



## NORTHERN DRILLING LTD. RESULTS FOR THE FIRST QUARTER 2020

### Highlights - First Quarter

- On February 6, the Company announced an exchange offer to its shareholders for shares in Northern Ocean Ltd (“NOL”), in connection with NOL's application for listing on the Oslo Børs and a subsequent share offering by NOL.
- On February 26, the Company completed the exchange offer reducing its ownership in the NOL to zero. After the exchange offer, the Company had 16,133,397 shares issued and outstanding and Hemen Holding owned 39.4% of the shares in the Company.

### Results

In the first quarter, operating revenue was \$13.5 million compared to \$13.3 million in the fourth quarter 2019. Revenue resulted from the *West Mira* drilling contract prior to the spin-off of the NOL harsh environment business on February 26, 2020. In these two months, the *West Mira* achieved a technical utilization of 91%, which was negatively impacted by events associated with the challenging weather conditions. Contract revenue was \$11.9 million, which included 28 days waiting on weather rate and 4 days downtime at zero rate from the unplanned release of a life boat during bad weather and then a safety disconnect from the well in severe weather. Reimbursable revenue was \$1.5 million for the first quarter.

Total operating expenses were \$19.5 million compared to \$23.4 million in the fourth quarter 2019. Rig operating expenses were \$12.0 million, which was \$1.3 million less than last quarter as pre-commencement costs and non-recurring costs for the *West Mira* were incurred in the fourth quarter that were slightly offset by additional costs associated with the downtime events in the first quarter. Reimbursable expenses were \$1.4 million, depreciation was \$3.3 million and administrative expenses were \$2.7 million in the quarter. Administrative expenses include \$1.4 million of management fees in connection with *Cobalt Explorer* and other non-recurring costs associated with completing the restructuring and spin-off of NOL.

Other financial expense was \$3.7 million compared to \$2.2 million in the fourth quarter 2019. Loan interest expense of \$2.5 million resulted from borrowings in NOL and amortization of deferred charges in NOL was \$0.3 million. Interest income was \$0.2 million for the first quarter and the net loss attributable to the non-controlling interest in Northern Ocean Ltd was \$2.2 million.

Net loss attributable to the Company for the first quarter 2020 was \$7.2 million, which is \$1.6 million less than the net loss in the fourth quarter 2019.

At the end of the first quarter, cash was \$21.7 million and long term newbuilding assets were \$194.8 million which includes the initial installments and preservation of the *West Aquila* and *West Libra*. Other significant changes in the balance sheet from the fourth quarter were mainly a result of the deconsolidation of the NOL balance sheet after the spin-off was completed on February 26, 2020.

## **Business Update**

In the first quarter 2020 the Company successfully completed its plan to separate the premium harsh environment and high specification ultra deepwater assets creating distinct market offerings that crystalize value of the businesses based on their unique characteristics, drivers and economics. This quarter will be the last reporting period where financial results from the NOL operations are consolidated in the income statement.

## **Outlook**

The Company continues to believe in the long-term fundamentals of the deepwater offshore market and this market will continue to be a part of the global energy mix. The last months have been challenged by sudden reductions in demand and a slowdown of economic activities as personal safety precautions have become the highest priority, which has resulted in a negative impact on offshore drilling.

In response oil companies have reduced near term capex on average 20-30% for 2020 and looking to defer or delay programs into future years depending on specific field economics and oil price outlook. Service companies have begun responding with similar reductions, downsizing and financial restructurings. The Company is uniquely positioned in this market and continues to work with all its stakeholders to find optimal solutions.

## **Forward Looking Statements**

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. See Note 1 to the unaudited condensed consolidated financial statements.

This Report contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates, sometimes identified by the words "believes", "expects", "intends", "plans", "estimates" and similar expressions. The forward-looking statements contained in this Report, including assumptions, opinions and views of the Company or cited from third-party sources, are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause actual events to differ materially from any anticipated development. The Company does not provide any assurance that the assumptions underlying such forward-looking statements are free from errors, nor does the Company accept any responsibility for the future accuracy of the opinions expressed in the presentation or the actual occurrence of the forecasted developments. No obligations are assumed to update any forward-looking statements or to conform these forward-looking statements to actual results.

The Board of Directors  
Northern Drilling Ltd.  
Hamilton, Bermuda  
May 29, 2020

Questions should be directed to:  
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**NORTHERN DRILLING LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

<b>CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS</b> <i>(in thousands of \$)</i>	<b>Jan 1 to Mar 31, 2020</b>	<b>Oct 1 to Dec 31, 2019</b>
Contract revenue	11,948	11,184
Reimbursable revenue	1,513	2,108
<b>Total operating revenues</b>	<b>13,461</b>	<b>13,292</b>
Rig operating expenses	12,045	13,300
Reimbursable expenses	1,422	2,025
Depreciation	3,311	2,984
Impairment of non-current assets	—	2,313
Administrative expenses	2,711	2,774
<b>Total operating expenses</b>	<b>19,489</b>	<b>23,396</b>
<b>Net operating loss</b>	<b>(6,028)</b>	<b>(10,104)</b>
Interest income	172	257
Other financial income (expense)	(3,669)	(2,223)
<b>Net loss before taxes and non-controlling interest</b>	<b>(9,525)</b>	<b>(12,070)</b>
Tax	178	931
<b>Net loss</b>	<b>(9,347)</b>	<b>(11,139)</b>
Net loss attributable to non-controlling interest	2,195	2,420
<b>Net loss attributable to the Company</b>	<b>(7,152)</b>	<b>(8,719)</b>
<b>Basic loss per share attributable to the Company (\$)</b>	<b>(0.10)</b>	<b>(0.08)</b>

<b>CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS</b> <i>(in thousands of \$)</i>	<b>Jan 1 to Mar 31, 2020</b>	<b>Oct 1 to Dec 31, 2019</b>
<b>Net loss</b>	<b>(9,347)</b>	<b>(11,139)</b>
Foreign currency translation income	3	13
<b>Other comprehensive income</b>	<b>3</b>	<b>13</b>
<b>Comprehensive loss</b>	<b>(9,344)</b>	<b>(11,126)</b>
Comprehensive loss attributable to non-controlling interest	(2,195)	(2,420)
Comprehensive loss attributable to the Company	(7,149)	(8,706)
<b>Comprehensive loss</b>	<b>(9,344)</b>	<b>(11,126)</b>

*See accompanying notes that are an integral part of these unaudited condensed consolidated financial statements.*

**NORTHERN DRILLING LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

<b>CONDENSED CONSOLIDATED BALANCE SHEET</b> <i>(in thousands of \$)</i>	<b>2020</b> <b>Mar 31</b>	<b>2019</b> <b>Dec 31</b>
<b>ASSETS</b>		
<b>Short term</b>		
Cash and cash equivalents	21,680	77,534
Restricted cash	—	128
Receivables	—	7,214
Unbilled receivables	—	15,671
Related party receivables	—	6,899
Other current assets	1,994	13,803
<b>Long term</b>		
Drilling units	—	524,466
Newbuildings	194,813	673,025
Fixtures and fittings	1	3
Other long term assets	49,200	49,200
Deferred tax	—	931
<b>Total assets</b>	<b>267,688</b>	<b>1,368,874</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Short term liabilities</b>		
Current portion of long term debt	—	40,000
Other current liabilities	849	6,485
Deferred revenue	—	11,277
Related party payables	13,469	82,087
<b>Long term liabilities</b>		
Long term debt	—	345,495
Deferred revenue	—	15,191
Related party long term debt	—	70,000
<b>Commitments and contingencies (Note 10)</b>		
Total equity	253,370	798,339
<b>Total liabilities and equity</b>	<b>267,688</b>	<b>1,368,874</b>

*See accompanying notes that are an integral part of these unaudited condensed consolidated financial statements.*

**NORTHERN DRILLING LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

<b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW</b> <i>(in thousands of \$)</i>	<b>Jan 1 to Mar 31, 2020</b>	<b>Oct 1 to Dec 31, 2019</b>
<b>NET LOSS</b>	<b>(9,347)</b>	<b>(11,139)</b>
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of deferred charges	337	443
Amortization of deferred revenue	(1,432)	(1,471)
Depreciation	3,311	2,984
Impairment of non-current assets	—	2,313
Stock option expense	13	23
Unrealized foreign exchange loss	3	13
Tax	(178)	(931)
Change in operating assets and liabilities:		
Receivables	—	(7,214)
Unbilled receivables	—	(15,671)
Other current assets	3,104	(11,516)
Other current liabilities	6,205	3,791
Related party balances	10,594	11,850
Deferred revenue	—	16,961
<b>Net cash provided by (used in) operating activities</b>	<b>12,610</b>	<b>(9,564)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to newbuilding	(1,802)	(57,271)
Cash, cash equivalents and restricted cash disposed of in exchange offer	(66,790)	—
Purchase of fixtures and fittings	—	(1)
<b>Net cash used in investing activities</b>	<b>(68,592)</b>	<b>(57,272)</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from share issuances	—	98,300
Repayment of bank debt	—	(5,000)
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>93,300</b>
<b>Net change</b>	<b>(55,982)</b>	<b>26,464</b>
<b>Cash, cash equivalents and restricted cash at start of the period</b>	<b>(182,338)</b>	<b>51,198</b>
<b>Cash, cash equivalents and restricted cash at end of the period</b>	<b>(238,320)</b>	<b>77,662</b>

See Note 11 for details of non-cash activities.

*See accompanying notes that are an integral part of these unaudited condensed consolidated financial statements.*

**NORTHERN DRILLING LTD.**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b> <i>(in thousands of \$ except number of shares)</i>	<b>Jan 1 to Mar 31, 2020</b>	<b>Oct 1 to Dec 31, 2019</b>
<b>Number of shares outstanding</b>		
Balance at beginning of period	107,555,983	107,555,983
Shares cancelled	(91,422,966)	—
Balance at end of period	<b>16,133,017</b>	<b>107,555,983</b>
<b>Share capital</b>		
Balance at beginning of period	107,556	107,556
Impact of exchange offer	(91,423)	—
Balance at end of period	<b>16,133</b>	<b>107,556</b>
<b>Additional paid in capital</b>		
Balance at beginning of period	611,048	610,945
Impact of exchange offer	(350,530)	—
Stock option expense	13	103
Balance at end of period	<b>260,531</b>	<b>611,048</b>
<b>Accumulated other comprehensive income</b>		
Balance at beginning of period	13	—
Other comprehensive income	3	13
Balance at end of period	<b>16</b>	<b>13</b>
<b>Retained deficit</b>		
Balance at beginning of period	(16,158)	(7,439)
Net loss	(7,152)	(8,719)
Balance at end of period	<b>(23,310)</b>	<b>(16,158)</b>
<b>Total equity attributable to the Company</b>	<b>253,370</b>	<b>702,459</b>
<b>Non-controlling interest</b>		
Balance at beginning of period	95,880	—
Net proceeds from share issuance	—	98,300
Net loss	(2,195)	(2,420)
Impact of exchange offer	(93,685)	—
Balance at end of period	—	<b>95,880</b>
<b>Total equity</b>	<b>253,370</b>	<b>798,339</b>

*See accompanying notes that are an integral part of these unaudited condensed consolidated financial statements.*

## **NORTHERN DRILLING LTD.**

### **NOTES TO THE UNAUDITED CONDENSED 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 primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide.

On February 6, 2020, the Company announced an exchange offer in connection with an application for listing of Northern Ocean Ltd ("NOL") on the Oslo Børs and a subsequent share offering by NOL. The Company offered its shareholders the opportunity to exchange up to 85% of their ownership in the Company at an exchange ratio of 2.0316 shares in the Company for one share in NOL.

On February 26, 2020, the Company announced that 91,422,586 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 91,422,586 of the Company's shares were cancelled, following which the Company now has 16,133,017 shares issued and outstanding. The Company has de-consolidated NOL as a result of the exchange offer and has recorded this as an equity transaction at book values in the first quarter of 2020 with no gain or loss arising.

As of the date of this report, the Company has two drillships under construction, which have delivery dates in the first half of 2021. 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 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 rigs, failure to acquire future assets, developing into an operating business and securing additional funding. In addition, public health threats, such as the coronavirus COVID-19 ("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, with intense price competition.

#### **2. BASIS OF ACCOUNTING**

The unaudited condensed consolidated financial statements are stated in accordance with accounting principles generally accepted in the United States as described in the Company's audited financial statements for the year ended December 31, 2019. The condensed 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 condensed 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.

#### **3. INCOME TAXES**

##### **Bermuda**

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

### Other Jurisdictions

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

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

### 4. 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;

	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
Net loss attributable to the Company (in thousands of \$)	(7,152)	(8,719)
Weighted average number of ordinary shares (in thousands)	73,398	107,556

### 5. NEWBUILDINGS

Movements in the carrying value of Newbuildings in the three months ended March 31, 2020 may be summarized as follows:

*(in thousands of \$)*

Balance at December 31, 2019	673,025
Additions to West Bollsta prior to exchange offer	17,516
Impact of exchange offer	(497,528)
Newbuilding supervision fees and costs	1,800
Balance at March 31, 2020	194,813

### 6. OTHER LONG TERM ASSETS

Other long term assets 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.

### 7. 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.

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



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. Upon completion of the exchange offer, Hemen Holding owns 39.4% of the Company.

## 8. FAIR VALUES

The carrying value and estimated fair value of the Company's financial instruments as of March 31, 2020 are as follows:

<i>(in thousands of \$)</i>	Carrying Value	Fair Value
Assets:		
Cash and cash equivalents	21,680	21,680

The estimated fair value of financial assets are as follows:

<i>(in thousands of \$)</i>	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	21,680	21,680	—	—

The Company believes that the carrying value of cash and cash equivalents in the balance sheet approximates fair value.

## 9. 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 March 31, 2020. 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, Golden Ocean Management AS, or Golden Ocean, Frontline Management (Bermuda) Limited, or Frontline Management and Northern Ocean Ltd or Northern Ocean.

### *Seadrill transactions*

Wholly-owned subsidiaries of Seadrill carry out the newbuilding supervision of the two drillships. In the three months ended March 31, 2020, the Company was charged and capitalized newbuilding supervision fees of \$1.7 million.

### *Seatankers Management transactions*

The Company and its subsidiaries receive management services from Seatankers Management. The fee was \$0.1 million in the three months ended March 31, 2020.

### *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 \$0.018 million and \$0.006 million, respectively, in the three months ended March 31, 2020.

### *Northern Ocean transactions*

The Company receives management services from Northern Ocean and was charged \$0.2 million in the three months ended March 31, 2020.

**Related party balances**

A summary of balances due to related parties at March 31, 2020 is as follows:

<i>(in thousands of \$)</i>	
Seadrill Global Services Ltd	13,167
Northern Ocean Ltd	143
Seatankers Management Co. Ltd	144
Frontline Management (Bermuda) Ltd	15
	<u>13,469</u>

**10. COMMITMENTS AND CONTINGENCIES**

As of March 31, 2020, the Company was committed to paying \$412.0 million, net of commissions, for the second and final instalments upon the contractual delivery of the two drillships in the first half of 2021.

**11. SUPPLEMENTAL INFORMATION**

The Company de-consolidated the results and operations of NOL at the end of February 2020 as a result of the exchange offer described in Note 1 and has recorded this as an equity transaction at book values. The net impact on the Company's consolidated balance sheet was a reduction in net assets of \$535.6 million. This amount included cash, cash equivalents and restricted cash of \$66.8 million.