where the fee covers specific upgrades or equipment specific to the contract, the mobilisation fees are recognized as revenue over the firm contract period.

Cost of sales

Cost of sales includes rig operating costs and the depreciation cost for the two rigs.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exception:

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Leases

Leases, where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Property, plant and equipment

Rigs and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to its working condition. When it can be clearly demonstrated that subsequent expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of the assets beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the asset. A component of an asset with a cost that is significant in relation to the total cost of the asset is depreciated separately. Components with a similar depreciation method and useful life are grouped together.

Depreciation is calculated using the straight-line method for each asset, after taking into account the estimated residual value, over its expected useful lives.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Semi-submersible rigs	–	15 years
Special purpose surveys	–	5 years
Other fixtures and equipment	–	3-5 years

The carrying values of plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Financial assets

Financials assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial asset not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

The company has neither transferred nor retained substantially all the risks and rewards of the asset, but had transferred control of the asset, or

The company has transferred substantially all the risks and rewards of the asset.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing

involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

Inventories

Inventories of drilling equipment and spares for future integrated drilling service wells are stated at the lower of cost incurred and net realisable value. These inventory items include spare parts and supplies relating to the operation of the semi-submersible drilling rigs.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents are as defined above and net of outstanding bank overdrafts.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Loans

Loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Loans are subsequently measured at their amortised cost applying the effective interest rate method.

Finance charges on the loans are recognised as finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Derivative financial instruments

The group uses derivative financial instruments such as forward currency contracts, to hedge certain foreign currency risks. The derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The group does not designate any derivative financial instruments as hedges nor apply hedge accounting. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement.

3. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are discussed below.

Useful economic lives

The group's drilling rigs are being depreciated over their estimated useful lives of 15 years on a straight line basis and assuming a US$2million residual value each. These estimates and associated assumptions have been assessed as reasonable by management against industry standards.

4. Standards issued but not yet effective

A number of standards, amendments to standards and interpretations have been issued but are not yet effective up to the date of issuance of the group's financial statements. To the extent that they are applicable the group intends to adopt these amendments and standards when they become effective. Listed below are those which the group reasonably expects to have an impact.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, could have a possible impact on the group's financial position and performance:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements

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5. Revenue

Revenue represents the invoiced amount of services provided after the deduction of rebates and retrospective discounts. All items are stated net of value added tax.

The group only has one segment – providing drilling services in the UK. As a result no further segmental information has been provided. All revenue wasa generated from one customer, Transocean in the UK.

6. Operating profit

This is stated after charging:

	From incorporation to 31 December 2010 US$000
Depreciation	11,995
Operating lease expense on land and buildings	120

7. Auditors' remuneration

The group and company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services.

	From incorporation to 31 December 2010 US$000
Audit of financial statements[1]	77
Statutory audits for subsidiaries	31
Other audit services	41
Taxation services	229
	378

[1]US$38,200 of this relates to the company.

8. Staff costs

	From incorporation to 31 December 2010 US$000
Wages and salaries	412
Social security costs	51
	463

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The average monthly number of employees employed as at 31 December 2010 was as follows:

	2010
	No.
Management	1

In addition to the above, the group had 13 average number of personnel from an external personnel company at the total cost of US$2.7 million.

9. Finance income

	From incorporation to 31 December 2010
	US$000
Interest income	119
Gain on foreign exchange forward contracts	392
Total finance income	511

10. Finance expense

	From incorporation to 31 December 2010
	US$000
Interest on loans	16,188
Loss on foreign exchange transactions	1,462
Total finance expenses	17,650

Interest on loans includes US$3.3 million in respect of grossing up for withholding taxes paid or accrued for during the period (see note 19).

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11. Income tax

(a) Income tax on profit on ordinary activities

Income tax charged in the income statement

	From incorporation to 31 December 2010 US$000
UK corporation tax on the profit for the period	–
Total current income tax	–
Deferred income tax:	
Origination and reversal of temporary differences:	4,839
Total deferred income tax	4,839
Income tax charge in the income statement	4,839

(b) Reconciliation of the total income tax charge

The income tax expense in the income statement for the period does not differ from the accounting profit before taxation multiplied by standard rate of corporation tax in the UK of 28%.

(c) Deferred income tax

The deferred income tax included in the balance sheet is as follows:

	2010 US$000
Deferred tax liability	
Temporary differences relating to property plant and equipment	(8,771)
Deferred tax asset	
Unused tax losses	3,932
	(4,839)

Notes to the financial statements

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12. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	From incorporation to 31 December 2010 US$000
Profit for the period attributable to equity shareholders	12,444

	31 December 2010 No '000
Weighted average number of ordinary shares for basic earnings per share	14,605

Total earnings and weighted average number of shares outstanding during the period is the same for the diluted earnings per share.

13. Property, plant and equipment

Group

	Semi submersible drilling rigs US$000	*Special purpose surveys US$000*	*Other fixtures and equipment US$000*	*Total US$000*
Cost:				
At incorporation	–	–	–	–
Additions	206,073	14,587	658	221,318
At 31 December 2010	206,073	14,587	658	221,318
Depreciation:				
At incorporation	–	–	–	–
Provided	(11,963)	–	(32)	(11,995)
At 31 December 2010	(11,963)	–	(32)	(11,995)
Net book value:				
At 31 December 2010	194,110	14,587	626	209,323

On 14 January 2010, the group acquired two semi-submersible drilling rigs for a total consideration of US$191 million, in connection with which, the group was granted a five year seller's credit (see note 19). These rigs are pledged as security for the seller's credit and working capital loan (see note 19). Included in the semi submersible drilling rigs is asset under construction costs of US$15 million relating to the costs of the upgrade being performed on the rigs and these are not subject to depreciation until completion.

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13. Property, plant and equipment (continued)

Company

	Office Equipment US$000	*Other fixtures and equipment US$000*	*Total US$000*
Cost:			
At incorporation	–	–	–
Additions	445	213	658
At 31 December 2010	445	213	658
Depreciation:			
At incorporation	–	–	–
Provided	(8)	(24)	(32)
At 31 December 2010	(8)	(24)	(32)
Net book value:			
At 31 December 2010	437	189	626

14. Investments

	Company 2010 US$000
Company shares in subsidiary undertakings	
At incorporation	200
At 31 December 2010	200

At incorporation, the company acquired WilPhoenix (UK) Ltd and WilHunter (UK) Ltd, newly incorporated companies (see note 22).

15. Trade and other receivables

	Group 2010 US$000	*Company 2010 US$000*
Trade receivables	38	–
Prepayments and other receivables	332	224
VAT receivable	542	307
	912	531

No trade receivables past due or impaired as at 31 December 2010.

Notes to the financial statements

at 31 December 2010

16. Derivative financial instruments

	Group 2010 US$000
Foreign exchange forward contracts	392

The foreign currency forward contracts as at 31 December 2010 were entered into in order to minimise the group's exposure to losses resulting from adverse fluctuations in foreign currency exchange rates on planned payments of approximately £2 million and €6 million on the upgrading project. The fair value of the forward exchange contracts, as shown above, is recorded as other financial income in the statement of comprehensive income, and classified as other assets in the statement of financial position.

17. Cash and cash equivalents

	Group 2010 US$000	*Company 2010 US$000*
Cash at bank and in hand	67,707	56,854

Cash at bank earns interest at floating rates based on daily bank deposit rates. The company had restricted cash of US$2,500,000 in relation to the foreign exchange forward contract (see note 16). The restriction was lifted mid February 2011 as all hedging contracts had matured late January 2011.

18. Trade and other payables

	Group 2010 US$000	*Company 2010 US$000*
Trade and other payables	13,953	1,911
Interest payable	2,606	–
Withholding tax payable	3,275	–
	19,834	1,911

Notes to the financial statements

at 31 December 2010

19. Loans

	Group 2010 US$000
Current loans:	
Seller's credit (see (a) below)	8,250
Working capital loan (see (b) below)	1,000
Total current loans	9,250
Non-current loans:	
Seller's credit (see (a) below)	120,097
Working capital debt (see (b) below)	5,000
Total non-current loans	125,097
Total loans	134,347

a) Deferred payment deed (seller's credit)

In connection with the acquisition of the rigs from Transocean, the group was granted a five year seller's credit from Transocean of US$162 million. The borrowings are secured by first priority mortgages on the drilling rigs. The interest rate is 9%, plus grossing up for any withholding taxes which may arise. Repayment terms are quarterly repayments of US$2.8million over five years and a final repayment of US$87million. Under the bareboat agreement for WilHunter, Transocean retained 80% of the income as repayment of the borrowings (instalments and interest cost).

b) Working capital loan agreement

The group has entered into an agreement with Transocean for a three year working capital facility of US$35 million and the funds will be available for draw down over a period of 18 months, up to and including 14 July 2011. The loans are specified for the purpose of providing funds for working capital and/or capital expenditure for WilPhoenix and WilHunter, mainly (80%) for reactivation. The borrowings will be secured by second priority mortgages on the drilling rigs. The interest rate is 10% plus grossing up for any withholding taxes which may arise. The repayment terms are in 6 equal quarterly instalments after the final draw down date as stated above. The repayments may be accelerated depending on a calculation of available funds made in accordance with the agreement.

	Group 2010 US$000
Loans repayment:	
within one year	9,250
in two to five years	125,097
	134,347

Notes to the financial statements

at 31 December 2010

20. Commitments and contingencies

Obligations under operating leases

At 31 December 2010 the group had future minimum lease payments under non-cancellable operating leases as set out below:

	Group	*Company*
	2010	*2010*
	US$000	*US$000*
Payments due under operating leases for land and buildings:		
within one year	93	93
in two to five years	372	372
	465	465

Capital commitments

The total project cost for the WilPhoenix reactivation project is US$70 million. At the end of the period, approximately US$27million had been spent and US$44 million was committed (e.g. full accommodation arrangement, drilling and well control equipment, general services from the yard etc.)

The total project cost for the WilHunter is US$20 million of which approximately US$2million had been spent and US$2.6 million was committed as at the period end.

21. Share capital

	Group	*Company*
	2010	*2010*
	No. '000	*No. '000*
Authorised		
Ordinary shares of £ 0.0065 each	30,000	30,000

	Group		*Company*	
	2010	*2010*	*2010*	*2010*
	No. '000	*US$000*	*No. '000*	*US$000*
Allotted, called up and fully paid				
At incorporation	1	–	1	–
Authorised, issued and fully paid up on 14 January 2010	10,999	–	10,999	–
Sub-total before the redenomination on 23 September 2010	11,000	–	11,000	–

Notes to the financial statements

at 31 December 2010

21. Share capital (continued)

	Group		*Company*	
	2010	*2010*	*2010*	*2010*
	No. '000	*US$000*	*No. '000*	*US$000*
Allotted, called up and fully paid				
After the redenomination, bonus issue and consolidation on 23 September 2010	11,000	110	11,000	110
Issued on 1 October 2010	16,000	161	16,000	161
At 31 December 2010	27,000	271	27,000	271

On incorporation, the company's issued share capital was 1,000 shares of US$0.00001 each.

On 14 January 2010 an additional 10,999,000 shares of US$0.00001 each was issued at a price of $5.

On 23 September 2010 the share capital of the company was redenominated from 11,000,000 shares of US$0.00001 each to 11,000,000 shares of £0.0000065 each.

On the same day and following the redenomination the company issued an additional 10,989,000,000 of ordinary shares of £0.0000065 at a par value as a bonus issue to the credit of the share premium account.

On the same day and following the bonus issue the company consolidated the share capital from £71,500 divided into 11,000,000,000 ordinary shares of £0.0000065 each to £71,500 divided into 11,000,000 ordinary shares of £0.0065 each.

On 1 October 2010 an additional 16,000,000 shares of £0.0065 each was issued each at a price of NOK24.

	Group	*Company*
	2010	*2010*
	US$000	*US$000*
Share premium		
At incorporation:	–	–
Issued during the period:		
Share premium on 14 January 2010 issue	50,000	50,000
Transaction costs on 14 January 2010 issue	(2,001)	(2,001)
Bonus issue on 23 September 2010	(72)	(72)
Share premium on 1 October 2010 issue	65,824	65,824
Transaction costs on 1 October 2010 issue	(2,635)	(2,635)
At 31 December 2010	111,116	111,116

Notes to the financial statements

at 31 December 2010

22. Related party transactions

Group

The financial statements include the financial statements of the group and the subsidiaries listed below

Name	*Country of Incorporation*	*% Interest*
WilPhoenix (UK) Ltd	United Kingdom	100
WilHunter (UK) Ltd	United Kingdom	100

During the period the group entered into transactions, in the ordinary course of business, with AWILHELMSEN AS, which is a major shareholder through its subsidiaries.

Transactions entered into and trading balances outstanding at 31 December 2010 with AWILHELMSEN AS and its subsidiaries, are as follows:

	2010
	US$000
Purchase of management services	1,992
Amounts owed to AWILHELMSEN AS and its subsidiaries	(597)

Sales and purchases between related parties are made at normal market prices. Outstanding balances are unsecured, interest free and cash settlement terms vary between 30 and 90 days. The company has not provided or benefitted from any guarantees for any related party receivables or payables. The company has not made any provision for doubtful debts relating to amounts owed by related parties.

Directors and other key management personnel

The remuneration of directors and other key management personnel of the group is as follows

	2010
	US$000
Short-term employee benefits	591

Included in the short-term employee benefits are director's emoluments of US$128 thousand. Six directors received remuneration in respect of their services to the company during the year.

Company

The company entered into the following transactions and had the following balances with its wholly owned subsidiaries

	2010
	US$000
Transactions:	
Transfer of funds to WilPhoenix (UK) Ltd	31,108
Transfer of funds from WilPhoenix (UK) Ltd	(1,728)
Transfer of funds to WilHunter (UK) Ltd	22,843
Transfer of group relief to WilHunter (UK) Ltd	2,060
Transfer of funds from WilHunter (UK) Ltd	(4,498)
	49,785

Notes to the financial statements

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22. Related party transactions (continued)

Balance:	
Amounts receivable from WilPhoenix (UK) Ltd	29,380
Amounts receivable from WilHunter (UK) Ltd	20,405
	49,785

Entity with significant influence over the group

Awilco Drilling AS, a wholly owned subsidiary of AWILHELMSEN AS, owns 49% of the ordinary shares in Awilco Drilling Limited (52% on incorporation).

23. Capital management, financial risk management objectives and policies

The group's and the company's principal financial liabilities comprise loans, trade and other payables. The main purpose of these financial liabilities is to finance the group's operations. The group has trade and other receivables, and cash and short-term deposits that arrive directly from its operations. In addition, the group has derivative forward exchange contracts.

The group and the company are exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises foreign currency risk. Financial instruments affected by market risk are trade payables and accruals.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group's and company's exposure to the risk of changes in foreign exchange rates relates primarily to the group's and company's operating activities (when expenses are denominated in a different currency from the company's functional currency).

The group manages its foreign currency risk by holding cash in the foreign currency required to settle foreign current liabilities, unless the group has insufficient cash resources available, in which case, it enters into hedging transactions for significant foreign currency commitments.

The directors consider that the group and the company have minimal sensitivity to foreign currency risk and hence have not presented sensitivity analysis.

Management has assessed the fair values of the financial instruments generally approximate to the carrying values.

Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The group is exposed to credit risk from its operating activities (primarily for trade receivables). The company has credit risk due its receivables from subsidiary undertakings.

Customer credit risk is managed by the group and the maximum exposure to credit risk at the reporting date is the carrying value the financial assets including cash and cash equivalents and the derivative instrument.

Liquidity risk

The group's objective is to maintain sufficient liquidity in order to support the needs of the business and meet the repayments of the debt and commitments as they fall due. In order to achieve this, the group has access to shareholders' loans and the prospect of issuing new equity.

Notes to the financial statements

at 31 December 2010

23. Capital management, financial risk management objectives and policies (continued)

The table below summarises the maturity profile of the group's financial liabilities based on contractual undiscounted payments.

Group

	On demand	*Less than 3 months*	*3 to 12 months*	*1-5 years*	*over 5 years*	*Total*
At incorporation	–	–	–	–	–	–
Interest bearing loans	–	3,234	17,822	155,875	–	176,931
Trade and other payables	–	17,228	–	–	–	17,228
Capital commitments	–	–	46,200	–	–	46,200
At 31 December 2010	–	20,462	64,022	155,875	–	240,359

Company

	On demand	*Less than 3 months*	*3 to 12 months*	*1-5 years*	*over 5 years*	*Total*
At incorporation	–	–	–	–	–	–
Trade and other payables	–	1,911	–	–	–	1,911
At 31 December 2010	–	1,911	–	–	–	1,911

Capital management

Capital includes called up share capital, share premium and retained earnings.

The group and the company are in a formative period, and their objective is to ensure they have enough capital to support their liquidity requirements. The company does not yet have any plans or policies with regards to dividends payments.

The company's capital is monitored at a group level. The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group includes within net debt, loans, trade and other payables, less cash and cash equivalents.

	Group 2010 US$000
Loan (note 19)	134,347
Trade and other payables (note 18)	19,834
Cash and cash equivalents (note 17)	(67,707)
Net debt	86,474
Capital	123,860
Capital and net debt	210,334
Gearing ratio	41%

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24. Subsequent events

A contract has been signed for the WilPhoenix with AGR Petroleum Services for one firm well and six optional wells. The contract represents AGR's multi well multi-client 2011 drilling programme and drilling operations are expected to commence early May 2011. A Memorandum of Understanding has been signed for the WilHunter with SPD Limited for one firm well plus six optional wells and a contract has been signed with Nautical Petroleum plc, as part of the SPD multi well multi-client drilling programme, for one firm well plus one optional well. Drilling operations are expected to commence early May 2011. The rigs continue to be marketed to all UKCS customers for work commencing Q3/Q4 of 2011.

The company is undergoing a restructure and part of this process involved the transfer of the rig assets and related debt from the UK operating companies, WilPhoenix (UK) Ltd and WilHunter (UK) Ltd, to two Maltese entities, WilPhoenix (Malta) Ltd and WilHunter(Malta) Ltd respectively.

The company is undertaking a listing process on the Oslo Axess stock exchange and progress is going according to plan. The application for listing will be made in March 2011 and the first day of listing is expected in early May 2011.

The company has entered into a short term draw down facility of US$10 million with its two largest shareholders, represented by Awilco Drilling AS and Tompkins Square Park S.á.r.l. The funds will be available for draw down for a period including 30 June 2012 and shall be used for general working capital purposes. The loan is unsecured. It bears an interest rate of 12%, in addition to a commitment fee of 3% of the committed amount. There is no arrangement fee. The company can, at any time, cancel or reduce the facility by half without any cost. The rationale for the facility is for the company to have a liquidity buffer during start-up of its operations.