AWILCO DRILLING

FIRST QUARTER 2010

Introduction

Awilco Drilling Limited was established as a UK company (incorporated in England and Wales) in December 2009, and is listed on the Norwegian OTC under the ticker code AWDR. The Company has its headquarter in Aberdeen, Scotland. Mid-January 2010, Awilco Drilling acquired the two semi submersibles GSF Arctic II and GSF Arctic IV from Transocean. The purchase price was USD 205 million and the acquisition was financed with a seller's credit of 80% of the purchase price and a USD 50 million private placement.

Arctic II was built in 1982. Arctic IV was built in 1983 and upgraded in 1999. Both rigs are of Pacesetter design and have predominantly operated in the UK sector.

Financial Results – First Quarter 2010

At the end of March 2010 Awilco Drilling had one rig in operation and one rig in lay-up.

Comprehensive Income Statement

Contract revenue for the quarter was USD 13.9 million and relates to the bareboat contract with Transocean for Arctic IV. Rig operating expenses in the quarter were USD 0.7 million and relates to operating and lay-up costs, as well as cost related to the reactivation of Arctic II. Total general and administrative expenses in the quarter amounted to USD 0.6 million. Operating profit was USD 9.9 million.

Interest expense paid to Transocean on the seller's credit amounts to USD 3.1 million in the quarter.

Profit before tax was USD 6.8 million and net profit was USD 4.9 million. Earnings per share was USD 0.52.

Statement of Financial Position

As of 31 March 2010, total assets amount to USD 209.7 million.

Awilco Drilling had USD 9.4 million in cash and cash equivalents at the end of the first quarter.

Long-term interest-bearing debt at the end of the quarter was USD 154.1 million. 80% of the revenue related to the bareboat contract with Transocean is offset against the seller's credit.

The Company's equity was raised through a USD 50 million private placement of 10,000,000 shares in December 2009. The placement was made at a subscription price of NOK 29 (USD 5) per share and was directed towards professional Norwegian and international investors.

Operation

Throughout the period, Arctic II has been laid up in Invergordon, Scotland, while preparatory work has been ongoing before relocation to shipyard. Arctic II was during April moved from Invergordon to Gdansk in Poland where it presently awaits commencement of yard work.

Arctic IV has been working for Nexen Petroleum under a bareboat charter with Transocean. The rate under the bareboat charter is USD 180,000 per day and revenues commenced 25 December 2009. Transocean has notified Awilco Drilling that the rig could be redelivered early September, however, the bareboat hire rate runs until the end of October 2010.

Organisation
Awilco Drilling Limited will be operating out of Aberdeen, Scotland. Recruitment is ongoing with key members of the management team already in place.

Awilco Drilling is developing its own operating organization for the two rigs. This will enable the Company to be responsible for both operation and marketing of the units. Having its own organization will provide the Company with a better position in the market and more flexibility in terms of future development. The UK drilling market consists of only a few contractors offering floaters, and the feedback we have from the market makes us confident that a new drilling contractor will be well received.

A full Safety Management System and Safety Cases for the rigs are under development, and are targeted to be implemented and operational by the time the rigs are re-entering the market.

Reactivation projects
In order for both rigs to be operational from Q2 2011, investments in class surveys and reactivation are necessary. Input regarding operational qualities received from potential clients has been used when defining the scope of work. Both rigs will have improved specifications and meet operational requirements from operators when the planned projects are completed.

<u>Arctic II</u>
The reactivation of Arctic II is to be completed by the end of Q1 2011. The hull special survey has partly been completed with only minor findings. The results show only minimal steel corrosion and well below any limit for steel renewal.

The planned work on Arctic II include:

- New and increased accommodation for 110 persons
- Increased variable deck load (VDL)
- New lifeboats to satisfy UK requirements and increased Persons on Board (POB)
- Increased deck area by approx. 500 m²
- Improved mud handling with respect to working environment and flexibility
- New draw-works

The reactivation project is managed by Wilhelmsen Marine Services (WMS), a subsidiary of Awilco AS, and the work will be undertaken at Gdansk Shiprepair Yard Remontowa SA in Poland. WMS has previously performed various rig and ship conversions at Remontowa and has extensive knowledge of the yard's facilities and competences. The yard is familiar with both Arctic II and Arctic IV, as special surveys were undertaken at Remontowa some 10 years ago.

According to the project plan the capital expenditure requirement for the reactivation project for Arctic II is estimated to USD 75 million.

<u>Arctic IV</u>
Arctic IV will undergo 5-year class survey after completion of the present bareboat charter but before the end of May 2011. The exact timing and location for the survey work will depend on market conditions; however, the current plan is to have Arctic IV ready for operation at the beginning of Q2 2011. The capital expenditure requirement for Arctic IV is estimated to be about USD 15 million.

Funding
The funding of the reactivation costs for Arctic II and class work costs for Arctic IV is to be financed through new equity of approximately USD 65-70 million and an existing working capital facility of USD 35 mill from Transocean. The Company is planning to seek listing on Oslo Stock Exchange in connection with the raising of new equity.

Market Outlook
There are approximately 17 semi submersible drilling rigs in the UK sector, two of these units are cold stacked. The active fleet is during the summer months and into the third quarter expected to see close to full utilisation.

Following the downturn in 2008 we saw very little market activity through 2009. During the first quarter this year we have seen a number of fixtures and dayrates of around USD 240,000 – 260,000. More important, requirements for 2011 are emerging. The UK is dominated by an increasing number of smaller oil companies. These smaller companies are to a greater extent dependant on the price of oil in order to increase their E&P spending. We believe a high and stable oil price is a factor that will contribute to increased activity in the UK sector.

The planned class survey and reactivation programme to our units Arctic II and IV will position the company to benefit from this increased activity level.

Oslo, 18 May, 2010

The Board of Directors of Awilco Drilling Limited

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Company background
Awilco Drilling was incorporated in December 2009. Awilco Drilling owns two semi submersible drilling rigs; Arctic II built in 1982 and Arctic IV built in 1983 and upgraded in 1999.

Awilco Drilling was listed on the Norwegian OTC list in January 2010. Awilco Drilling has its headquarter in Aberdeen, UK.

The total number of outstanding shares of Awilco Drilling at the date of this report is 11 000 000.

www.awilcodrilling.com

Forward Looking Statements
This Operating and Financial Review contains certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are sometimes, but not always, identified by such phrases as “will”, “expects”, “is expected to”, “should”, “may”, “is likely to”, “intends” and “believes”. These forward-looking statements reflect current views with respect to future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. These statements are based on various assumptions, many of which are based, in turn, upon further assumptions, including Awilco Drilling’s examination of historical operating trends. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including the competitive nature of the offshore drilling industry, oil and gas prices, technological developments, government regulations, changes in economical conditions or political events, inability of the Company to obtain financing on favourable terms, changes of the spending plan of our customers, changes in the Company’s operating expenses including crew wages, insurance, dry-docking, repairs and maintenance, failure of shipyards to comply with delivery schedules on a timely basis and other important factors mentioned from time to time in our reports.

Condensed statement of comprehensive income

in USD thousands, except earnings per share

	From date of incorporation (30 December 2009), to 31st March 2010 (unaudited)
Contract revenue	13 860
Reimbursables	0
Other revenue	0
	13 860
Rig operating expenses	692
Reimbursables	0
General and administrative expenses	641
Depreciation	2 673
	4 006
Operating profit/ (loss)	9 854
Interest income	8
Interest expense	(3 053)
Other financial items	10
Net financial items	(3 035)
Profit before tax	6 819
Tax benefit/ (expense)	(1 909)
Net profit/ (loss)	4 910
Other comprehensive income	0
Total comprehensive income/(loss)	4 910
Attributable to minority interests	0
Attributable to shareholders of the parent	4 910
Basic and diluted earnings per share	0,52

Condensed statement of financial position

in USD thousands

	31.03.2010 (unaudited)
Rigs, machinery and equipment	198 919
Other non-current assets	0
	198 919
Trade and other receivables	1 116
Prepayments and accruals	326
Cash and cash equivalents	9 353
	10 796
Total assets	209 715
Paid in capital	47 999
Other equity	4 910
Revaluation reserves	0
Minority interests	0
	52 909
Deferred tax liability	1 909
Long-term interest-bearing debt	130 062
Other non-current liabilities	0
	131 971
Current portion of long-term debt	24 023
Trade and other creditors	318
Accruals and provisions	493
	24 834
Total equity and liabilities	209 715

Condensed statement of changes in equity for the period from 30 December 2009 (incorporation date) to 31 March 2010

in USD thousands

	Paid-in-equity	Translation differences	Other equity (retained earnings)	Total equity
Equity at incorporation of the company (30.12.2009)	0	-	-	0
Equity issue at 14 January 2010	50 000	-	-	50 000
Equity issue costs	(1 250)	-	-	(1 250)
Stamp duty tax	(751)	-	-	(751)
Total comprehensive income for the period	-	-	4 910	4 910
Balance as at 31 march 2010	47 999	0	4 910	52 909

Condensed statement of cash flow for the period

	From date of incorporation (30 December 2009), to 31st March 2010 (unaudited)
Cash flow from operating activities	
Profit before tax	6 819
Depreciation	2 673
Interest cost	3 053
(Increase)/decrease in trade and other receivables	(1 116)
(Increase)/decrease in stock	(147)
(Increase)/decrease in prepayment and accruals	(179)
Increase/(decrease) in trade and other payables	305
Increase/(decrease) in provisions and accruals	506
Intrerests paid	(3 053)
Net cash flow from operating activities	8 861
Cash flow from investing activities	
Purchase of property, plant and equipment	(201 592)
Proceeds from sale of property, plant and equipment	0
Net cash flow from investing activities	(201 592)
Cash flow from financing activities	
Proceeds from issue of share capital	50 000
Equity issue costs	(2 001)
Issue of loans	162 120
Repayment of loans	(8 035)
Net cash flow from financing activities	202 084
Net increase/(decrease) in cash and cash equivalents	9 353
Cash and cash equivalents at beginning of the period	0
Exchange rate effects	0
Cash and cash equivalents at the end of the period	9 353

Notes

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation
These interim condensed financial statements have been prepared in accordance with IAS 34 "Interim financial reporting". The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Awilco Drilling Ltd 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 parent 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 the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in USD, which is the Company's functional currency and presentation currency. All subsidiaries have USD 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.

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. The related investment is depreciated over the firm contract period. In cases where the fee covers specific operating expenses at the start up of the contract the fees are recognized in the same period as the expenses.

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 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 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. Components of fixed assets with different economic useful lives are depreciated over their respective useful lives.

Cash and cash equivalents
Cash represents cash on hand and deposits at bank that are repayable on demand. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or fewer and which are subject to an insignificant risk of change in value.

Accounts receivable
Accounts receivables are carried at amortized cost. The interest element is disregarded if it is insignificant. Should there be objective evidence of a fall in value, the difference between the carrying amount and the present value of future cash flows is recognized as a loss, discounted by the receivable amount's effective interest rate.

Share capital
Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are recognized as a reduction of equity, net of tax, from the proceeds.

Long-term interest bearing debt
All borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method. First year installment of long-term debt are classified as current liability.

Tax
The tax expense consists of the tax payable and changes in deferred tax. Deferred tax is calculated at the nominal income tax rate of net temporary differences existing between accounting and tax values, and any carry forward losses for tax purposes at year-end. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Segment information
The Company is only operating rigs in the mid water segment. The potential market for the rigs will be the international drilling market (i.e. all over the world) and will be exposed to the same risks and returns wherever the rigs are employed. As the rigs are managed as one business segment, the Company has only one reportable segment.

Earnings per share
Basic earnings per share ("Basic EPS") are calculated as net profit or loss for the period by the weighted average number of shares outstanding during the period.

Estimates
The preparation of financial statements in accordance with IFRS requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenue, expenses, assets and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Rigs and equipment

in USD thousands, except per share data

	Semi submersible drilling rigs and spare parts	Other fixtures and equipment	Total
Acquistion cost per opening balance	-	-	0
Acquisition of fixed assets	201 575	17	201 592
Disposal of fixed assets	-	-	0
Acquisition cost at ending balance	201 575	17	201 592
Accumulated depreciation per opening balance	-	-	0
Depreciation	(2 673)	-	(2 673)
Accumulated depreciation per ending balance	(2 673)	0	(2 673)
Net carrying amount at end of period	198 902	17	198 919
Estimated remaining useful life	15 years	3-10 years	
Depreciation rates	6,7 %	10% - 33%	
Depreciation method	Straight line	Straight line	

Debt and financing

In connection with the acquisition of the rigs from Transocean, the Company was granted a five year Seller's Credit from Transocean of USD 165 million. The borrowings are secured by first priority mortgages on the drilling rigs. The interest rate is 9%, 15 years profile / balloon after five years. Under the bareboat agreement for Arctic IV Transocean retains 80% of the income as repayment of the borrowings (instalments and interest cost).

	Awilco Arctic II Ltd	Awilco Arcitc IV Ltd	Total
Sellers credit at time of consummation of transaction	82 500	82 500	165 000
Installment from the conditional payment (see (1) below)	0	(2 880)	(2 880)
Repayment of debt	(1 375)	(6 660)	(8 035)
Total debt to Transocean per end of accounting period	81 125	72 960	154 085
Current portion of long term debt	4 125	19 898	24 023
Long term debt to Transocean per end of period	77 000	53 062	130 062
	81 125	72 960	154 085

(1) Conditional payment;
Subject to specific closing requirements in the agreements with Transocean for the acquisition of Arctic IV, which is on bare boat charter with the Seller, the Company received "conditional payment" for a period before the transaction was consummated. The conditional payment from Transocean of MUSD 3,6 was recorded as an adjustment to the cost price of the rig. The payment of 80% of the conditional payment was repaid to the Seller as instalment on the sellers credit - thus recorded as downward regulation of the original sellers credit of MUSD 165

Working Capital Loan Agreement

Awilco Drilling has entered into an agreement with Transocean for a three year Working Capital facility of USD 35 million, and the funds will be available for draw down over a period of 18 months, including 14 July 2011. The Loans are specified for the purpose of providing funds for working capital and/or capital expenditure for Arctic II and IV, mainly (80 %) for reactivation. The borrowings will be secured by second priority mortgages on the drilling rigs. The interest rate is 10 %.

Related party transactions
in USD thousands

In the normal course of its business, Awilco Drilling enters into a number of transactions with AWILHELMSEN, which is a major shareholder through its wholly owned subsidiary Awilco Drilling AS.

Transactions with AWILHELMSEN are specified as follows:

	31.03.2010
Sales	0
Purchases	244
Receivables	0
Payables	(244)

Segment information

The Company owns the semi submersible rigs Arctic II which is laid up, and Arctic IV which operates on a bare boat charter with Transocean on the UK continental shelf.

The Company's business activity are not organised on the basis of different products or services, or different geographical areas of operations. The Company considers the market for its mobile offshore drilling units as one market, and also considers the world market as one market - and do not consider the various geographical markets to have different operational or financial risk. The operation of the rigs are regularly reviewed in order to assess performance and make decisions about allocation of capital and other resources. The rigs are managed as one segment as the potential customers and drilling services provided are similar in nature.

Consequently, under the current nature of business the Company do not provide segment information.

Subsequent events

Arctic II was in April mobilised from Scotland to Poland. The Company is presently working together with Gdansk Shiprepair Yard Remontowa to define the Scope of Work for the reactivation of Arctic II.

Share capital
As of 31 March 2010 total outstanding shares in the Company was 11.000.000 with a par value per share of USD 0,00001.

	Shares	Par value per share	Share capital	Share premium reserve	Total paid-in-capital
Share capital per 31 March 2010	11 000 000	0,00001	0	50 000	50 000
Basic/diluted average number of shares	9 444 444				

The major shareholders can be specified as follows;

	Shares	Ownership
Awilco Drilling AS	5 610 000	51,00 %
Deutsche Bank AG, London	1 400 000	12,73 %
Odin Offshore	600 000	5,45 %
Kassen AS	433 000	3,94 %
ADP Services Custodian	402 000	3,65 %
Skagen Kon Tiki	342 666	3,12 %
Euroclear Bank SA	333 000	3,03 %
Regni AS	201 000	1,83 %
Viola AS	201 000	1,83 %
Mike Mullen	153 334	1,39 %
Home Capital	151 000	1,37 %
Arctic Securities	150 000	1,36 %
Other shareholders	1 023 000	9,30 %
	11 000 000	100,00 %

Pro forma opening balance sheet

Awilco Drilling Limited and the wholly owned subsidiaries, Awilco Arctic II Limited and Awilco Arctic IV Limited, were incorporated late December 2009 for the purpose of acquiring the rigs Arctic II and Arctic IV from Transocean. The pro forma opening balance have been prepared on a consolidated level for the purpose of presenting the balance sheet after the transaction with Tranocean is consummated and the equity issue is completed. The transaction is considered as an acquisition of assets, and not an acquisition of a business, thus no consolidated pro forma profit and loss statement has been prepared. Also, there did not exist any relevant financial statements for the rigs at the time of acquisition.

All figures in USD 1000	Pro forma opening balance
Rig	196 200
Inventory / spare parts	5 200
Net working capital	8 719
Total assets	$210 119
Paid in capital	50 000
Other equity	(2 001)
	47 999
Debt Transocean	162 120
Total equity and debt	$210 119

Explanatory notes to the pro forma opening balance;
* Equity issue of MUSD 50, costs related to the equity issue amounts to MUSD 1,25 and stamp duty tax of MUSD 0,75.
*No deferred tax asset is recognised on the equity issue costs.
* Acquisition costs of rigs and spare parts is MUSD 205 in total. Acquisition cost price is adjusted with the "conditional payment" of MUSD 3,6 (see below).
* Debt to Transocean is MUSD 165 in total for the two rigs. Total debt is adjusted with the "conditional payment" of MUSD 2,8 (see below).
* Net working capital of MUSD 10 subtracted by the equity issue costs of MUSD 2.
* Subject to specific closing requirements in the agreements with Transocean for the acquisition of Arctic IV, which is on bare boat charter with the Seller, the Company received "conditional payment" for a period before the transaction was consummated. The conditional payment from Transocean of MUSD 3,6 was recorded as an adjustment to the cost price of the rig. The payment of 80% of the conditional payment was repaid to the Seller as instalment on the sellers credit - thus recorded as downward regulation of the original sellers credit of MUSD 165.