

CONSOLIDATED FINANCIAL STATEMENTS

NORTHERN DRILLING LTD.

YEAR ENDED DECEMBER 31, 2018

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Northern Drilling Ltd. Board of Directors Report

Nature of the Business

Northern Drilling Ltd., or the Company, was incorporated under the laws of Bermuda on March 2, 2017, with its principal executive offices located in Hamilton, Bermuda. The Company is an international offshore drilling contractor to the oil and gas industry, with the ambition of acquiring and operating modern drilling assets, and is expected to be primarily engaged in offshore contract drilling in benign and harsh environments worldwide, including ultra-deep water environments. In October 2017, the Company's shares were listed on Oslo Axess under the trading symbol "NODL". In July 2018, the Company's shares were transferred from this listing to the Oslo Stock Exchange and continued to trade under the same symbol.

As of the date of this report, the Company owns one semi-submersible rig, *West Mira*, that was delivered to the Company in December 2018 and is currently being mobilized for the commencement of its contract with Wintershall Norge AS in the third quarter of 2019 and one semi-submersible rig currently under construction, *West Bollsta* (formerly *Bollsta Dolphin*), which is expected to be delivered to the Company in the second quarter of 2019 and commence operations under a contract with Lundin Norway AS in the second quarter of 2020. The Company also owns two drillships under construction which are expected to be delivered by early 2021. On April 30, 2019 the Company exercised the option to acquire a third drillship, currently known as *Cobalt Explorer*, and delivery is expected in early 2021.

The Working Environment

At the end of 2018, the Company and its subsidiaries, or the Group, had one employee being the Chief Executive Officer who was appointed in December 2018. There have not been any serious injuries or accidents in the current year and total absence due to sickness has been minimal during the accounting year. The Company's Board of Directors currently consists of four men.

Gender Equality

The Company is an equal opportunities employer and will not discriminate against any employee or job applicant because of race, color, religion, national origin, sex, physical or mental disability, or age.

Impact on the External Environment

The Company has an objective that all activities that are performed are to be carried out so as to minimize negative impacts to people and the environment. Given the nature of the operations there is currently minimal corporate impact on the environment.

Going Concern Assumption

These financial statements are prepared under the going concern assumption. The Company is dependent on loans and/or equity issuances to finance the remaining obligations under its newbuilding contracts and working capital, which raises substantial doubt about the Company's ability to continue as a going concern. The Company, in coordination with an affiliate of its principal shareholder, is in advanced discussions with established lenders and the Board has approved current plans to increase the Company's long-term debt to secure funding needs. Given the Company's track record of raising equity and debt financing, the Company believes it will be able to meet its anticipated liquidity requirements for at least twelve months as of the date of these financial statements. There is no assurance that the Company will be able to execute this financing.

Assessment of Results and Cash Flow Items

The Company did not have any operating revenues due to the fact that the Company does not currently have any operating drilling units. Operating expenses in the year comprise primarily of legal and professional fees and general administrative expenses.

The Company used cash in operating activities of \$1.8 million primarily due to the unfavorable change in operating assets and liabilities.

The Company's investing activities in the year primarily comprised the \$180.0 million paid in May 2018 for the first instalments on the two drillship newbuildings and the \$182.5 million final instalment paid on the delivery of *West Mira* in December 2018. The Company also paid \$14.4 million in respect of mobilization costs for *West Mira*, newbuilding supervision fees of \$12.2 million and \$13.0 million for the extension of the option and other costs in respect of *Cobalt Explorer*.

The Company generated cash from financing activities of \$442.8 million. In May 2018, the Company completed a private placement of 29,805,883 new shares, at a subscription price of NOK 68.00 per share. Gross proceeds of NOK 2,026,800,000 (\$248.8 million) were raised and the Company incurred fees of \$3.7 million. In November 2018, the Company entered into a \$200.0 million term loan facility with a number of banks and the full loan amount was drawn in December 2018 upon the delivery of *West Mira* from the yard. The Company incurred fees of \$2.3 million in connection with this term loan facility.

At December 31, 2018, the Company had cash and cash equivalents of \$122.8 million.

Risk Assessment

The Company was established in March 2017 and has a limited operating history, which makes it difficult to assess the outlook for future revenues and other operating results. The Company's activities are subject to significant risks and uncertainties that can have an adverse effect on the Company's business, financial condition, results of operations and cash flow. Such risks and uncertainties include, among others, failure to take delivery of the current newbuildings, decreasing market value of the rigs, failure to acquire future assets, developing into an operating business and securing additional funding. The Company also needs to comply with certain financial covenants on a consolidated basis under the terms of its existing term loan facility and failure to do so would require the outstanding loan to be repaid. Further, the success and growth of the Company's business is depending on the level of activity in the offshore oil and gas industry generally and the drilling industry specifically. Both such industries are highly competitive, with intense price competition. Further, the Company has a limited number of rigs which makes it vulnerable in the event of a loss of revenue of any such rigs and should the Company not be able to obtain favorable contracts for its rigs.

Prospects for the Future

After a year of continual increase in oil price, dayrates and optimism, the last months of 2018 resulted a significant decline in oil price which did not alter the underlying fundamentals of the industry. The outlook for offshore drilling remains relatively unchanged and will continue on its recovery. There has been a rise in enquiries from E&P companies with more interest in opportunistic exploration drilling and increases in the scope of tenders. The market continues to tighten through scrapping older units reducing the oversupply (approximately 121 floaters scrapped since 2014) coupled with multiple consolidations creating less competitors and less aggressive bidding.

Contracting activity is indicating a clear bifurcation between older units and a preference for modern high spec rigs. Certain legacy rigs are able to secure plug and abandonment work and short term campaigns, while the modern rigs are securing exploration and complex development projects with greater returns. This is most pronounced in the harsh environment market where Tier 1 rigs are near full utilization with significantly improved contract economics, while almost half of the rigs being 35 years or older remain idle. With continued increase in utilization of 7th generation drillships, the Company is expecting a similar strengthening in contract economics for this asset class in the next 12-24 months.

The Company takes comfort in this outlook with its new modern high spec fleet being more preferred by customers, its harsh environment rigs being fully contracted and having flexibility in delivery for its two ultra-deep water drillships. The Company is well positioned to deliver shareholder value as the recovery continues and will continue to evaluate opportunistic growth in line with our strategy.

Corporate Governance Report

Section 1 "Implementation and reporting on corporate governance": As a company incorporated in Bermuda, the Company is subject to Bermuda laws and regulations. Additionally, as a consequence of being listed on the Oslo Stock Exchange, the Company must comply with section 3-3b) of the Norwegian Accounting Act and certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance, or the Code of Practice, on a "comply or explain" basis. Further, the Company has in place a Memorandum of Association and Bye-Laws, which set forth certain governance provisions. The Norwegian Accounting Act is found on www.lovdata.no and the Code of Practice is found on www.nues.no.

The Company's corporate governance principles are based on the Code of Practice. However, since the Company is governed by Bermuda laws and regulations, and given the nature of the Group's activities, certain practices are applied which deviate from some of the recommendations of the Code of Practice.

In the following sections, the Company's corporate governance policies and procedures will be explained, with reference to the principles of corporate governance as set out in the sections identified in the Code of Practice. This summary does not purport to be complete and is qualified in its entirety by the Company's Memorandum of Association and Bye-Laws, Bermuda and Norwegian law.

Section 2 "Business": The Company is an international offshore drilling contractor to the oil and gas industry, with the ambition of acquiring and operating modern drilling assets. The Company has initially targeted the harsh environment and benign ultra-deep water sectors and will continue to dedicate resources for further growth within these segments. The Company has an opportunistic growth strategy and will carefully review opportunities for assets that can operate in shallower water depths.

In accordance with normal practice for Bermuda companies, the Company's Bye-Laws do not include a specific description of its business. According to the Memorandum of Association, the objects for which the Company was formed and incorporated are

unrestricted. As a Bermuda incorporated company, the Company has chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code of Practice.

Section 3 “Equity and dividends”: The Company’s equity capital is at a level appropriate for its objectives, strategy, and risk profile. In accordance with Bermuda law, the Board of Directors is authorized to permit its own shares to be held as treasury shares, and to issue any un-issued shares within the limits of the authorized share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code of Practice. While the Company aims at providing competitive long-term return on the investments of its shareholders, it does not currently have a formal dividend policy. Further, as the Group has secured commercial contracts but yet to commence drilling operations or produce stable cash flow, dividends will not be considered in the near term.

Section 4 “Equal treatment of shareholders and transaction with close associates”: In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorized capital within which the Board of Directors may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time-limited or purpose-limited authorizations to increase the share capital. The Board of Directors will propose to the shareholders that they consider and, if necessary, resolve to increase the authorized capital of the Company that will allow the Board of Directors some flexibility to increase the number of issued shares without further shareholder approval. As such, the Company may deviate from the recommendation in the Code of Practice section 4 to limit such authorization to 10% of the issued share capital. Any increase of the authorized capital is, however, subject to approval by the shareholders by simple majority of the votes cast.

Section 5 “Freely negotiable shares”: Neither the Company’s Bye-Laws nor Bermuda company laws include regulation of preemptive rights for shareholders in connection with share capital increases. The Bye-Laws provide for the Board of Directors in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price. The Company is subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board of Directors will, in connection with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified. The Board of Directors will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code of Practice section 5. The Board of Directors may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

With limited exceptions, all shares in the Company are freely negotiable, and the Bye-Laws contain no form of restriction on the negotiability of the shares, or on voting rights.

Section 6 “General meetings”: The Company’s Bye-Laws require five days’ notice for a meeting of the shareholders, rather than 21 days. Given the Company’s current commercial position, this shorter period is considered to be sufficient for shareholders to consider the matters being voted on.

The Company strives to maintain an open and fair dialogue with its shareholders through the publishing of information, presentations and responding to questions from shareholders. The Company has not, however, taken specific measures for obtaining shareholders’ proposals for matters to be proposed to the meeting of shareholders. In the view of the Company, the current shareholder structure, the shareholder representation, and the policy to communicate with shareholders is sufficient to ensure that shareholders may communicate their points of view to the executive management and the Board.

The Board of Directors has not made arrangements for an independent Chairman for each annual meeting of the shareholders as the Company believes that the Chairman of the Board can act independently and in the interests of shareholders. Further, the Company does not believe that it is necessary for all directors and the auditor to be physically present at the meeting of the shareholders.

As a Bermuda registered company, the general meetings of the Company can be conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings and not through their own physical presence. This is in line with the general practice of other non-Norwegian companies listed on the Oslo Stock Exchange. The Company complies in all other respects with the recommendations for general meetings as set out in of the Code of Practice.

Section 7 “Nomination committee”: As permitted under Bermuda law, the Company will not have a nomination committee as recommended by the Code of Practice section 7. In lieu of a nomination committee comprised of independent directors, the Board of Directors is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees.

Section 8 “Corporate assembly and board of directors”: The Company’s Board of Director’s shall consist of a minimum of two members, and shall at all times comprise a majority of directors who are not resident in the United Kingdom. The current composition of the Company’s Board of Directors is in compliance with the independence requirements of the Code of Practice. The Company’s shareholders may determine the minimum and maximum number of directors by the vote of shareholders representing a majority of the total number of votes which may be cast at any annual or extraordinary general meeting, or by written resolution. Each director is elected at an annual general meeting of shareholders for a term commencing upon election and expiring on the date of the next scheduled annual general meeting of shareholders or until his or her successor is appointed. The Bye-Laws do not permit cumulative voting for directors.

The Board of Directors elects its Chairman, rather than the shareholders. Given the Company’s current development status the Company believe that this is satisfactory and that the Chairman can ensure that the Board is effective in its tasks of setting and implementing the Company’s direction and strategy.

As a Bermuda registered company with a limited number of employees and contractors, the Company does not have a corporate assembly. Given the size of the Company this is not believed to be necessary.

Section 9 “The work of the board of directors”: The Board is ultimately responsible for the management of the Company and for supervising its day-to-day management. The entire Board of Directors was responsible for any decisions otherwise subject to review and preparation by an audit committee up to February 2019 at which time the Company appointed Mr. Gunnar Eliassen as a Director and Audit Committee Chair.

Section 10 “Risk management and internal control”: The Board shall ensure that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company’s activities. Further, the Board in conjunction with the executive management evaluates the risk inherent in the operations of the Company. Principal among these risks currently are the ability to secure take-out financing for the newbuildings under construction and to secure employment contracts on reasonable terms for the same, risks associated with the construction of the rigs (including risks associated with the design of the vessels, counterparty risks and the financial strengths of the yards), risks associated with the capacity of the Group to obtain future financing on reasonable terms, risks associated with the ability of the Company to retain key staff, the general drilling market conditions and trends and the charter market conditions for the drilling rigs. In addition, the following risks inherent in the business of the Group are monitored: Risk associated with changes in the charter market, exchange rates, increased competition, the political, regulatory and tax environment of the Group, counterparty performance and risks associated with potential growth of the business. The Board ensures that the Company has reliable internal controls and systems for risk management through this annual assessment.

The Board has the responsibility to evaluate risk exposure and internal control on an annual basis. The Board is also presented financial statements on a quarterly basis, which are reviewed with the executive management. The Company’s annual accounts provide information on internal control and risk management systems as they relate to its financial reporting.

Section 11 “Remuneration of the board of directors”: The compensation of the Company’s Board of Directors is determined on an annual basis by the shareholders of the Company at the annual shareholders meeting. Board remuneration is to reflect the Board’s responsibility, expertise, time spent, and the complexity of the business. Board members may choose to be paid in shares instead of cash. Remuneration does not depend on the Company’s financial performance and the Company does not grant share options to the board members. There is no obligation to present the guidelines for remuneration of the Board of Directors to the shareholders of a Bermuda incorporated company. The Company therefore deviates from this part of section 11 of the Code of Practice. There are no service contracts between the Company and any of its directors providing for benefits upon termination of their service.

Section 12 “Remuneration of executive personnel”: The remuneration of the Chief Executive Officer is determined by the Board of Directors. The process aims to link the performance related element of the remuneration (options and bonus) to value creation for shareholders. The current option program has been approved by the Board. There is no obligation to present the guidelines for remuneration of the executive management to the shareholders of a Bermuda incorporated company. In the view of the Company there is sufficient transparency and simplicity in the remuneration structure and information provided through the annual report and financial statements are sufficient to keep shareholders adequately informed. The Company therefore deviates from this part of section 12 of the Code of Practice.

Section 13 “Information and communications”: The Company will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with the legal requirements and good corporate governance practices. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders and the information is provided in English.

The Company also provides information to the market through financial reports. Events of importance are made available to the stock exchange market through notification to the Oslo Stock Exchange in accordance with the Stock Exchange regulations. Stock Exchange announcements are also made available on the Company's website.

Section 14 "Take-overs": The Company has not yet established guiding principles for how it will act in the event of a take-over bid. Further, Hemen Holding Ltd. (including its affiliates, "Hemen") has indicated that it will retain its material holding of shares in the Company. Although deviation from the Code of Practice, the Board has thus far not deemed it appropriate to adopt specific guidelines for takeover situations for as long as the ownership constellation with Hemen remains.

Section 15 "Auditors": The auditor shall annually present its assessment of accounting risk and audit plan to the Board. The Board of Directors has established procedures for regular contact with the external auditor through the management and the Audit Committee. This contact will include, but is not limited to, the auditor presenting the audit plan for the coming year, contributing to meetings concerning the Company's annual financial statements, presentation of audit findings, including changes in accounting principles, significant estimates and judgments reflected in the annual financial statements, any areas of disagreement with management and identified internal control process improvement opportunities.

Annually, the auditor will present to the Audit Committee a review of the Company's internal control procedures, and the Audit Committee holds a meeting with the auditor at least once a year at which no member of the executive management is present. At present, the Company believes this is sufficient given its size and enables the auditor to communicate with members of the Board.

The Board of Directors have established guidelines in respect of the use of the auditor by the Company's executive management for services other than the audit. The Board of Directors shall report the remuneration paid to the auditor at the AGM, including details of the fee paid for audit work and any fees paid for other specific assignments.

The external auditor has provided the Board with written confirmation of its independence.

Northern Drilling Ltd.
Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the year ended December 31, 2018 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

Board of Directors of Northern Drilling Ltd.
April 30, 2019

/s/ Gary Casswell
Gary Casswell (Chairman)

/s/ Keesjan Cordia
Keesjan Cordia

/s/ Gunnar Eliassen
Gunnar Eliassen

/s/ Jon Olav Østhus
Jon Olav Østhus

To the General Meeting of Northern Drilling Ltd.

Independent Auditor's Report

Opinion

We have audited the consolidated financial statements of Northern Drilling Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018 and the consolidated statement of operations, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018, and its financial performance and its cash flows for the for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group as required by the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Substantial Doubt related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group is dependent on loans and/or equity issuances to finance the remaining obligations under its newbuilding contracts and working capital. Management's plans in regard to these matters are also described in Note 2. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, raise substantial doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Substantial Doubt related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>Impairment Assessment for Rigs Under Construction</i></p> <p>We refer to note 2 (Accounting policies) and note 6 (Newbuildings) where management explain their impairment process.</p> <p>The Group has two drillships under construction, one semi-submersible rig under construction and one semi-submersible rig under mobilization. At the balance sheet date, the combined carrying amount of the newbuildings is</p> <p>\$779.8 million, which represent approximately 85 % of the balance sheet.</p> <p>Even though the drillships and rigs were still under construction or mobilization, management was required to consider whether there were indications of impairment. Following management's assessment, no impairment indicators were identified for newbuildings. Based on this, no impairment test was performed and no impairment charge was recognized.</p> <p>We focused on this area because it represents the largest item on the balance sheet and the inherent need for judgment in arriving at the conclusion of whether indicators of impairment were present. Due to the relative size of the items on the balance sheet, the potential impact of any fall in value of the newbuildings could be of significant consequence.</p>	<p>We discussed with management to understand and evaluate the process by which management arrived at their conclusion of no impairment indicators. Management's process seemed appropriate.</p> <p>We evaluated and challenged management's assessment and conclusion by comparing the knowledge we as auditors possess to the knowledge management has applied to evaluation of impairment indicators. Impairment indicators assessed included market capitalization compared to net asset value, development in values for drillships and harsh-environment semi-submersible drilling rigs, drillship and rig valuations compared to purchase price and other considerations. We assessed management's accounting policy against US GAAP and satisfied ourselves through obtaining explanations from management that the specific requirements of the standards, in particular ASC 360 - Impairment of assets, were met.</p> <p>Management compiled broker valuation certificates for the rigs and drillships. We satisfied ourselves that the external brokers had both the objectivity and the competence to provide the estimate. In order to assess this, we corroborated that under the terms of the bank lending facilities, specific brokers are identified as being approved for use, for purposes of minimum value clause covenant reporting. Management used brokers from this approved list. We interviewed the brokers used by management to understand how the estimates for fair value were compiled.</p> <p>We have read note 6 - Newbuildings, and assessed this to be in line with the requirements.</p> <p>No matters of consequence arose from the procedures above.</p>

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Oslo, April 30, 2019

PricewaterhouseCoopers AS

/s/ Rita Granlund

Rita Granlund

State Authorised Public Accountant

Northern Drilling Ltd.**Consolidated Statements of Operations for the year ended December 31, 2018 and the period from March 2, 2017 to December 31, 2017***(in thousands of \$, except loss per share)*

	2018	From March 2, 2017 to December 31, 2017
Total operating revenues	—	—
Operating expenses		
Administrative expenses	2,292	822
Total operating expenses	2,292	822
Net operating loss	(2,292)	(822)
Other income (expenses)		
Bank interest income	2,353	725
Other financial expenses	(128)	(4,997)
Total other expenses	2,225	(4,272)
Net loss	(67)	(5,094)
Basic and diluted loss per share (\$)	0.00	(0.11)

See accompanying Notes to the Consolidated Financial Statements.

Northern Drilling Ltd.
Consolidated Balance Sheets as of December 31, 2018 and 2017
(in thousands of \$)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	122,832	84,090
Related party receivables	2,251	—
Other current assets	345	57
Total current assets	125,428	84,147
Long term assets		
Newbuildings	779,761	185,170
Newbuilding prepayment	13,015	—
Payment on account of newbuilding acquisition	—	200,000
Total assets	918,204	469,317
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long term debt	10,000	—
Other current liabilities	1,392	290
Related party payables	5,747	751
Total current liabilities	17,139	1,041
Long term liabilities		
Long term debt	187,725	—
Total liabilities	204,864	1,041
Commitments and contingencies (note 13)		
Equity		
Share capital (2018: 107,555,983 shares issued and outstanding (2017: 77,750,100), par value \$1.00 per share)	107,556	77,750
Additional paid in capital	610,945	395,620
Retained deficit	(5,161)	(5,094)
Total equity	713,340	468,276
Total liabilities and equity	918,204	469,317

See accompanying Notes to the Consolidated Financial Statements.

Northern Drilling Ltd.

Consolidated Statements of Cash Flows for the year ended December 31, 2018 and the period from March 2, 2017 to December 31, 2017

(in thousands of \$)

	2018	From March 2, 2017 to December 31, 2017
Net loss	(67)	(5,094)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities;		
Amortization of deferred charges	60	—
Stock option expense	9	—
Unrealized foreign exchange loss	56	—
Non-cash, share-based loan fee paid to related party	—	5,000
Change in operating assets and liabilities;		
Other current assets	(344)	(57)
Other current liabilities	371	121
Related party payables	(1,850)	134
Net cash (used in) provided by operating activities	(1,765)	104
Investing activities		
Additions to newbuildings	(389,265)	(2,053)
Additions to newbuilding prepayment	(13,015)	—
Payment on account of newbuilding acquisition	—	(200,000)
Net cash used in investing activities	(402,280)	(202,053)
Financing activities		
Net proceeds from share issuances	245,122	358,539
Proceeds from long term debt	200,000	—
Debt fees paid	(2,335)	—
Repayment of loan to related party	—	(72,500)
Net cash provided by financing activities	442,787	286,039
Net increase in cash and cash equivalents	38,742	84,090
Cash and cash equivalents at start of the period	84,090	—
Cash and cash equivalents at end of the period	122,832	84,090
Supplemental disclosure of cash information:		
Interest paid, net of interest capitalized	—	—
Income taxes paid	—	—

Details of non-cash investing and financing activities are given in Note 14.

See accompanying Notes to the Consolidated Financial Statements.

Northern Drilling Ltd.

Consolidated Statements of Changes in Equity for the year ended December 31, 2018 and the period from March 2, 2017 to December 31, 2017

(in thousands of \$, except number of shares)

	2018	From March 2, 2017 to December 31, 2017
Number of shares outstanding		
Balance at start of the period	77,750,100	—
Shares issued	29,805,833	77,750,100
Balance at end of the period	107,555,933	77,750,100
Share capital		
Balance at start of the period	77,750	—
Shares issued	29,806	77,750
Balance at end of the period	107,556	77,750
Additional paid in capital		
Balance at start of the period	395,620	—
Shares issued	215,316	395,620
Stock option expense	9	—
Balance at end of the period	610,945	395,620
Retained deficit		
Balance at start of the period	(5,094)	—
Loss in the period	(67)	(5,094)
Balance at end of the period	(5,161)	(5,094)
Total equity	713,340	468,276

See accompanying Notes to the Consolidated Financial Statements.

Northern Drilling Ltd.
Notes to the Consolidated Financial Statements

1. GENERAL

Northern Drilling Ltd, or the Company, was incorporated under the laws of Bermuda on March 2, 2017, with its principal executive office located in Hamilton, Bermuda, for the purpose of ownership of offshore drilling rigs. The Company is expected to be primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide, including but not limited to ultra-deep water environments.

The Company's activities since incorporation have consisted principally of acquiring four drilling units under construction, an option to acquire a drilling unit, listing its shares on Oslo Axess and then the Oslo Stock Exchange and raising capital. In June 2018, the Company announced that its harsh environment rig, *West Mira*, had secured a contract for six wells with Wintershall Norge AS (the "Wintershall Contract") for the Nova field. The *West Mira* was delivered from the shipyard in December 2018 and began mobilizing to Norway for contract commencement expected in the third quarter of 2019. The Wintershall Contract has been awarded to Seadrill Norway Operations Ltd., a subsidiary of a related party, Seadrill Ltd, who will operate the *West Mira* on the Company's behalf. As a result of Wintershall exercising front end options in the fourth quarter of 2018 and the then positive prospects of further options to potentially be exercised, the Company elected to take early delivery of *West Mira* from the shipyard in December 2018.

The Company also announced that it had entered into a Heads of Agreement with subsidiaries of Seadrill Ltd, for an operating agreement to cover commercial and technical services for *West Mira* under the Wintershall Contract.

The Company's activities are subject to significant risks and uncertainties that can have an adverse effect on the Company's business, financial condition, results of operations and cash flow. Such risks and uncertainties include, among others, failure to take delivery of the current newbuildings, decreasing market value of the rigs, failure to acquire future assets, developing into an operating business and securing additional funding. The Company also needs to comply with certain financial covenants on a consolidated basis under the terms of its existing term loan facility and failure to do so would require the outstanding loan to be repaid. Further, the success and growth of the Company's business is depending on the level of activity in the offshore oil and gas industry generally and the drilling industry specifically. Both such industries are highly competitive, with intense price competition. Further, the Company has a limited number of rigs which makes it vulnerable in the event of a loss of revenue of any such rigs and should the Company not be able to obtain favorable contracts for its rigs.

As of the date of this report, the Company owns one semi-submersible rig, *West Mira*, that was delivered to the Company in December 2018 and is currently being mobilized for the commencement of its contract with Wintershall Norge AS in the third quarter of 2019 and one semi-submersible rig currently under construction, *West Bollsta* (formerly *Bollsta Dolphin*), which is expected to be delivered to the Company in the second quarter of 2019 and commence operations under a contract with Lundin Norway AS, or Lundin, in the second quarter of 2020. The Company also owns two drillships under construction which are expected to be delivered by early 2021. On April 30, 2019 the Company exercised the option to acquire a third drillship, currently known as *Cobalt Explorer*, and delivery is expected in early 2021.

2. ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the assets and liabilities of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation. The preparation of the consolidated financial statements requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities. Actual results could differ from those estimates.

We evaluated all of our activity through April 30, 2019 being the date these financial statements were issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements.

Fair values

We have determined the estimated fair value amounts presented in these consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts that we could realize in a current market exchange.

Going Concern Assumption

These financial statements are prepared under the going concern assumption. The Company is dependent on loans and/or equity issuances to finance the remaining obligations under its newbuilding contracts and working capital, which raises substantial doubt about the Company's ability to continue as a going concern. The Company, in coordination with an affiliate of its principal shareholder, is in advanced discussions with established lenders and the Board has approved current plans to increase the Company's long-term debt to secure funding needs. Given the Company's track record of raising equity and debt financing, the Company believes it will be able to meet its anticipated liquidity requirements for at least twelve months as of the date of these financial statements. There is no assurance that the Company will be able to execute this financing.

Cash and cash equivalents

All demand and time deposits and highly liquid, low risk investments with original maturities of three months or less are considered equivalent to cash.

Deferred Charges

Loan costs, including debt arrangement fees, are capitalized and amortized on a straight-line basis over the term of the relevant loan. The straight line basis of amortization approximates the effective interest method. Amortization of loan costs is included in other financial expenses. The Company has recorded debt issuance costs (i.e. deferred charges) as a direct deduction from the carrying amount of the related debt.

Newbuildings

The carrying value of the drilling units under construction, or newbuildings, represents the accumulated costs at the balance sheet date. Cost components include payments of yard installments and variation orders, construction supervision costs, equipment, spare parts, capitalized interest, guarantee fees and costs related to first time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the newbuilding has been completed and it is ready for its intended use.

Capitalized interest

Interest expense is capitalized during construction of newbuildings based on accumulated expenditures for the applicable project at our current rate of borrowing. The amount of interest expense capitalized in an accounting period shall be determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rate used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

Newbuilding Prepayment

The Company had an option to acquire the newbuilding, *Cobalt Explorer*, and it was exercised on April 30, 2019. Costs in connection with this have been capitalized.

Impairment of long-lived assets

The carrying value of the Newbuildings is assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be appropriate. The Company first assesses recoverability of the carrying value of the asset by estimating the remaining costs of construction and the undiscounted future net cash flows expected to result from the asset, including eventual disposition. If the undiscounted future net cash flows are less than the carrying value of the asset, an impairment loss is recorded based on the difference between the carrying value and the fair value.

Related parties

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Share-based compensation

The Company accounts for share-based payments in accordance with ASC Topic 718 "Compensation – Stock Compensation", under which the fair value of issued stock options is expensed over the period in which the options vest.

Foreign currencies

The functional currency of the Company and all of its subsidiaries is the U.S. dollar as the majority of expenditures are denominated in U.S. dollars. The Company's reporting currency is also U.S. dollars. Assets and liabilities are translated into the functional currency at exchange rates existing at the date of the balance sheet. Such currency translation gains and losses are included in the Consolidated Statement of Operations. Transactions in currencies other than the functional currency are translated into the functional currency at the exchange rate at the transaction date.

Other comprehensive income

The Company has no other comprehensive income.

Earnings per share

Basic earnings per share is calculated based on the net income (loss) for the period divided by the weighted average number of shares outstanding for the period. The share options issued in November 2018 are potentially dilutive instruments when calculating diluted earnings per share.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle is that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. This update establishes a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The Company adopted this update as of January 1, 2018 and this did not have any impact on the consolidated financial statements for the year ended December 31, 2018 as the Company does not yet have any revenues.

In August 2016, the FASB issued ASU No. 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. It addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted. The adoption of these amendments did not have a material impact on the consolidated financial statements of the Company for the year ended December 31, 2018.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of cash flows (Topic 230): Restricted Cash". The new standard requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of these amendments did not have an impact on the consolidated financial statements of the Company for the year ended December 31, 2018.

In May 2017, the FASB issued ASU No. 2017-09 "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" to clarify and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. ASU 2017-09 was effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption was permitted. The adoption of ASU 2017-09 did not have a material impact on the consolidated financial statements of the Company for the year ended December 31, 2018.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company does not expect this standard to have a material impact on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-07, "Stock Compensation (Topic 718): Improvements to non-employee share-based payment accounting", which intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement". The update is intended to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the US GAAP information requirements that are most important to users of an entity's financial statements. The guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are in the process of evaluating the impact of this standard update on our Consolidated Financial Statements and related disclosures.

4. EARNINGS PER SHARE

The computation of basic earnings per share is based on the weighted average number of shares outstanding during the year and net income attributable to the Company. The impact of stock options issued in November 2018 using the treasury stock method was anti-dilutive in 2018 and 100,000 options were excluded from the denominator. The components of the numerator and the denominator in the calculation of basic and diluted earnings per share are as follows:

	2018	From March 2, 2017 to December 31, 2017
Numerator:		
Net loss (<i>in thousands of \$</i>)	67	5,094
Denominator:		
Weighted average number of ordinary shares (<i>in thousands</i>)	96,614	46,838

5. INCOME TAXES

Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until March 31, 2035.

Other Jurisdictions

The Company has subsidiaries, which were incorporated in the Marshall Islands and they are not subject to income tax. Certain of the Company's subsidiaries and branches in Norway and the USA are subject to income tax in their respective jurisdictions. The tax paid by subsidiaries and branches that are subject to income tax is not material.

The Company does not have any unrecognized tax benefits, material accrued interest or penalties relating to income taxes.

6. NEWBUILDINGS

Movements in the period from March 2, 2017 to December 31, 2018 may be summarized as follows:

(<i>in thousands of \$</i>)	2018	2017
Balance at beginning of period	185,170	—
Transfer from Payment on account of newbuilding acquisition	200,000	—
Installments paid	362,500	182,500
Newbuilding supervision fees and costs	16,744	2,670
Mobilization costs	14,399	—
Interest capitalized	948	—
Balance at end of period	779,761	185,170

In March 2017, a wholly-owned subsidiary of the Company and Hyundai Samho Heavy Industries Co Ltd, or HHI, entered into an agreement concerning the sale and purchase of a semi-submersible rig, *West Mira*, which was under construction at HHI and had previously been ordered and later cancelled by Seadrill Ltd, or Seadrill, a related party. The purchase price was \$365.0 million payable in two equal installments.

In March 2017, Seatankers Management entered into an option agreement with HHI to acquire *West Bollsta* for a purchase price of \$400.0 million payable in two equal installments. The first installment is payable upon exercise of the option and the second installment is payable upon delivery of *West Bollsta*. In September 2017, a wholly-owned subsidiary of the Company and Seatankers Management entered into an agreement whereby Seatankers Management agreed to either nominate a subsidiary of the Company as buyer to accept delivery of *West Bollsta* from HHI, subject to HHI's prior consent, or to exercise Seatankers Management's rights to purchase *West Bollsta* and when instructed to do so by a subsidiary of the Company to immediately sell *West Bollsta* to that subsidiary on back-to-back terms.

In December 2017, Seatankers Management, HHI and a wholly-owned subsidiary of the Company entered into a Novation Agreement relating to the option agreement entered into in March 2017 whereby all of the rights and obligations of Seatankers Management under this agreement were novated to a wholly-owned subsidiary of the Company and this subsidiary exercised its rights under the option agreement. The Company then paid \$200.0 million into a suspense account to be released to HHI on receipt of a refund guarantee from a third party bank. This payment has been recorded as a Payment on account of newbuilding acquisition at December 31, 2017. The Company was required to pay a fee of \$0.4 million to Seatankers Management as consideration for a payment guarantee that Seatankers Management gave to HHI in December 2017 in respect of the second installment due on *West Bollsta*. This fee has been included in the cost of Newbuildings at December 31, 2017.

In January 2018, the refund guarantee that was required in connection with the exercise of the option for *West Bollsta* was received by the Company and the option was considered fully exercised at which time the \$200.0 million that was recorded as Payment on account of newbuilding acquisition was transferred to Newbuildings.

In May 2018, the Company entered into agreements to purchase two newbuilding 7th generation DP3 and ultra-deepwater capable drillships, known as *West Aquila* and *West Libra*, from Daewoo Shipbuilding & Marine Engineering Co Ltd, or DSME. The acquisition price was \$296.0 million per unit, of which \$90.0 million per unit was payable at contract signing and the remaining balance at delivery. Expected delivery is January and March 2021, with an option to take earlier delivery.

In December 2018, the Company took delivery of *West Mira* and paid the final installment of \$182.5 million. The Company subsequently incurred mobilization and operations preparation costs up to December 31, 2018 of \$14.4 million in connection with *West Mira*.

7. NEWBUILDING PREPAYMENT

In May 2018, a wholly-owned subsidiary of the Company entered into an optional sales and purchase agreement with Blue Sea Navigation Holdings Inc, a related party, or Blue Sea, whereby Blue Sea granted the subsidiary an option to acquire a drillship, the *Cobalt Explorer*, for \$350.0 million for which Blue Sea had an option to acquire from DSME for the same amount pursuant to an option agreement with DSME, or the DSME Option Agreement. The option was exercisable within a six month period and was subject to a defined, unaffiliated, third party not exercising a senior priority purchase right over the drillship for \$405.0 million during the option period. The Company did not make any payment to Blue Sea in exchange for the option. This option and the contingency relating to the third party expired in November 2018 at which time the option period for the Company and the option period under the DSME Option Agreement were extended to March 31, 2019. Under the terms of this extension, the option price for *Cobalt Explorer* remained at \$350.0 million and the Company paid \$12.0 million as consideration for the extension of the option period in December 2018. The Company also paid a fee of \$1.0 million as reimbursement of lay-up expenses incurred by DSME for the additional four months' lay-up period. Both amounts paid have been capitalized and recorded in Newbuilding Prepayment. Upon exercise of the option in April 2019, the \$12.0 million prepayment is credited against the purchase price and \$93.0 million will be payable in five equal instalments over ten months beginning in June 2019. The remaining \$245.0 million will be payable on delivery of the drillship, which is expected in the first quarter of 2021.

8. DEBT

<i>(in thousands of \$)</i>	2018	2017
U.S. dollar denominated floating rate debt:		
\$200.0 million term loan facility	200,000	—
Total debt	200,000	—
Short term debt	10,000	—
Deferred charges	2,275	—
Long term debt	187,725	—

The outstanding debt as of December 31, 2018 is repayable as follows:

<i>(in thousands of \$)</i>	
2019	10,000
2020	20,000
2021	170,000
2022	—
2023	—
Thereafter	—
	200,000

\$200.0 million senior secured term loan facility

In November 2018, the Company entered into a \$200.0 million senior secured term loan facility with a number of banks and the full loan amount was drawn in December 2018 upon the delivery of *West Mira* from the yard. The loan has a nine month amortization grace period followed by nine quarterly installments of \$5.0 million and a balloon payment of \$155.0 million in December 2021. The interest rate is Libor plus 3.5%. The loan is secured by a mortgage in *West Mira* and contains certain financial covenants for the Company on a consolidated basis which require a certain equity ratio, positive working capital and a minimum liquidity amount. The Company was in compliance with all of the financial covenants as of December 31, 2018.

Assets pledged

<i>(in thousands of \$)</i>	2018	2017
Newbuildings	386,673	—

Deferred charges

<i>(in thousands of \$)</i>	2018	2017
Debt arrangement fees	2,335	—
Accumulated amortization	(60)	—
	2,275	—

During 2018, the Company paid \$2.3 million (2017: nil) with respect to debt arrangement fees.

9. SHARE CAPITAL

The Company has an authorized share capital of \$1,000,000,000 comprising 1,000,000,000 common shares, each with a par value of \$1.00.

The Company was incorporated in March 2017 with 100 shares. Also in March 2017, the Company issued 46,000,000 shares at \$5.00 each in a private placement of new shares, or the March 2017 Private Placement. Gross proceeds of \$230.0 million were raised and the Company paid fees of \$2.3 million in connection with this private placement.

The Company's shares were listed on the Oslo Axess in October 2017.

In November 2017, the Company issued 31,750,000 shares at NOK 64.00 per share in a private placement of new shares. Gross proceeds of NOK 2,032 million (\$249.7 million) were raised and the Company incurred fees of \$3.9 million in connection with this private placement.

In May 2018, the Company completed a private placement of 29,805,883 new shares, at a subscription price of NOK 68.00 per share. Gross proceeds of NOK 2,026,800,000 (\$248.8 million) were raised and the Company incurred fees of \$3.7 million.

On June 29, 2018, the Norwegian Financial Supervisory Authority ("Finanstilsynet") approved the Company's prospectus relating to the listing of the 29,805,883 new shares issued in the private placement completed in May 2018. Based on the approved prospectus, the new shares became registered on the Company's ordinary ISIN BMG6624L1090. Furthermore, as of July 3, 2018,

the Company's shares were transferred from a listing on Oslo Axess to the Oslo Stock Exchange. The Company's shares continued to trade under its existing trading symbol NODL.

As at December 31, 2018, the Company had 107,555,983 common shares outstanding.

10. SHARE OPTIONS

In November 2018, the Board of Directors awarded 100,000 share options to the new Chief Executive Officer in accordance with the terms of the Company's Share Option Scheme. The share options will vest in equal tranches in the three years to November 2021 and will expire in November 2023. The exercise price of NOK 63.80 will be reduced by any dividends paid before the options are exercised.

The fair value of the option award is estimated on the date of grant using a Black-Scholes option valuation model with the following assumptions:

	November 2018
Risk free interest rate	2.84%
Expected life (years)	3.5
Expected volatility	29.38%
Expected dividend yield	0.00%

The risk-free interest rate was estimated using the interest rate on three-year U.S. treasury zero coupon issues. The volatility was estimated using historical share price data. The dividend yield has been estimated at 0% as the exercise price is reduced by all dividends declared by the Company from the date of grant to the exercise date. It was assumed that all of the options granted will vest.

The exercise price on the date of grant was NOK 63.80 per option and is reduced by the amount of dividends paid after the date of grant. As at December 31, 2018, the exercise price of the options remained at NOK 63.80 and the Company's share price was NOK 50.80. As at December 31, 2018, no options had vested, expired or been forfeited and there was \$0.1 million in unrecognized stock compensation expense. Stock compensation expense of \$0.009 million was recognized in 2018 (2017: nil).

11. FAIR VALUES

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2018 and 2017 are as follows:

<i>(in thousands of \$)</i>	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	122,832	122,832	84,090	84,090
Liabilities:				
Floating rate debt	187,725	187,725	—	—

The estimated fair value of financial assets and liabilities are as follows:

<i>(in thousands of \$)</i>	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	122,832	122,832	—	—
Liabilities:				
Floating rate debt	187,725	—	187,725	—

	2017			
(in thousands of \$)	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	84,090	84,090	—	—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument;

Cash and cash equivalents – the carrying values in the balance sheet approximate fair value.

Floating rate debt - the fair value of floating rate debt has been determined using level 2 inputs and is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

12. RELATED PARTY TRANSACTIONS

Hemen Holding Ltd, or Hemen, a Cyprus holding company, indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family, owns approximately 38% of the Company's outstanding ordinary shares at December 31, 2018. The Company transacts business with the following related parties, being companies in which Hemen, or companies affiliated with Hemen, has a significant interest - Sterna Finance Ltd, or Sterna, Seadrill Ltd, or Seadrill, Seatankers Management Co. Ltd, or Seatankers Management, Blue Sea Brokers Inc, or Blue Sea Brokers, Blue Sea Navigation Holdings Inc, or Blue Sea, Golden Ocean Management AS, or Golden Ocean and Frontline Management (Bermuda) Limited, or Frontline Management.

Sterna Finance transactions

In March 2017, West Mira Inc, a wholly-owned subsidiary of the Company entered into a loan agreement with Sterna Finance, or the Sterna Loan, whereby West Mira Inc borrowed \$182.5 million from Sterna Finance and it was acknowledged that this amount had already been paid by Seatankers Management as settlement of the first installment due in connection with the purchase of *West Mira*.

Also in March 2017, the Company and West Mira Inc entered into an agreement with Greenwich Holdings and Sterna Finance regarding the settlement of the Sterna Loan, the purchase of *West Mira* and the March 2017 Private Placement whereby \$110.0 million of the Sterna Loan was settled by the Company issuing 22,000,000 common shares to Greenwich Holdings, as part of the March 2017 Private Placement, following a partial assignment by Sterna Finance of the Sterna Loan to Greenwich Holdings, and the Company issued one million common shares, as part of the March 2017 Private Placement, to Sterna Finance in settlement of a \$5.0 million fee, or the Sterna Fee, for granting the Sterna Loan and supporting the acquisition of *West Mira*. \$72.5 million of the Sterna Loan was repaid in March 2017 from the proceeds of the March 2017 Private Placement. The loan did not bear interest. The Sterna Fee was expensed in the period to December 2017 and recorded as Other Financial Items in the Consolidated Statement of Operations as the loan was drawn down and repaid in March 2017.

Seadrill transactions

A wholly-owned subsidiary of Seadrill carries out the newbuilding supervision of *West Mira*, *West Bollsta* and the two drillships. In 2018, the Company was charged \$4.6 million (2017: \$2.1 million) for *West Mira* and *West Bollsta* and has accrued \$4.6 million (2017: nil) for the two drillships. All amounts have been capitalized.

The wholly-owned subsidiary of Seadrill is also supervising the mobilization of *West Mira* in readiness for the Wintershall Contract. The Company transferred \$17.0 million to Seadrill in December 2018, of which \$14.4 million incurred in respect of mobilization and operations preparation costs has been capitalized, \$0.4 million has been expensed and \$2.2 million is recorded as due from related parties at December 31, 2018.

Seatankers Management transactions

In March 2017, Seatankers Management entered into an option agreement with HHI to acquire *West Bollsta* for a purchase price of \$400.0 million payable in two equal installments. The first installment is payable upon exercise of the option and the second installment is payable upon delivery of *West Bollsta*. In September 2017, a wholly-owned subsidiary of the Company and Seatankers Management entered into an agreement whereby Seatankers Management agreed to either nominate a subsidiary of the Company as buyer to accept delivery of *West Bollsta* from HHI, subject to HHI's prior consent, or to exercise Seatankers Management's rights to purchase *West Bollsta* and when instructed to do so by a subsidiary of the Company to immediately sell *West Bollsta* to that subsidiary on back-to-back terms. In December 2017, Seatankers Management, HHI and a wholly-owned subsidiary of the

Company entered into a Novation Agreement relating to the option agreement entered into in March 2017 whereby all of the rights and obligations of Seatankers Management under this agreement were novated to a wholly-owned subsidiary of the Company and this subsidiary exercised its rights under the option agreement. Seatankers Management has guaranteed payment to HHI of the second and final installment of \$200.0 million for *West Bollsta*. The Company accrued \$0.4 million at December 31, 2017 in respect of a fee payable to Seatankers Management as consideration for this guarantee. The Company has counter indemnified Seatankers Management for the guarantee provided to HHI.

Seatankers Management guaranteed payment to HHI of the second and final installment of \$182.5 million for *West Mira*. No consideration was paid for this guarantee. The Company counter indemnified Seatankers Management for the guarantee provided to HHI. In December 2018, the Company took delivery of *West Mira* and paid the final installment of \$182.5 million.

The Company and its subsidiaries receive management services from Seatankers Management. The fee was \$0.6 million in 2018 (2017: \$0.2 million).

Blue Sea transactions

West Aquila and West Libra

In May 2018, the Company entered into a Commission Allocation Agreement with Blue Sea Brokers in which the Company acknowledged that Blue Sea Brokers had provided brokerage services in relation to the purchase of its two newbuilding drillships, *West Aquila* and *West Libra*, and had entered into a Commission Agreement with DSME for each of the drillships. Under the Commission Agreements, Blue Sea Brokers is entitled to receive a commission from DSME equal to 2% of the purchase price for each of *West Aquila* and *West Libra*, whereby 30% of the commission is due with 30 days of payment of the first installment to DSME and 70% of the commission is due within 30 days of payment of the final installment to DSME. Under the Commission Allocation Agreement, the Company and Blue Sea Brokers agreed that Blue Sea Brokers shall retain the 30% commission payment as compensation for services provided in connection with the acquisition of the drillships and the Company shall receive the 70% commission payment.

In May 2018, the Company entered into two Counter Guarantee and Indemnity agreements with Blue Sea in which it was acknowledged that Blue Sea had issued a two guarantees whereby Blue Sea had guaranteed the Company's obligations to DSME pursuant to Resale Contracts for the purchase of *West Aquila* and *West Libra* and in consideration of Blue Sea issuing these guarantees, the Company has agreed to indemnify Blue Sea against any claims under them.

Cobalt Explorer

In May 2018, a wholly-owned subsidiary of the Company entered into an optional sales and purchase agreement with Blue Sea, whereby Blue Sea granted the subsidiary an option to acquire a drillship, the *Cobalt Explorer*, for \$350.0 million for which Blue Sea had an option to acquire from DSME for the same amount pursuant to an option agreement with DSME, or the DSME Option Agreement. The option was exercisable within a six month period and was subject to a defined, unaffiliated, third party not exercising a senior priority purchase right over the drillship for \$405.0 million during the option period. The Company did not make any payment to Blue Sea in exchange for the option. This option and the contingency relating to the third party expired in November 2018 at which time the option period for the Company and the option period under the DSME Option Agreement were extended by approximately four months. Under the terms of this extension, the option price for *Cobalt Explorer* remained at \$350.0 million and the Company paid \$12.0 million as consideration for the extension of the option period in December 2018. The Company also paid a fee of \$1.0 million as reimbursement of lay-up expenses incurred by DSME for the additional four months' lay-up period. Both amounts paid have been capitalized and recorded in Newbuilding Prepayment. Upon exercise of the option in April 2019, the \$12.0 million prepayment is credited against the purchase price and \$93.0 million will be payable in five equal instalments over ten months beginning in June 2019. The remaining \$245.0 million will be payable on delivery of the drillship, which is expected in the first quarter of 2021.

Pursuant to the sale and purchase agreement, Blue Sea will provide an irrevocable and unconditional corporate guarantee to DSME. The Company will execute a counter indemnity guarantee under which Blue Sea is indemnified in respect of all amounts paid under its corporate guarantee. The Company shall pay to Blue Sea a guarantee fee in an amount to be agreed.

Golden Ocean and Frontline transactions

The Company and its subsidiaries receive treasury and accounting services from Golden Ocean and Frontline, respectively, and was charged \$0.05 million (2017: nil) and \$0.01 million (2017: \$0.005 million), respectively, in 2018.

Related party balances

A summary of balances due from related parties at December 31, 2018 and 2017 is as follows:

<i>(in thousands of \$)</i>	2018	2017
Seadrill Global Services Ltd	2,251	—

A summary of balances due to related parties at December 31, 2018 and 2017 is as follows:

<i>(in thousands of \$)</i>	2018	2017
Seadrill Global Services Ltd	5,450	217
Seatankers Management Co. Ltd	293	510
Frontline Management (Bermuda) Ltd	4	24
	5,747	751

13. COMMITMENTS AND CONTINGENCIES

As of December 31, 2018, the Company is committed to paying \$200.0 million for the second and final instalment upon the delivery of *West Bollsta*. The expected delivery date for this unit is in the second quarter of 2019. The Company is also committed to paying \$412.0 million for the second and final instalments upon the delivery of the two drillships. Delivery is January and March 2021 but the Company has the right to take early delivery by giving three months' notice.

14. SUPPLEMENTAL INFORMATION

In March 2017, West Mira Inc, a wholly-owned subsidiary of the Company entered into the Sterna Loan, whereby West Mira Inc borrowed \$182.5 million from Sterna Finance and it was acknowledged that this amount had already been paid by Seatankers Management as settlement of the first installment due in connection with the purchase of *West Mira*.

Also in March 2017, the Company and West Mira Inc entered into an agreement with Greenwich Holdings and Sterna Finance regarding the settlement of the Sterna Loan, the purchase of *West Mira* and the March 2017 Private Placement, whereby \$110.0 million of the Sterna Loan was settled by the Company issuing 22,000,000 common shares to Greenwich Holdings, following a partial assignment by Sterna Finance of the Sterna Loan to Greenwich Holdings, and the Company issued one million common shares to Sterna Finance in settlement of a \$5.0 million fee for granting the Sterna Loan and supporting the acquisition of *West Mira*.

Also in March 2017, the Company completed the March 2017 Private Placement and generated gross proceeds of \$230.0 million. Net cash proceeds of \$112.7 million were received following the payment of associated fees of \$2.3 million, partial settlement of the Sterna Loan and settlement of the Sterna Fee.

In 2018, there were non-cash additions to newbuildings of \$205.3 million comprising \$200.0 million paid in December 2017 in connection with *West Bollsta* and accrued newbuilding supervision costs and capitalized interest of \$5.3 million.

15. SUBSEQUENT EVENTS

In February 2019, the Company announced its harsh environment semi-submersible rig, *West Bollsta*, had secured a contract for a ten-well program with Lundin. The drilling program includes the development of the Luno II and Rolvsnes discovery fields in the Norwegian North Sea with contract commencement expected in the second quarter of 2020. Six of the wells are subject to Lundin's fulfillment of certain conditions customary to authorizing the drilling program in Norway, which is part of their longer term growth and strategy to remain a significant operator in the North Sea market. The contract also includes four additional one-well options, and should these options be exercised *West Bollsta* is expected to be contracted to Lundin until the third quarter of 2022. The contract has been executed between Lundin and Seadrill Norway Operations Ltd. a subsidiary of Seadrill Ltd. The Company has also entered into a Heads of Agreement with Seadrill subsidiaries to mobilize and manage the operations of *West Bollsta* for this contract, which will cover customary scope for commercial and technical services providing safe and reliable operations from delivery through the contract duration.

In April 2019, Wintershall elected to exercise the fourth and final front end option for *West Mira*, bringing the expected commencement date of operations forward to the third quarter of 2019.

On April 30, 2019, the Company exercised its option to acquire *Cobalt Explorer*. The Company will pay the remaining balance on the first installment amount of \$93.0 million in five equal installments over a ten month period beginning on June 1, 2019. The remaining \$245.0 million will be payable on delivery of the drillship, which is expected in the first quarter of 2021. The Company

has obtained a revolving credit facility from Sterna Finance in the amount of \$100.0 million for a three year period with interest payable at 6.75%.

In 2019 to date, the Company has transferred \$17.0 million to the wholly-owned subsidiary of Seadrill, which is supervising the mobilization of *West Mira* in readiness for the Wintershall Contract, in connection with mobilization costs.