

**CONSOLIDATED FINANCIAL STATEMENTS**

**NORTHERN DRILLING LTD.**

**YEAR ENDED DECEMBER 31, 2019**

## **Index to the Consolidated Financial Statements of Northern Drilling Ltd.**

	<b>Page</b>
Board of Directors Report	1 - 6
Responsibility Statement	7
Independent Auditor's Report	8 - 11
Consolidated Statements of Operations for the years ended December 31, 2019 and 2018	12
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018	13
Consolidated Balance Sheets as of December 31, 2019 and 2018	14
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	15
Consolidated Statements of Changes in Equity for the years ended December 31, 2019 and 2018	16
Notes to the Consolidated Financial Statements	17 - 31

## 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 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.

On October 7, 2019, West Cobalt Inc., a wholly-owned subsidiary of the Company, sent notice to Daewoo Shipbuilding & Marine Engineering Co. Ltd ("DSME" or "the yard") informing the yard it was rescinding the resale contract for the *Cobalt Explorer* for misrepresentation and, in the alternative, terminating the resale contract at common law for repudiatory/renunciatory breach. West Cobalt Inc will claim the return of all sums paid to DSME plus interest and damages. The yard is challenging West Cobalt Inc.'s notice and on December 18, 2019 it purported to terminate the resale contract owing to West Cobalt Inc's alleged failure to pay the third and/or fourth instalment and/or in the alternative West Cobalt Inc's repudiatory/renunciatory breach of the resale contract in wrongfully purporting to rescind/terminate the resale contract. The yard has stated that it will pursue its legal and contractual rights in full, including its right to recover substantial damages. It is accordingly both parties' positions that the resale contract has been brought to an end although there is a dispute as to which party's termination/rescission was lawful. The dispute is not expected to be resolved in the near future. West Cobalt Inc. had paid instalments of \$49.2 million at the time of rescission and further instalments of \$300.8 million would have become payable to DSME under the resale contract.

On December 3, 2019, a reorganization of certain of the Company's subsidiaries was completed (the "Reorganization"). Northern Rig Holding Ltd (later renamed Northern Ocean Ltd ("NOL")) then a wholly-owned subsidiary of the Company, purchased all of the common shares in Northern Drilling Operations Ltd ("NDOL") and Northern Drilling Management AS ("NDMN") from the Company. As part of the Reorganization, a net inter-company balance due from NOL to the Company of \$453,436,508 was settled by NOL issuing 45,000,000 new shares to the Company at a subscription price of approximately \$10.08.

As part of the Reorganization, NOL also amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing the Company from its obligations as parent guarantor under the original loan agreement and replacing NOL as the new parent guarantor. NOL's two wholly-owned subsidiaries, West Mira Inc and HHI Deepwater Semi 2 Inc, continue to provide security for the liabilities under the amended facility ("Revised Bank Facility"). As part of the Revised Bank Facility a new, revolving credit facility of up to \$50.0 million has been made available to NOL. In all other material respects, the Revised Bank Facility (including the additional revolving credit facility) has similar terms as the initial facility, including financial covenants and interest rates. Subsequent to the Reorganization, however, financial covenants are now measured at the NOL consolidated level instead of the consolidated level of the Company

Also as part of the Reorganization, the \$100.0 million revolving credit facility that was provided by Sterna Finance to the Company ("Sterna Facility") was novated to NOL and the Company was released from its obligations. NOL was compensated for this by a \$70.0 million reduction of the balance owed to the Company, which was included in the \$453,436,508 intercompany balance settlement described above. As part of this novation, the companies West Aquila Inc, West Libra Inc and West Cobalt Inc (all subsidiaries of the Company) were released from their obligations as guarantors.

Also on December 3, 2019, NOL entered into (i) a services agreement with Seatankers Management whereby Seatankers Management agreed to provide NOL with certain consultancy, administrative and other management services, (ii) a services agreement with Golden Ocean Group Management (Bermuda) Limited ("GOMA") whereby GOMA agreed to provide NOL with certain advisory and support services, and (iii) a services agreement with Frontline Management (Bermuda) Limited ("FMBL") whereby FMBL agreed to provide NOL with certain accounting support services.

On December 4, 2019, the name of Northern Rig Holding Ltd was changed to Northern Ocean Ltd.

In December 2019, NOL completed a private placement (the "Private Placement"), which raised gross proceeds of \$100 million, corresponding to approximately NOK 918 million (based on an exchange rate of USD/NOK 9.18), through the placing of 18,726,592 new shares (the "Offer Shares") at a subscription price of \$5.34 per Offer Share, corresponding to approximately NOK 49 (based on an exchange rate of USD/NOK 9.18). The Private Placement reduced the Company's ownership in NOL from 100% to 70.6% and a non-controlling interest of 29.4% was recognized. Hemen Holding Ltd, the largest shareholder in the Company, was allocated 7,490,636 Offer Shares in the Private Placement, and owned 11.8% of NOL following the Private Placement. The objective of the

Private Placement was - together with the financing made available from the Revised Bank Facility and the undrawn \$30.0 million Sterna Facility - to fund the remaining capital expenses for the two rigs, *West Mira* and *West Bollsta*. NOL received net proceeds of \$98.3 million from the Private Placement.

Following the Private Placement, NOL's shares were registered for trading on the Norwegian OTC list (ticker "NOL") and commenced trading on December 9, 2019.

As at December 31, 2019, the Company owned two semi-submersible rigs, *West Mira* and *West Bollsta*, through its majority-owned subsidiary NOL that were delivered to the Company in December 2018 and June 2019, respectively. The *West Mira* commenced its drilling contract with Wintershall Norge AS ("Wintershall") on November 7, 2019. This contract is between Wintershall and a subsidiary of Seadrill Ltd, a variable interest entity, which the Company consolidated as it is deemed to be its primary beneficiary. The *West Bollsta* is being mobilised for commencement of its drilling contract with Lundin Norway AS in the second quarter of 2020. This contract is expected to be novated to the same subsidiary of Seadrill Ltd. The Company also had two drillships under construction, *West Aquila* and *West Libra*.

On February 6, 2020, the Company announced an exchange offer in connection with NOL's application for listing on the Oslo Stock Exchange and a subsequent share offering by NOL. The Company offered its shareholders the opportunity to exchange up to 85% of the shares in the Company at an exchange ratio of 2.0316 shares in the Company for one share in NOL. The exchanged shares in NODL were cancelled upon settlement. In connection with the listing prospectus, NOL carried out a subsequent offering of 75,686 shares at a subscription price of NOK 49 per share, generating gross proceeds of NOK 3.7 million.

On February 26, 2020, the Company announced that 91,422,966 of its shares were accepted in the exchange offer and exchanged with 45,000,100 shares in NOL that were owned by the Company. Following completion of the exchange offer, the Company does not hold any shares in NOL and 91,422,966 of the Company's shares were cancelled, following which the Company now has 16,133,017 shares issued and outstanding. The Company expects to record this as an equity transaction in the first quarter of 2020 with no gain or loss in the statement of operations. Upon completion of the exchange offer, Hemen Holding Ltd owns 39.4% of the Company.

The recent outbreak of coronavirus COVID-19 ("Coronavirus"), a virus causing potentially deadly respiratory tract infections originating in China, has already and may continue to negatively affect economic conditions and the offshore drilling market and otherwise impact our operations and the operations of our customers, suppliers and other stakeholders. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore we cannot predict the impact it may have on our future operations, which could be material and adverse. On March 3, 2020, West Aquila Inc and West Libra Inc issued force majeure notices informing DSME that the Coronavirus was impacting the preservation and maintenance activities on the drillships under construction and that they would advise DSME in due course of the period by which the delivery dates of the drillships shall be postponed. DSME responded on March 11, 2020, denying that a force majeure event had occurred and objecting to the force majeure notices.

As of the date of this report, the Company has two drillships under construction, which are expected to be delivered in the first half of 2021, subject to the impact of the Coronavirus. The Company is actively marketing the drillships for acceptable drilling contracts that can support financing for delivery and startup, and has the ability to take delivery earlier should a contract and funding be secured.

### **The Working Environment**

At the end of 2019, the Company had two employees, who were employed by a subsidiary of NOL, one 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 three 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. The Company continues to evaluate all alternatives available, including execution of its existing strategy where acceptable drilling contracts are secured to support long-term debt for funding needs. Given the Company's track record of securing contracts, 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 its strategy.

## Assessment of Results and Cash Flow Items

The Company's activities since incorporation in March 2017 have consisted principally of acquiring drilling units currently under construction, raising capital and operational preparations for initial drilling contracts. The Company commenced its initial drilling activities in the fourth quarter of 2019. The Company did not have any drilling units in operation previously and the operating results consisted of interest income, administrative expenses and non-capitalized costs related to contract preparations. Following completion of the exchange offer in February 2020, the Company does not hold any shares in NOL and no longer consolidates that group.

The Company used cash of \$12.3 million in operating activities due to a cash outflow of \$9.0 million from operations and a \$3.3 million unfavorable change in other operating assets and liabilities.

The Company's investing activities in the year of \$388.2 million primarily comprised the final installment of \$208.9 million that was paid on the delivery of *West Bollsta* in June 2019 and, new building supervision costs of *West Bollsta* and mobilization costs of *West Bollsta* and *West Mira*. In addition, the Company paid \$18.6 million for the second and third installments due in respect of *Cobalt Explorer* in each of May and July 2019.

The Company generated cash from financing activities of \$355.4 million as a result of NOL's private placement in December 2019, which generated net proceeds of \$98.3 million, \$200.0 million of long term bank debt upon the delivery of *West Bollsta* in July 2019 and drawings of \$70.0 million from the Sterna Facility. These amounts were partially offset by bank loan repayments of \$10.0 million and the payment of debt fees of \$3.0 million.

At December 31, 2019, the Company had cash and cash equivalents of \$77.5 million.

## Risk Assessment

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 secure acceptable drilling contracts and take delivery of the current newbuildings, decreasing market value of the rigs, failure to acquire future assets, securing additional funding and achieving a satisfactory outcome in the disputes with DSME. In addition, public health threats, such as the Coronavirus, influenza and other highly communicable diseases or viruses, outbreaks of which have from time to time occurred in various parts of the world in which we operate could adversely impact our operations as well as the operations of our customers. 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 and are significantly impacted by the price of oil, which can be very volatile. The Company has a limited number of drilling units, which makes it vulnerable in the event of a loss of revenue of any such drilling units and should the Company not be able to obtain favorable contracts for its drilling units.

## Prospects for the Future

The Company continues to have a constructive view on the market and supportive of long-term fundamentals. In light of recent global events, such as the spread of the Coronavirus and significant oil price volatility, the Company is evaluating information as it becomes available, remaining pragmatic in executing its strategic plan, and leveraging relationships with its service providers to preserve value. The nature of these events is widespread and could have significant impacts on all parts of oil and gas supply chain and the broader global business landscape.

## 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](http://www.lovdata.no) and the Code of Practice is found on [www.nues.no](http://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 now targeted the benign ultra-deep water sector 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 without further shareholder approval. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code of Practice. 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. Any increase of the authorized capital is, however, subject to approval by the shareholders by simple majority of the votes cast. 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.

*Section 4 "Equal treatment of shareholders and transaction with close associates"*: Neither the Company's Bye-Laws nor Bermuda company laws include regulation of pre-emptive 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.

*Section 5 "Freely negotiable shares"*: 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 is responsible for any decisions otherwise subject to review and preparation by an audit committee.

*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 disputes with DSME, 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. Although a deviation from the Code of Practice, the Board has thus far not deemed it appropriate to adopt specific guidelines for takeover situations.

*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. 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 Board of Directors a review of the Company’s internal control procedures, and the Board of Directors 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 annual general meeting, 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, 2019 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 and Chief Executive Officer of Northern Drilling Ltd.  
March 17, 2020

/s/ Gary Casswell  
Gary Casswell (Director and Chairman)

/s/ Keesjan Cordia  
Keesjan Cordia (Director)

/s/ Jon Olav Østhus  
Jon Olav Østhus (Director)

/s/ Scott McReaken  
Scott McReaken (Chief Executive Officer)



To the Board of Directors and Shareholders of Northern Drilling Ltd.

## ***Independent auditor's report***

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### ***Our 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, 2019 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### ***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 consolidated 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.

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### ***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.

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### ***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 Drilling Units and Newbuildings</i></p> <p>We refer to note 2 - Basis of Accounting, where management explains their impairment process.</p> <p>The Group has drilling units which are presented by one semi-submersible rig which was put into operations, and newbuildings, which are presented by one semi-submersible rig under mobilization and two drillships under construction. At the balance sheet date, the carrying value of the drilling units was USD 524.5 million and USD 673.0 million correspondingly, which in total represent 87.5% of the balance sheet.</p> <p>According to the accounting policy, management is required to perform assessment for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may no longer be appropriate.</p> <p>Following management's assessment, no impairment indicators were identified for the rigs and drillships. 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 rigs and drillships 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 assets 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 drillships and rigs. 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 8 – Drilling units, and note 9 - 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, but does not include 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 identified above 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.

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*Responsibilities of the Board of Directors and the Managing Director and those charged with governance for the consolidated financial statements*

The Board of Directors and the Managing Director (Management) are responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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*Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated financial statements, whether due to fraud or error, 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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.

Oslo, 17 March 2020

**PricewaterhouseCoopers AS**

/s/ Rita Granlund

Rita Granlund

State Authorised Public Accountant

**Northern Drilling Ltd.**

**Consolidated Statements of Operations for the years ended December 31, 2019 and 2018**

*(in thousands of \$, except loss per share)*

	2019	2018
<b>Operating revenues</b>		
Contract revenue	11,184	—
Reimbursable revenue	2,108	—
<b>Total operating revenues</b>	<b>13,292</b>	<b>—</b>
<b>Operating expenses</b>		
Rig operating expenses	13,999	350
Reimbursable expenses	2,025	—
Depreciation	2,984	—
Impairment of non-current assets	2,313	—
Administrative expenses	4,796	1,942
<b>Total operating expenses</b>	<b>26,117</b>	<b>2,292</b>
<b>Net operating loss</b>	<b>(12,825)</b>	<b>(2,292)</b>
<b>Other income (expenses)</b>		
Bank interest income	1,671	2,353
Other financial income (expenses)	(3,194)	(128)
<b>Total other income (expenses)</b>	<b>(1,523)</b>	<b>2,225</b>
<b>Net loss before taxes and non-controlling interest</b>	<b>(14,348)</b>	<b>(67)</b>
Tax	931	—
<b>Net loss</b>	<b>(13,417)</b>	<b>(67)</b>
Net loss attributable to non-controlling interest	2,420	—
<b>Net loss attributable to the Company</b>	<b>(10,997)</b>	<b>(67)</b>
<b>Basic and diluted loss per share (\$)</b>	<b>(0.10)</b>	<b>0.00</b>

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Drilling Ltd.****Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018***(in thousands of \$)*

	2019	2018
<b>Net loss</b>	<b>(13,417)</b>	<b>(67)</b>
Foreign currency translation income	13	—
<b>Other comprehensive income</b>	<b>13</b>	<b>—</b>
<b>Comprehensive loss</b>	<b>(13,404)</b>	<b>(67)</b>
Comprehensive loss attributable to non-controlling interest	(2,420)	—
Comprehensive loss attributable to the Company	(10,984)	(67)
<b>Comprehensive loss</b>	<b>(13,404)</b>	<b>(67)</b>

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Drilling Ltd.**  
**Consolidated Balance Sheets at December 31, 2019 and 2018**  
*(in thousands of \$)*

	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	77,534	122,832
Restricted cash	128	—
Accounts receivable, net	7,214	—
Unbilled receivables	15,671	—
Related party receivables	6,899	2,251
Other current assets	13,803	345
<b>Total current assets</b>	<b>121,249</b>	<b>125,428</b>
<b>Non-current assets</b>		
Drilling units	524,466	—
Newbuildings	673,025	779,761
Fixtures and fittings	3	—
Other long term assets	49,200	—
Deferred tax asset	931	—
Newbuilding prepayment	—	13,015
<b>Total assets</b>	<b>1,368,874</b>	<b>918,204</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of long term debt	40,000	10,000
Other current liabilities	6,485	1,392
Deferred revenue	11,277	—
Related party payables	82,087	5,747
<b>Total current liabilities</b>	<b>139,849</b>	<b>17,139</b>
<b>Long term liabilities</b>		
Long term debt	345,495	187,725
Deferred revenue	15,191	—
Related party long term debt	70,000	—
<b>Total liabilities</b>	<b>570,535</b>	<b>204,864</b>
<b>Commitments and contingencies (Note 18)</b>		
<b>Equity</b>		
Share capital (107,555,983 shares issued and outstanding, par value \$1.00 each)	107,556	107,556
Additional paid in capital	611,048	610,945
Accumulated other comprehensive income	13	—
Retained deficit	(16,158)	(5,161)
<b>Total equity attributable to the Company</b>	<b>702,459</b>	<b>713,340</b>
Non-controlling interest	95,880	—
<b>Total equity</b>	<b>798,339</b>	<b>713,340</b>
<b>Total liabilities and equity</b>	<b>1,368,874</b>	<b>918,204</b>

*See accompanying Notes to the Consolidated Financial Statements.*



**Northern Drilling Ltd.**
**Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018**
*(in thousands of \$)*

	2019	2018
<b>Net loss</b>	<b>(13,417)</b>	<b>(67)</b>
Adjustment to reconcile net loss to net cash used in operating activities;		
Amortization of deferred charges	1,345	60
Amortization of deferred revenue	(1,471)	—
Depreciation	2,984	—
Impairment of non-current assets	2,313	—
Stock option expense	103	9
Unrealized foreign exchange loss	13	56
Tax	(931)	—
Change in operating assets and liabilities;		
Accounts receivable, net	(7,214)	—
Unbilled receivables	(15,671)	—
Other current assets	(13,459)	(344)
Other current liabilities	4,468	371
Related party balances	668	(1,850)
Deferred revenue	27,939	—
<b>Net cash used in operating activities</b>	<b>(12,330)</b>	<b>(1,765)</b>
<b>Investing activities</b>		
Additions to newbuildings	(388,187)	(389,265)
Purchase of fixtures and fittings	(3)	—
Additions to newbuilding prepayment	—	(13,015)
<b>Net cash used in investing activities</b>	<b>(388,190)</b>	<b>(402,280)</b>
<b>Financing activities</b>		
Net proceeds from share issuances	98,300	245,122
Proceeds from long term debt	200,000	200,000
Repayment of bank debt	(10,000)	—
Proceeds from related party long term debt	70,000	—
Debt fees paid	(2,950)	(2,335)
<b>Net cash provided by financing activities</b>	<b>355,350</b>	<b>442,787</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>(45,170)</b>	<b>38,742</b>
<b>Cash, cash equivalents and restricted cash at start of the year</b>	<b>122,832</b>	<b>84,090</b>
<b>Cash, cash equivalents and restricted cash at end of the year</b>	<b>77,662</b>	<b>122,832</b>
<b>Supplemental disclosure of cash information:</b>		
Interest paid, net of interest capitalized	1,089	—
Income taxes paid	—	—

Details of non-cash investing and financing activities are given in Note 19.

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Drilling Ltd.**

**Consolidated Statements of Changes in Equity for the years ended December 31, 2019 and 2018**

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

	2019	2018
<b>Number of shares outstanding</b>		
Balance at start of the year	107,555,983	77,750,100
Shares issued	—	29,805,883
Balance at end of the year	107,555,983	107,555,983
<b>Share capital</b>		
Balance at start of the year	107,556	77,750
Shares issued	—	29,806
Balance at end of the year	107,556	107,556
<b>Additional paid in capital</b>		
Balance at start of the year	610,945	395,620
Shares issued	—	215,316
Stock option expense	103	9
Balance at end of the year	611,048	610,945
<b>Accumulated other comprehensive income</b>		
Balance at start of the year	—	—
Other comprehensive income	13	—
Balance at end of the year	13	—
<b>Retained deficit</b>		
Balance at start of the year	(5,161)	(5,094)
Net loss	(10,997)	(67)
Balance at end of the year	(16,158)	(5,161)
<b>Total equity attributable to the Company</b>	<b>702,459</b>	<b>713,340</b>
<b>Non-controlling interest</b>		
Balance at start of the year	—	—
Net proceeds from share issuance	98,300	—
Net loss	(2,420)	—
Balance at end of the year	95,880	—
<b>Total equity</b>	<b>798,339</b>	<b>713,340</b>

*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 ultra-deep water environments.

The Company's activities since incorporation to the end of the third quarter 2019 have consisted principally of acquiring drilling units under construction, listing its shares on Oslo Axess and then the Oslo Stock Exchange, raising capital and operational preparations for initial drilling contracts.

On December 3, 2019, a reorganization of certain of the Company's subsidiaries was completed (the "Reorganization"). Northern Rig Holding (later renamed Northern Ocean Ltd ("NOL")), then a wholly-owned subsidiary of the Company, purchased all of the common shares in Northern Drilling Operations Ltd ("NDOL") from the Company for a consideration of \$1.00. Furthermore, NOL purchased all of the common shares in Northern Drilling Management AS ("NDMN") from the Company for a negative consideration of \$49,200 as NDMN had negative net assets that was settled through a credit granted by NOL to the Company.

As part of the Reorganization, a net inter-company balance due from NOL to the Company of \$453,436,508 was settled by NOL issuing 45,000,000 new shares to the Company at a subscription price of approximately \$10.08.

As part of the Reorganization, NOL also amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing the Company from its obligations as parent guarantor under the original loan agreement and replacing NOL as the new parent guarantor. NOL's two wholly-owned subsidiaries, West Mira Inc and HHI Deepwater Semi 2 Inc, continue to provide security for the liabilities under the amended facility ("Revised Bank Facility"). As part of the Revised Bank Facility a new, revolving credit facility of up to \$50.0 million has been made available to NOL. In all other material respects, the Revised Bank Facility (including the additional revolving credit facility) has similar terms as the initial facility, including financial covenants and interest rates. Subsequent to the Reorganization, however, financial covenants are now measured at the NOL consolidated level instead of the consolidated level of the Company.

Also as part of the Reorganization, the \$100.0 million revolving credit facility that was provided by Sterna Finance to the Company ("Sterna Facility") was novated to NOL and the Company was released from its obligations. NOL was compensated for this by a \$70.0 million reduction of the balance owed to the Company, which was included in the \$453,436,508 intercompany balance settlement described above. Amounts owed to Sterna Finance have been subordinated to amounts outstanding under the Revised Bank Facility. The Sterna Facility has no financial covenants and carries the same interest rate as prior to the Reorganization. As part of this novation, the companies West Aquila Inc, West Libra Inc and West Cobalt Inc (all subsidiaries of the Company) were released from their obligations as guarantors.

Also on December 3, 2019, NOL entered into (i) a services agreement with Seatankers Management whereby Seatankers Management agreed to provide NOL with certain consultancy, administrative and other management services, (ii) a services agreement with Golden Ocean Group Management (Bermuda) Limited ("GOMA") whereby GOMA agreed to provide NOL with certain advisory and support services, and (iii) a services agreement with Frontline Management (Bermuda) Limited ("FMBL") whereby FMBL agreed to provide NOL with certain accounting support services.

On December 4, 2019, the name of Northern Rig Holding Ltd was changed to Northern Ocean Ltd.

In December 2019, NOL completed a private placement (the "Private Placement"), which raised gross proceeds of \$100 million, corresponding to approximately NOK 918 million (based on an exchange rate of USD/NOK 9.18), through the placing of 18,726,592 new shares (the "Offer Shares") at a subscription price of \$5.34 per Offer Share, corresponding to approximately NOK 49 (based on an exchange rate of USD/NOK 9.18). The Private Placement reduced the Company's ownership in NOL from 100% to 70.6% and a non-controlling interest of 29.4% was recognized. Hemen Holding, the largest shareholder in the Company, was allocated 7,490,636 Offer Shares in the Private Placement, and owned 11.8% of NOL following the Private Placement. The objective of the Private Placement was - together with the financing made available from the Revised Bank Facility and the undrawn \$30.0 million Sterna Facility - to fund the remaining capital expenses for the two rigs, *West Mira* and *West Bollsta*. NOL received net proceeds of \$98.3 million from the Private Placement.

Following the Private Placement, NOL's shares were registered for trading on the Norwegian OTC list (ticker "NOL") and commenced trading on December 9, 2019.

As at December 31, 2019, the Company owned two semi-submersible rigs, *West Mira* and *West Bollsta*, through its majority-owned subsidiary NOL that were delivered to the Company in December 2018 and June 2019, respectively. The *West Mira* commenced its drilling contract with Wintershall Norge AS ("Wintershall") on November 7, 2019. This contract is between Wintershall and a subsidiary of Seadrill Ltd, a variable interest entity, which the Company consolidated as it is deemed to be its primary beneficiary. The *West Bollsta* is being mobilised for commencement of its drilling contract with Lundin Norway AS in the second quarter of 2020. This contract is expected to be novated to the same subsidiary of Seadrill Ltd. The Company also had two drillships under construction, *West Aquila* and *West Libra*.

On February 6, 2020, the Company announced an exchange offer in connection with NOL's application for listing on the Oslo Stock Exchange and a subsequent share offering by NOL. The Company offered its shareholders the opportunity to exchange up to 85% of the shares in the Company at an exchange ratio of 2.0316 shares in the Company for one share in NOL. The exchanged shares in NODL were cancelled upon settlement.

On February 26, 2020, the Company announced that 91,422,966 of its shares were accepted in the exchange offer and exchanged with 45,000,100 shares in NOL that were owned by the Company. Following completion of the exchange offer, the Company does not hold any shares in NOL and 91,422,966 of the Company's shares were cancelled, following which the Company now has 16,133,017 shares issued and outstanding. The Company expects to record this as an equity transaction in the first quarter of 2020 with no gain or loss in the statement of operations. Upon completion of the exchange offer, Hemen Holding Ltd owns 39.4% of the Company.

The recent outbreak of coronavirus COVID-19 ("Coronavirus"), a virus causing potentially deadly respiratory tract infections originating in China, has already and may continue to negatively affect economic conditions and the offshore drilling market and otherwise impact our operations and the operations of our customers, suppliers and other stakeholders. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore we cannot predict the impact it may have on our future operations, which could be material and adverse. On March 3, 2020, West Aquila Inc and West Libra Inc issued force majeure notices informing DSME that the Coronavirus was impacting the preservation and maintenance activities on the drillships under construction and that they would advise DSME in due course of the period by which the delivery dates of the drillships shall be postponed. DSME responded on March 11, 2020, denying that a force majeure event had occurred and objecting to the force majeure notices.

As of the date of this report, the Company has two drillships under construction, which are expected to be delivered in the first half of 2021, subject to the impact of the Coronavirus. The Company is actively marketing the drillships for acceptable drilling contracts that can support financing for delivery and startup, and has the ability to take delivery earlier should a contract and funding be secured.

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 secure acceptable drilling contracts and take delivery of the current newbuildings, decreasing market value of the drillships, failure to acquire future assets, securing additional funding and achieving a satisfactory outcome in the disputes with Daewoo Shipbuilding & Marine Engineering Co. Ltd ("DSME"). 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 and are significantly impacted by the price of oil, which can be very volatile. The Company has a limited number of drilling units, which makes it vulnerable in the event of a loss of revenue of any such drilling units and should the Company not be able to obtain favorable contracts for its drilling units.

## **2. BASIS OF ACCOUNTING**

### **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.

The presentation of the consolidated statement of operations for 2018 has been expanded to conform with the 2019 presentation. The previously reported number for Administrative expenses of \$2.3 million is now reported as \$1.9 million and a new line, Rig

operating expenses, has been added for the training costs of \$0.4 million that were previously included in Administrative expenses. This revision does not impact the Company's previously reported consolidated balance sheet or consolidated statement of cash flows.

We evaluated all of our activity through March 17, 2020 being the date these financial statements were issued, and concluded that no subsequent events have occurred that would require recognition in the financial statements.

### **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. The Company continues to evaluate all alternatives available, including execution of its existing strategy where acceptable drilling contracts are secured to support long-term debt for funding needs. Given the Company's track record of securing contracts, 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 its strategy.

### **Principles of consolidation**

The consolidated financial statements include the assets and liabilities of the Company and its subsidiaries and a variable interest entity, ("VIE") of which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated on consolidation.

A VIE is defined as a legal entity where either (a) the total equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated support; (b) equity interest holders as a group lack either (i) the power to direct the activities of the entity that most significantly impact on its economic success, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the voting rights of some investors in the entity are not proportional to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. U.S. GAAP requires a VIE to be consolidated by its primary beneficiary, being the interest holder, if any, which has both (1) the power to direct the activities of the entity which most significantly impact on the entity's economic performance, and (2) the right to receive benefits or the obligation to absorb losses from the entity which could potentially be significant to the entity. We evaluate our subsidiaries, and any other entities in which we hold a variable interest, in order to determine whether we are the primary beneficiary of the entity, and where it is determined that we are the primary beneficiary we consolidate the entity.

### **Revenue from contracts with customers**

The activities that primarily drive the revenue earned from our drilling contracts include (i) providing a drilling rig and the crew and supplies necessary to operate the rig, (ii) mobilizing and demobilizing the rig to and from the drill site and (iii) performing rig preparation activities and/or modifications required for the contract. Consideration received for performing these activities may consist of dayrate drilling revenue, mobilization and demobilization revenue, contract preparation revenue and reimbursement revenue. We account for these integrated services as a single performance obligation that is (i) satisfied over time and (ii) comprised of a series of distinct time increments.

We recognize consideration for activities that correspond to a distinct time increment within the contract term in the period when the services are performed. We recognize consideration for activities that are (i) not distinct within the context of our contracts and (ii) do not correspond to a distinct time increment, ratably over the estimated contract term.

We determine the total transaction price for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. The amount estimated for variable consideration may be constrained and is only included in the transaction price to the extent that it is probable that a significant reversal of previously recognized revenue will not occur throughout the term of the contract. When determining if variable consideration should be constrained, we consider whether there are factors outside of our control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue. We re-assess these estimates each reporting period as required. Refer to Note 3 - Revenue from Contracts with Customers.

**Dayrate Drilling Revenue** - Our drilling contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is allocated to the distinct hourly increment it relates to within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

**Mobilization Revenue** - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization of our rigs. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall performance obligation and recognized ratably over the expected term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized ratably to contract drilling revenue as services are rendered over the initial term of the related drilling contract.

**Revenues Related to Reimbursable Expenses** - We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof are highly dependent on factors outside of our influence. Accordingly, reimbursable revenue is fully constrained and not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenue at the gross amount billed to the customer, at a point in time, as "Reimbursable revenues" in our Consolidated Statements of Operations.

**Contract Balances** - Accounts receivable is recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Contract asset balances consist primarily of demobilization revenues which have been recognized during the period but are contingent on future demobilization activities. Contract liabilities include payments received for mobilization as well as rig preparation and upgrade activities which are allocated to the overall performance obligation and recognized ratably over the initial term of the contract.

**Local Taxes** - In some countries, the local government or taxing authority may assess taxes on our revenues. Such taxes may include sales taxes, use taxes, value-added taxes, gross receipts taxes and excise taxes. We generally record tax-assessed revenue transactions on a net basis.

**Deferred Contract Costs** - Certain direct and incremental costs incurred for upfront preparation, initial mobilization and modifications of contracted rigs represent costs of fulfilling a contract as they relate directly to a contract, enhance resources that will be used in satisfying our performance obligations in the future and are expected to be recovered. Such costs are deferred and amortized ratably to contract drilling expense as services are rendered over the initial term of the related drilling contract.

### **Rig operating Expenses**

Rig operating expenses are costs associated with operating a drilling unit that is either in operation or stacked and include the remuneration of offshore crews and related costs, rig supplies, insurance costs, expenses for repairs and maintenance and costs for onshore support personnel. We expense such costs as incurred.

### **Mobilization and demobilization expenses**

We incur costs to prepare a drilling unit for a new customer contract and to move the rig to a new contract location. We capitalize the mobilization and preparation costs for a rig's first contract as a part of the rig value and recognize them as depreciation expense over the expected useful life of the rig (i.e. 30 years). For subsequent contracts, we defer these costs over the expected contract term (see deferred contract costs above), unless we don't expect the costs to be recoverable, in which case we expense them as incurred.

We incur costs to transfer a drilling unit to a safe harbor or different geographic area at the end of a contract. We expense such demobilization costs as incurred. We also expense any costs incurred to relocate drilling units that are not under contract.

### **Repairs, maintenance and periodic surveys**

Costs related to periodic overhauls of drilling units are capitalized and amortized over the anticipated period between overhauls, which is generally five years. Related costs are primarily yard costs and the cost of employees directly involved in the work. We include amortization costs for periodic overhauls in depreciation expense. Costs for other repair and maintenance activities are included in vessel and rig operating expenses and are expensed as incurred.

### **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.

### **Restricted cash**

Restricted cash consists of bank deposits which are subject to restrictions due to legislation, regulation or contractual arrangements.

**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.

**Receivables**

Receivables, including accounts receivable, are recorded in the balance sheet at their nominal amount less an allowance for doubtful accounts. We establish reserves for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, we consider the financial condition of the customer as well as specific circumstances related to the receivable such as customer disputes. Receivable amounts determined as being unrecoverable are written off. Interest income on receivables is recognized as earned.

**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.

**Drilling units**

Rigs, vessels and related equipment are recorded at historical cost less accumulated depreciation. The cost of these assets, less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated residual value is taken to be offset by any decommissioning costs that may be incurred. The estimated economic useful life of our rigs, when new, is 30 years. Significant investments are capitalized and depreciated in accordance with the nature of the investment. Significant investments that are deemed to increase an asset's value for its remaining useful life are capitalized and depreciated over the remaining life of the asset.

**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.

**Cancelled newbuilding contract**

The cancelled newbuilding contract has been removed from Newbuildings and recorded in the balance sheet as a long term other asset at the amount of installments paid to the yard at the time of cancellation. We will establish a loss reserve if and when it is unlikely that amounts paid will be recovered. In establishing this reserve, we will consider the financial condition of the yard as well as specific circumstances such as disputes. Amounts determined as being unrecoverable are written off. Interest income is recognized as earned.

**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.

**Earnings per share**

Basic earnings per share is computed based on the income available to ordinary shareholders and the weighted average number of shares outstanding. Diluted earnings per share includes the effect of the assumed conversion of potentially dilutive instruments.

**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.

**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.

**Recently Adopted Accounting Standards**

In February 2016, the FASB issued ASU No. 2016-02 "Leases (Topic 842)" and has since modified the standard with several ASUs (collectively, the new lease standard). The standard is effective from January 1, 2019. The Company does not have any leases at present and the standard was adopted with no effect on the Company's consolidated financial statements.

**3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement". This update removes, modifies and adds specific disclosure requirements in relation to fair value measurement with the aim of improving the effectiveness of disclosures to the financial statements. The amendments in this Update are effective for the Company for 2020 and interim periods within that year. Early adoption is permitted, including adoption in an interim period. The amendments in this Update are not expected to have a significant impact on the Company's consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments". Subsequently, ASU 2018-19 has been issued that amends and/or clarifies the application of ASU 2016-13. Among other provisions, the ASU introduces a new impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a forward-looking "expected loss" model that will replace the current "incurred loss" model and generally will result in earlier recognition of allowances for losses. The amendments in this Update are effective for the Company for 2020 and interim periods within that year. Early adoption is permitted, including adoption in an interim period. The amendments in this Update are not expected to have a significant impact on the Company's consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting". The amendments in this Update require that an entity measure and classify share based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer. The amendments in this Update are effective for the Company for 2020 and interim periods within that year. Early adoption is permitted, including adoption in an interim period. The amendments in this Update are not expected to have a significant impact on the Company's consolidated financial statements and related disclosures.



#### 4. REVENUE FROM CONTACTS WITH CUSTOMERS

The following table provides information about receivables and contract liabilities from our contracts with customers:

<i>(in thousands of \$)</i>	<b>2019 Dec 31</b>	<b>2018 Dec 31</b>
Accounts receivable, net	<b>7,214</b>	—
Unbilled receivables	<b>15,671</b>	—
Current contract liabilities (deferred revenue)	<b>11,277</b>	—
Non-current contract liabilities (deferred revenue)	<b>15,191</b>	—

The deferred revenue included above consists primarily of mobilization and upgrade revenue for both wholly and partially unsatisfied performance obligations as well as expected variable mobilization and upgrade revenue for partially unsatisfied performance obligations, which has been estimated for purposes of allocating across the entire corresponding performance obligations.

<i>(in thousands of \$)</i>	
Total contract liabilities at December 31, 2018	—
Deferred revenue accruing in the year	<b>27,939</b>
Amortization of deferred revenue	<b>(1,471)</b>
Total contract liabilities at December 31, 2019	<b>26,468</b>
Current contract liabilities	<b>11,277</b>
Long term contract liabilities	<b>15,191</b>

#### 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.

##### **Deferred tax**

Deferred tax assets and liabilities are based on temporary differences that arise between carrying values used for financial reporting purposes and amounts used for taxation purposes of assets and liabilities and the future tax benefits of tax loss carry forwards.

Our deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reflected on the balance sheet. Valuation allowances are determined to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. To determine the amount of deferred tax assets and liabilities, as well as at the valuation allowances, we must make estimates and certain assumptions regarding future taxable income, including where our drilling units are expected to be deployed, as well as other assumptions related to our future tax position. A change in such estimates and assumptions, along with any changes in tax laws, could require us to adjust the deferred tax assets, liabilities, or valuation allowances. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. The impact of tax law changes is recognized in periods when the change is enacted.

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

## 6. EARNINGS PER SHARE

The computation of basic earnings per share is based on the weighted average number of shares outstanding and net income attributable to the Company. Diluted earnings per share includes the effect of the assumed conversion of the share options that were issued in November 2018. The components of the numerator and the denominator in the calculation are as follows;

	2019	2018
Net loss attributable to the Company <i>(in thousands of \$)</i>	<b>(10,997)</b>	(67)
Weighted average number of ordinary shares <i>(in thousands)</i>	<b>107,556</b>	96,614

## 7. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account for payroll taxes.

## 8. DRILLING UNITS

Movements in the carrying value of Drilling units, which represents the carrying value of *West Mira*, in 2019 may be summarized as follows:

<i>(in thousands of \$)</i>	Cost	Accumulated depreciation	Net carrying value
Balance at December 31, 2018	—	—	—
Transfer from Newbuildings	513,467	—	<b>513,467</b>
Additions	13,983	—	<b>13,983</b>
Depreciation	—	(2,984)	<b>(2,984)</b>
Balance at December 31, 2019	527,450	(2,984)	<b>524,466</b>

The *West Mira* was transferred from Newbuildings to Drilling Units upon the commencement of its drilling contract with Wintershall in November 2019.

## 9. NEWBUILDINGS

Movements in the carrying value of Newbuildings, which includes drilling units and drill ships under construction and drilling units undergoing mobilization prior to commencement of first operating contract, in the years ended December 31, 2019 and 2018 may be summarized as follows:

<i>(in thousands of \$)</i>	2019	2018
Balance at beginning of the year	<b>779,761</b>	185,170
Transfer from Payment on account of newbuilding acquisition	—	200,000
Transfer from Newbuilding prepayment	<b>13,015</b>	—
Installments paid	<b>246,073</b>	362,500
Newbuilding supervision fees and costs	<b>16,315</b>	16,744
Mobilization costs	<b>164,572</b>	14,399
Interest capitalized	<b>18,269</b>	948
Transfer to other long term assets	<b>(49,200)</b>	—
Impairment loss	<b>(2,313)</b>	—
Transfer to Drilling Units	<b>(513,467)</b>	—
Balance at end of the year	<b>673,025</b>	779,761

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 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. While contractual delivery dates are January and March 2021, with an option to take earlier delivery, the Company expects to take delivery of these units at later dates.

In December 2018, the Company took delivery of *West Mira* and paid the final installment of \$182.5 million.

In each of May and July 2019, the Company paid \$18.6 million for the second and third installments due in respect of *Cobalt Explorer*.

In June 2019, the Company took delivery of the *West Bollsta* and paid the final installment due of \$208.9 million. The *West Bollsta* is currently being mobilized in preparation for the commencement of its operating contract with Lundin Norway AS, in the second quarter of 2020.

On October 7, 2019, West Cobalt Inc., a wholly-owned subsidiary of the Company, sent notice to DSME informing the yard it was rescinding the resale contract for the *Cobalt Explorer* for misrepresentation and, in the alternative, terminating the resale contract at common law for repudiatory/renunciatory breach. West Cobalt Inc will claim the return of all sums paid to DSME plus interest and damages. The yard is challenging West Cobalt Inc.'s notice and on December 18, 2019 it purported to terminate the resale contract owing to West Cobalt Inc's alleged failure to pay the third and/or fourth instalment and/or in the alternative West Cobalt Inc's repudiatory/renunciatory breach of the resale contract in wrongfully purporting to rescind/terminate the resale contract. The yard has stated that it will pursue its legal and contractual rights in full, including its right to recover substantial damages. It is accordingly both parties' positions that the resale contract has been brought to an end, although there is a dispute as to which party's termination/rescission was lawful. The dispute is not expected to be resolved in the near future. West Cobalt Inc. had paid instalments of \$49.2 million and further instalments of \$300.8 million would have become payable to DSME under the resale contract. An impairment loss of \$2.3 million has been recorded being the excess of the carrying amount of the *Cobalt Explorer* over the instalments paid of \$49.2 million.

The *West Mira* was transferred from Newbuildings to Drilling Units upon the commencement of its drilling contract with Wintershall in November 2019.

## 10. NEWBUILDING PREPAYMENT

The amount recorded as Newbuilding Prepayment at December 31, 2018 was transferred to Newbuildings in April 2019 upon the exercise of the option for the newbuilding.

## 11. OTHER CURRENT ASSETS

Other current assets at December 31, 2019 and 2018 may be summarized as follows:

<i>(in thousands of \$)</i>	2019	2018
Reimbursable amounts due from customer	9,691	—
VAT receivable	1,888	—
Management fee recoverable	1,902	—
Other	322	345
	13,803	345

## 12. OTHER LONG TERM ASSETS

Other long term assets at December 31, 2019 represents the value of instalments paid for the *Cobalt Explorer* at the time the Company sent notice to DSME informing the yard it was rescinding the resale contract. West Cobalt Inc will claim the return of all sums paid to DSME plus interest and damages. The yard is challenging West Cobalt Inc.'s notice and the dispute is not expected to be resolved in the near future.

### 13. DEBT

<i>(in thousands of \$)</i>	2019	2018
U.S. dollar denominated floating rate debt:		
\$200.0 million term loan facility - <i>West Mira</i>	190,000	200,000
\$200.0 million term loan facility - <i>West Bollsta</i>	200,000	—
Total debt	390,000	200,000
Short term debt	40,000	10,000
Deferred charges	4,505	2,275
Long term debt	345,495	187,725

The outstanding debt as of December 31, 2019 is repayable as follows:

<i>(in thousands of \$)</i>	
2020	40,000
2021	190,000
2022	160,000
2023	—
2024	—
Thereafter	—
	390,000

#### **\$200.0 million senior secured term loan facility - *West Mira***

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*.

#### **\$200.0 million senior secured term loan facility - *West Bollsta***

In May 2019, the Company entered into an agreement with a group of banks to upsize the *West Mira* term loan facility from \$200.0 million to \$400.0 million by adding a separate tranche for the *West Bollsta*. The full amount of this loan was drawn in June 2019 upon the delivery of the *West Bollsta*. The additional tranche has a three year tenor and has a nine month amortization grace followed by quarterly instalments of \$5.0 million. The terms and conditions and financial covenants are the same as the *West Mira* loan, including the interest rate of Libor plus 350 bps.

The Company paid two quarterly installments due under the *West Mira* loan facility each in the amount of \$5.0 million in September and December 2019.

As part of the Reorganization described in Note 1, NOL amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing the Company from its obligations as parent guarantor under the original loan agreement and replacing NOL as the new parent guarantor. NOL's two wholly-owned subsidiaries, *West Mira Inc* and *HHI Deepwater Semi 2 Inc*, continue to provide security for the liabilities under the amended facility ("Revised Bank Facility"). As part of the Revised Bank Facility a new, revolving credit facility of up to \$50.0 million has been made available to NOL. In all other material respects, the Revised Bank Facility (including the additional revolving credit facility) has similar terms as the initial facility, including financial covenants and interest rates.

The *West Mira* and *West Bollsta* loans are secured by mortgages in the respective rigs and contain certain financial covenants, which require a certain equity ratio, positive working capital and a minimum liquidity amount. Subsequent to the Reorganization, the, financial covenants are now measured at NOL's consolidated level instead of the consolidated level of the Company.

NOL is in compliance with all financial covenants as of December 31, 2019.

## Assets pledged

<i>(in thousands of \$)</i>	2019	2018
Drilling unit	524,466	—
Newbuildings	480,011	386,673
	1,004,477	386,673

## Deferred charges

<i>(in thousands of \$)</i>	2019	2018
Debt arrangement fees	5,910	2,335
Accumulated amortization	(1,405)	(60)
	4,505	2,275

In 2019, the Company paid \$3.0 million (2018: \$2.3 million) with respect to debt arrangement fees.

In 2019, amortization expense of \$1.3 million (2018: \$0.1 million) in respect of deferred charges was recorded in other financial expense in the consolidated statement of operations.

## 14. 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.

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.

On June 29, 2018, the Norwegian Financial Supervisory Authority ("Finanstilsynet") approved the Company's prospectus relating to the listing of the 29,805,833 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, 2019, the Company had 107,555,933 common shares outstanding.

## 15. 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, 2019, the exercise price of the options was NOK 63.80 (2018: NOK 63.80) and the Company's share price was NOK 20.65 (2018: NOK 50.80). As at December 31, 2019 and 2018, no options had vested, expired or been forfeited. In 2019, there was \$0.07 million in unrecognized stock compensation expense (2018: \$0.1 million). Stock compensation expense of \$0.01 million was recognized in 2019 (2018: \$0.01 million).

## 16. FAIR VALUES

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2019 and 2018 are as follows:

<i>(in thousands of \$)</i>	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	77,534	77,534	122,832	122,832
Restricted cash	128	128	—	—
<b>Liabilities:</b>				
Floating rate debt	385,495	385,495	197,725	197,725
Related party long term debt	70,000	66,603	—	—

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

<i>(in thousands of \$)</i>	2019			
	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash and cash equivalents	77,534	77,534	—	—
Restricted cash	128	128	—	—
<b>Liabilities:</b>				
Floating rate debt	385,495	—	385,495	—
Related party long term debt	66,603	—	—	66,603

<i>(in thousands of \$)</i>	2018			
	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash and cash equivalents	122,832	122,832	—	—
<b>Liabilities:</b>				
Floating rate debt	197,725	—	197,725	—

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.

Restricted cash – the carrying value in the balance sheet approximates 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.

Related party long term debt - the fair value has been determined using level 3 inputs being the discounted expected cash flows of the outstanding debt.

## 17. RELATED PARTY TRANSACTIONS

Hemen Holding Ltd, or Hemen Holding, a Cyprus holding company, indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family, owned 39.4% of the Company's outstanding ordinary shares at December 31, 2019. The Company transacts business with the following related parties, being companies in which Hemen Holding, or companies affiliated with Hemen Holding, has a significant interest - 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, Sterna Finance Limited, or Sterna Finance, Golden Ocean Management AS, or Golden Ocean, and Frontline Management (Bermuda) Limited, or Frontline Management.

### *Sterna Finance transactions*

In June 2019, a wholly-owned subsidiary of the Company entered into a \$100.0 million revolving credit facility, or RCF, with Sterna Finance. The RCF is repayable in June 2022 and bears interest at 6.75% per annum. The Company drew down \$70.0 million from this facility in the three months ended September 30, 2019. This RCF was novated to NOL as part of the Reorganization and the Company was released from its obligations.

### *Seadrill transactions*

Wholly-owned subsidiaries of Seadrill carry out the newbuilding supervision of the two drillships, and operations supervision of the mobilization and operational preparations of the *West Mira* and *West Bollsta*. The Company pays management fees for supervision of these activities and provides Seadrill funding for the mobilization and operational preparation. In 2019, the Company was charged and capitalized newbuilding supervision fees of \$5.1 million. In 2018, the Company was charged \$4.6 million for *West Mira* and *West Bollsta* and has accrued \$4.6 million for the two drillships. All amounts have been capitalized.

The wholly-owned subsidiary of Seadrill also supervised 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 was expensed and \$2.2 million was recorded as due from related parties at December 31, 2018.

### *Seatankers Management transactions*

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 2019.

### *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 resale 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 was credited against the purchase price and \$93.0 million was payable in five equal instalments over ten months beginning in June 2019. See Note 9 Newbuildings.

Pursuant to the resale agreement, Blue Sea provided an irrevocable and unconditional corporate guarantee to DSME. The Company executed a counter indemnity guarantee under which Blue Sea is indemnified in respect of all amounts paid under its corporate guarantee. The Company paid a guarantee fee of \$0.4 million to Blue Sea.

#### *Golden Ocean and Frontline transactions*

The Company and its subsidiaries receive treasury and accounting/corporate secretarial services from Golden Ocean and Frontline, respectively, and was charged \$0.1 million (2018: 0.1 million) and \$0.1 million (2018: nil), respectively, in 2019.

#### **Related party balances**

A summary of balances due from related parties at December 31, 2019 and 2018 is as follows:

<i>(in thousands of \$)</i>	<b>2019</b>	2-018
Sadrill Global Services Ltd	<b>6,899</b>	2,251

A summary of balances due to related parties at December 31, 2019 and 2018 is as follows:

<i>(in thousands of \$)</i>	<b>2019</b>	2018
Sadrill Global Services Ltd	<b>82,033</b>	5,450
Seatankers Management Co. Ltd	—	293
Frontline Management (Bermuda) Ltd	<b>54</b>	4
	<b>82,087</b>	5,747

## **18. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2019, the Company was committed to paying \$412.0 million, net of commissions, 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. As of December 31, 2019, the Company was also committed to completing the mobilization of *West Bollsta* for commencement of the drilling contract with Lundin.

On October 7, 2019, West Cobalt Inc., a wholly-owned subsidiary of the Company, sent notice to DSME informing the yard it was rescinding the resale contract for the *Cobalt Explorer* for misrepresentation and, in the alternative, terminating the resale contract at common law for repudiatory/renunciatory breach. West Cobalt Inc has claimed the return of all sums paid to DSME plus interest and damages. The yard is challenging West Cobalt Inc.'s notice and on December 18, 2019 it purported to terminate the resale contract owing to West Cobalt Inc's alleged failure to pay the third and/or fourth instalment and/or in the alternative West Cobalt Inc's repudiatory/renunciatory breach of the resale contract in wrongfully purporting to rescind/terminate the resale contract. The yard has stated that it will pursue its legal and contractual rights in full, including its right to recover substantial damages. It is accordingly both parties' positions that the resale contract has been brought to an end although there is a dispute as



to which party's termination/rescission was lawful. The dispute is not expected to be resolved in the near future. West Cobalt Inc. had paid instalments of \$49.2 million at the time of rescission and further instalments of \$300.8 million would have become payable to DSME under the resale contract.

## **19. SUPPLEMENTAL INFORMATION**

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.

## **20. SUBSEQUENT EVENTS**

On February 6, 2020, the Company announced an exchange offer in connection with NOL's application for listing on the Oslo Stock Exchange and a subsequent share offering by NOL. The Company offered its shareholders the opportunity to exchange up to 85% of the shares in the Company at an exchange ratio of 2.0316 shares in the Company for one share in NOL. The exchanged shares in NODL were cancelled upon settlement.

On February 26, 2020, the Company announced that 91,422,966 of its shares were accepted in the exchange offer and exchanged with 45,000,100 shares in NOL that were owned by the Company. Following completion of the exchange offer, the Company does not hold any shares in NOL and 91,422,966 of the Company's shares were cancelled, following which the Company now has 16,133,017 shares issued and outstanding. The Company expects to record this as an equity transaction in the first quarter of 2020 with no gain or loss in the statement of operations. Upon completion of the exchange offer, Hemen Holding owns 39.4% of the Company.

The recent outbreak of Coronavirus, a virus causing potentially deadly respiratory tract infections originating in China, has already and may continue to negatively affect economic conditions and the offshore drilling market and otherwise impact our operations and the operations of our customers, suppliers and other stakeholders. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore we cannot predict the impact it may have on our future operations, which could be material and adverse. On March 3, 2020, West Aquila Inc and West Libra Inc issued force majeure notices informing DSME that the Coronavirus was impacting the preservation and maintenance activities on the drillships under construction and that they would advise DSME in due course of the period by which the delivery dates of the drillships shall be postponed. DSME responded on March 11, 2020, denying that a force majeure event had occurred and objecting to the force majeure notices.