

**CONSOLIDATED FINANCIAL STATEMENTS**

**NORTHERN OCEAN LTD.**

**YEAR ENDED DECEMBER 31, 2019**

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**Northern Ocean Ltd.**  
**Board of Directors Report**

**Nature of the Business**

Northern Ocean Ltd. (formerly known as Northern Rig Holding Ltd.), or the Company, was incorporated under the laws of Bermuda on March 3, 2017, as a wholly-owned subsidiary of Northern Drilling Ltd ("NODL") with its principal executive office located in Hamilton, Bermuda, for the purpose of ownership of offshore drilling rigs. The Company is expected to be primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide.

On December 3, 2019, a reorganization of certain of NODL's subsidiaries was completed (the "Reorganization"). The Company purchased all of the common shares in Northern Drilling Operations Ltd ("NDOL") from NODL for a consideration of \$1.00. Furthermore, the Company purchased all of the common shares in Northern Drilling Management AS ("NDMN") from NODL for a negative consideration of \$49,200 as NDMN had negative net assets that was settled through a credit granted by the Company to NODL. The reorganization of these NODL subsidiaries was recorded by the Company at NODL's historical cost basis as common control transactions with no step up to fair value.

As part of the Reorganization, the authorized share of the Company was increased from \$100 to \$1,000,000,000 divided into 1,000,000,000 common shares of par value \$1 each. Further, a net inter-company balance due from the Company and its subsidiaries to NODL of \$453,436,508 was settled by the Company issuing 45,000,000 new shares to NODL at a subscription price of approximately \$10.08 thereby increasing the issued share capital of the Company from 100 shares to 45,000,100 shares.

As part of the Reorganization, the Company also amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing NODL from its obligations as Parent Guarantor under the original loan agreement and replacing the Company as the new Parent Guarantor. The Company's two wholly-owned subsidiaries, West Mira Inc and HHI Deepwater Semi 2 Inc, will 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 the Company. 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 Company's consolidated level instead of NODL's consolidated level.

Also as part of the Reorganization, the \$100.0 million revolving credit facility that was provided by Sterna Finance to NODL ("Sterna Facility") was novated to the Company and NODL was released from its obligations thereunder. The Company was compensated for this by a \$70.0 million reduction of the balance owed to NODL, 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 NODL) were released from their obligations as guarantors (and the facility is now unsecured).

Also on December 3, 2019, the Company entered into (i) a services agreement with Seatankers Management whereby Seatankers Management agreed to provide the Company 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 the Company with certain advisory and support services, and (iii) a services agreement with Frontline Management (Bermuda) Limited ("FMBL") whereby FMBL agreed to provide the Company with certain accounting support services.

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

In December 2019, the Company 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). Hemen Holding Ltd, the largest shareholder in NODL and NOL, was allocated 7,490,636 Offer Shares in the Private Placement, and owned 11.8% of the Company following the Private Placement. Following issuance of the Offer Shares, the Company had an issued share capital of \$63,726,692 divided into 63,726,692 shares, each with a nominal value of \$1.00. 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*. Pursuant to the Private Placement, the Company received net proceeds of \$98.3 million.

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

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

On February 26, 2020, NODL announced that 91,422,966 of its shares were accepted in the exchange offer and exchanged with 45,000,100 shares in the Company that were owned by NODL. Following completion of the exchange offer, NODL does not hold any shares in the Company and 91,422,966 of NODL's shares were cancelled. Upon completion of the exchange offer, Hemen Holding owns 39.5% of the Company.

On February 26, 2020, the Company issued 75,686 shares in the subsequent offering at a subscription price of NOK 49 per share, generating gross proceeds of NOK 3.7 million and has 63,802,378 shares issued and outstanding as at the date of this report.

On February 27, 2020, the Company's shares began trading on the Oslo Børs.

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 fourth quarter 2019. The Company did not have any drilling units in operation previously and the operating results in nine months ended September 30, 2019 consisted of interest income, administrative expenses and non-capitalized costs related to contract preparations. Up to the time of the Re-organization, the Company was a fully integrated group within NODL and did not have a separate management function. The Company operated under the management of NODL and no management fees were charged to the Company by NODL. Following the internal re-organization in December 2019, the Company will operate as a standalone group and will incur certain management charges.

As of the date of this report, the Company owns two semi-submersible rigs, *West Mira* and *West Bollsta*, 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 consolidates 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 Working Environment**

At the end of 2019, the Company had two employees, 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 five 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.

### **Assessment of Results and Cash Flow Items**

The Company's activities since incorporation in March 2017 have consisted principally of acquiring drilling units 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.

The Company used cash of \$15.4 million in operating activities due to a cash outflow of \$6.3 million from operations and a \$9.1 million unfavorable change in other operating assets and liabilities.

The Company's investing activities in the year of \$230.8 million primarily comprised the final installment of \$208.9 million that was paid on the delivery of *West Bollsta* in June 2019, new building supervision costs of *West Bollsta* and mobilization costs of *West Bollsta* and *West Mira*.

The Company generated cash from financing activities of \$285.4 million as a result of the Company's private placement in December 2019, which generated net proceeds of \$98.3 million, and \$200.0 million of long term bank debt upon the delivery of *West Bollsta* in July 2019. 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 \$53.9 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, decreasing market value of the rigs, failure to acquire future assets, developing into an operating business and securing additional funding for new rigs. 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. The Company also needs to comply with certain financial covenants under the terms of its existing term loan facility and failure to do so would require the outstanding loan to be repaid. Further, the success and growth of the Company's business is depending on the level of activity in the offshore oil and gas industry generally and the drilling industry specifically. Both such industries are highly competitive and are significantly impacted by the price of oil, which can be very volatile. Further, the Company has a limited number of rigs which makes it vulnerable in the event of a loss of revenue of any such rigs due to market developments, technical or regulatory matters, and should the Company not be able to obtain favorable contracts for its rigs.

### **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 COVID-19 and significant oil price volatility, the Company is evaluating information as it becomes available, remaining pragmatic and leveraging relationships with its service providers and clients 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 initially targeted the harsh environment and benign ultra-deep water sectors and will continue to dedicate resources for further growth within these segments. The Company has an opportunistic growth strategy and will carefully review opportunities for assets that can operate in shallower water depths.

In accordance with normal practice for Bermuda companies, the Company's Bye-Laws do not include a specific description of its business. According to the Memorandum of Association, the objects for which the Company was formed and incorporated are unrestricted. As a Bermuda incorporated company, the Company has chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code of Practice.

*Section 3 "Equity and dividends"*: The Company's equity capital is at a level appropriate for its objectives, strategy, and risk profile. In accordance with Bermuda law, the Board of Directors is authorized to permit its own shares to be held as treasury shares, and to issue any un-issued shares within the limits of the authorized share capital 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 transactions 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 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 Ocean 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 Ocean Ltd.  
March 17, 2020

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

/s/ James Ayers  
James Ayers (Director)

/s/ Joao Saraiva e Silva  
Joao Saraiva e Silva (Director)

/s/ Bote de Vries  
Bote de Vries (Director)

/s/ Ole Falk Hansen  
Ole Falk Hansen (Director)

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



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

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

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### ***Our opinion***

We have audited the consolidated financial statements of Northern Ocean 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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### ***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. 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
<b><i>Impairment Assessment for Drilling Units and Newbuildings</i></b>  We refer to note 2 - Basis of Accounting, where management explains their impairment process.  The Group has one semi-submersible rig which was put into operations and one semi-submersible rig under mobilization.	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.  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



At the balance sheet date, the carrying values of the rigs were USD 524.5 million and USD 480.0 million correspondingly, which in total represent 91% of the balance sheet.

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.

Following management's assessment, no impairment indicators were identified for the rigs. Based on this, no impairment test was performed, and no impairment charge was recognized.

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 could be of significant consequence.

market capitalization compared to net assets value, development in values for harsh-environment semi-submersible drilling rigs, 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.

Management compiled broker valuation certificates for the 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.

We have read note 8 – Drilling units, and note 9 - Newbuildings, and assessed this to be in line with the requirements.

No matters of consequence arose from the procedures above.

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#### *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 Ocean 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	—
Other revenues	756	—
<b>Total operating revenues</b>	<b>14,048</b>	<b>—</b>
<b>Operating expenses</b>		
Rig operating expenses	13,999	350
Reimbursable expenses	2,025	—
Depreciation	2,984	—
Administrative expenses	1,411	1
<b>Total operating expenses</b>	<b>20,419</b>	<b>351</b>
<b>Net operating loss</b>	<b>(6,371)</b>	<b>(351)</b>
<b>Other income (expenses)</b>		
Bank interest income	255	25
Other financial income (expenses)	(3,049)	(60)
<b>Total other income (expenses)</b>	<b>(2,794)</b>	<b>(35)</b>
<b>Net loss before taxes</b>	<b>(9,165)</b>	<b>(386)</b>
Tax	931	—
<b>Net loss</b>	<b>(8,234)</b>	<b>(386)</b>
<b>Basic and diluted loss per share (\$)</b>	<b>(1.74)</b>	<b>—</b>

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Ocean 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>(8,234)</b>	<b>(386)</b>
Foreign currency translation income	13	—
<b>Other comprehensive income</b>	<b>13</b>	<b>—</b>
<b>Comprehensive loss</b>	<b>(8,221)</b>	<b>(386)</b>

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Ocean 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	53,895	14,851
Restricted cash	128	—
Accounts receivable, net	7,214	—
Unbilled receivables	15,671	—
Related party receivables	6,944	2,251
Other current assets	11,895	309
<b>Total current assets</b>	<b>95,747</b>	<b>17,411</b>
<b>Non-current assets</b>		
Drilling units	524,466	—
Newbuildings	480,011	594,938
Fixtures and fittings	2	—
Deferred tax asset	931	—
<b>Total assets</b>	<b>1,101,157</b>	<b>612,349</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of long term debt	40,000	10,000
Other current liabilities	5,475	731
Deferred revenue	11,277	—
Related party payables	70,595	414,285
<b>Total current liabilities</b>	<b>127,347</b>	<b>425,016</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>558,033</b>	<b>612,741</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Equity</b>		
Share capital (63,726,692 shares issued and outstanding (2018: 100), par value \$1.00 each)	63,727	—
Additional paid in capital	488,010	—
Accumulated other comprehensive income	13	—
Retained deficit	(8,626)	(392)
<b>Total equity</b>	<b>543,124</b>	<b>(392)</b>
<b>Total liabilities and equity</b>	<b>1,101,157</b>	<b>612,349</b>

*See accompanying Notes to the Consolidated Financial Statements.*



**Northern Ocean 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>(8,234)</b>	<b>(386)</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	—
Unrealized foreign exchange loss	13	—
Tax	(931)	—
Change in operating assets and liabilities;		
Accounts receivable, net	(7,214)	—
Unbilled receivables	(15,671)	—
Other current assets	(11,586)	—
Other current liabilities	4,119	—
Related party balances	(6,713)	—
Deferred revenue	27,939	—
<b>Net cash used in operating activities</b>	<b>(15,420)</b>	<b>(326)</b>
<b>Investing activities</b>		
Additions to newbuildings	(230,756)	(182,489)
Purchase of fixtures and fittings	(2)	—
<b>Net cash used in investing activities</b>	<b>(230,758)</b>	<b>(182,489)</b>
<b>Financing activities</b>		
Net proceeds from share issuances	98,300	—
Proceeds from long term debt	200,000	200,000
Repayment of bank debt	(10,000)	—
Debt fees paid	(2,950)	(2,335)
<b>Net cash provided by financing activities</b>	<b>285,350</b>	<b>197,665</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>39,172</b>	<b>14,850</b>
<b>Cash, cash equivalents and restricted cash at start of the year</b>	<b>14,851</b>	<b>1</b>
<b>Cash, cash equivalents and restricted cash at end of the year</b>	<b>54,023</b>	<b>14,851</b>
<b>Supplemental disclosure of cash information:</b>		
Interest paid, net of interest capitalized	984	—
Income taxes paid	—	—

Details of non-cash investing and financing activities are given in Note 16.

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Ocean 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	100	100
Shares issued	63,726,592	—
Balance at end of the year	63,726,692	100
<b>Share capital</b>		
Balance at start of the year	—	—
Shares issued	63,727	—
Balance at end of the year	63,727	—
<b>Additional paid in capital</b>		
Balance at start of the year	—	—
Shares issued	488,010	—
Balance at end of the year	488,010	—
<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	(392)	(6)
Net loss	(8,234)	(386)
Balance at end of the year	(8,626)	(392)
<b>Total equity</b>	<b>543,124</b>	<b>(392)</b>

*See accompanying Notes to the Consolidated Financial Statements.*

**Northern Ocean Ltd.**  
**Notes to the Consolidated Financial Statements**

**1. GENERAL**

Northern Ocean Ltd. (formerly known as Northern Rig Holding Ltd.), or the Company, was incorporated under the laws of Bermuda on March 3, 2017, as a wholly-owned subsidiary of Northern Drilling Ltd ("NODL") with its principal executive office located in Hamilton, Bermuda, for the purpose of ownership of offshore drilling rigs. The Company is expected to be primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide.

On December 3, 2019, the authorized share of the Company was increased from \$100 to \$1,000,000,000 divided into 1,000,000,000 common shares of par value \$1 each.

On December 3, 2019, a reorganization of certain of NODL's subsidiaries was completed (the "Reorganization"). The Company purchased all of the common shares in Northern Drilling Operations Ltd ("NDOL") from NODL for a consideration of \$1.00. Furthermore, the Company purchased all of the common shares in Northern Drilling Management AS ("NDMN") from NODL for a negative consideration of \$49,200 as NDMN had negative net assets that was settled through a credit granted by the Company to NODL. The reorganization of these NODL subsidiaries was recorded by the Company at NODL's historical cost basis as common control transactions with no step up to fair value.

As part of the Reorganization, a net inter-company balance due from the Company and its subsidiaries to NODL of \$453,436,508 was settled by the Company issuing 45,000,000 new shares to NODL at a subscription price of approximately \$10.08 thereby increasing the issued share capital of the Company from 100 shares to 45,000,100 shares.

As part of the Reorganization, the Company also amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing NODL from its obligations as Parent Guarantor under the original loan agreement and replacing the Company as the new Parent Guarantor. The Company's two wholly-owned subsidiaries, West Mira Inc and HHI Deepwater Semi 2 Inc, will 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 the Company. 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 Company's consolidated level instead of NODL's consolidated level.

Also as part of the Reorganization, the \$100.0 million revolving credit facility that was provided by Sterna Finance to NODL ("Sterna Facility") of which \$70.0 million had been drawn as of September 30, 2019, was novated to the Company and NODL was released from its obligations. The Company was compensated for this by a \$70.0 million reduction of the balance owed to NODL, 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 NODL) were released from their obligations as guarantors (and the facility is now unsecured).

Also on December 3, 2019, the Company entered into (i) a services agreement with Seatankers Management whereby Seatankers Management agreed to provide the Company 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 the Company with certain advisory and support services, and (iii) a services agreement with Frontline Management (Bermuda) Limited ("FMBL") whereby FMBL agreed to provide the Company with certain accounting support services.

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

On December 6, 2019, the Company 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). Hemen Holding, the largest shareholder in NODL, was allocated 7,490,636 Offer Shares in the Private Placement, and owned 11.8% of the Company following the Private Placement. Following issuance of the Offer Shares, the Company has an issued share capital of \$63,726,692 divided into 63,726,692 shares, each with a nominal value of \$1.00. 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*. Pursuant to the Private Placement, the Company received net proceeds of \$98.3 million.

On December 6, 2019, the Company's shares were registered for trading on the Norwegian OTC list (ticker "NOL") and commenced trading on December 9, 2019.

The Company's activities since incorporation in March 2017 have consisted principally of acquiring drilling units under construction, raising capital and operational preparations for initial drilling contracts. The Company commenced its initial drilling activities in fourth quarter 2019. The Company did not have any drilling units in operation previously and the operating results in nine months ended September 30, 2019 consisted of interest income, administrative expenses and non-capitalized costs related to contract preparations. Up to the time of the Re-organization, the Company was a fully integrated group within NODL and did not have a separate management function. The Company operated under the management of NODL and no management fees were charged to the Company by NODL. Following the internal re-organization in December 2019, the Company operates as a standalone group and will incur management charges.

As of the date of this report, the Company owns two semi-submersible rigs, *West Mira* and *West Bollsta*, that were delivered to the Company in December 2018 and June 2019, respectively. The *West Mira* commenced its 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 consolidates 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'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, decreasing market value of the rigs, failure to acquire future assets, developing into an operating business and securing additional funding for new rigs. 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. The Company also needs to comply with certain financial covenants under the terms of its existing term loan facility and failure to do so would require the outstanding loan to be repaid. Further, the success and growth of the Company's business is depending on the level of activity in the offshore oil and gas industry generally and the drilling industry specifically. Both such industries are highly competitive and are significantly impacted by the price of oil, which can be very volatile. Further, the Company has a limited number of rigs which makes it vulnerable in the event of a loss of revenue of any such rigs due to market developments, technical or regulatory matters, and should the Company not be able to obtain favorable contracts for its rigs.

## **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.

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.

### **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.

Other revenues relate to management support and administrative services provided to NODL.

**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.

**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.

#### **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.

#### **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. The Company does not have any 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.

#### 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>	2019	2018
Accounts receivable, net	7,214	—
Unbilled receivables	15,671	—
Current contract liabilities (deferred revenue)	11,277	—
Non-current contract liabilities (deferred revenue)	15,191	—

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	27,939
Amortization of deferred revenue	(1,471)
Total contract liabilities at December 31, 2019	26,468
Current contract liabilities	11,277
Long term contract liabilities	15,191

#### 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.

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 loss. The Company does not have any dilutive instruments. The components of the numerator and the denominator in the calculation are as follows;

	2019	2018
Net loss <i>(in thousands of \$)</i>	(8,234)	(386)
Weighted average number of ordinary shares <i>(in thousands)</i>	4,735	—



## 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 the year ended December 31, 2019 may be summarized as follows:

<i>(in thousands of \$)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net carrying value</b>
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>	<b>2019</b>	<b>2018</b>
Balance at beginning of the year	<b>594,938</b>	184,952
Transfer from Payment on account of newbuilding acquisition	—	200,000
Installments paid	<b>208,873</b>	182,500
Newbuilding supervision fees and costs	<b>7,981</b>	12,139
Mobilization costs	<b>164,581</b>	14,399
Interest capitalized	<b>17,105</b>	948
Transfer to Drilling Units	<b>(513,467)</b>	—
Balance at end of the year	<b>480,011</b>	594,938

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

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.

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

## 10. 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	—
Other	316	309
	11,895	309

## 11. 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* and contains certain financial covenants on a consolidated basis for Northern Drilling, which require a certain equity ratio, positive working capital and a minimum liquidity amount. Northern Drilling has guaranteed the Company's obligations under this loan.

### **\$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, the Company amended its existing \$400.0 million secured loan facility with various banks. The amendments included releasing NODL from its obligations as parent guarantor under the original loan agreement and replacing the Company as the new parent guarantor. The Company'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 the Company. 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 the Company's consolidated level instead of the consolidated level of NODL.

The Company 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.

## 12. SHARE CAPITAL

On December 3, 2019, the authorized share of the Company was increased from \$100 to \$1,000,000,000 divided into 1,000,000,000 common shares of par value \$1 each.

On December 3, 2019, a reorganization of certain of NODL's subsidiaries was completed (the "Reorganization"). The Company purchased all of the common shares in Northern Drilling Operations Ltd ("NDOL") from NODL for a consideration of \$1.00. Furthermore, the Company purchased all of the common shares in Northern Drilling Management AS ("NDMN") from NODL for a negative consideration of \$49,200 as NDMN had negative net assets that was settled through a credit granted by the Company to NODL. The reorganization of these NODL subsidiaries was recorded by the Company at NODL's historical cost basis as common control transactions with no step up to fair value.

As part of the Reorganization, a net inter-company balance due from the Company and its subsidiaries to NODL of \$453,436,508 was settled by the Company issuing 45,000,000 new shares to NODL at a subscription price of approximately \$10.08 thereby increasing the issued share capital of the Company from 100 shares to 45,000,100 shares.

On December 6, 2019, the Company completed a private placement (the "Private Placement"), which raised gross proceeds of \$100.0 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). Hemen Holding, the largest shareholder in NODL, was allocated 7,490,636 Offer Shares in the Private Placement, and owned 11.8% of the Company following the Private Placement.

On December 6, 2019, the Company'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 had 63,726,692 shares outstanding.

### 13. 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	53,895	53,895	14,851	14,851
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	53,895	53,895	—	—
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	14,851	14,851	—	—
<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.

### 14. 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% and 11.8% of NODL's and the Company's outstanding ordinary shares at December 31, 2019, respectively. 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 - Sterna Finance Ltd, or Sterna Finance, Seadrill Ltd, or Seadrill, Seatankers Management Co. Ltd, or Seatankers Management, Golden Ocean Management AS, or Golden Ocean and Frontline Management (Bermuda) Limited, or Frontline Management.

#### *Sterna Finance transactions*

In June 2019, NODL 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. NODL drew down \$70.0 million from this facility in the three months ended September 30, 2019. This RCF was novated to the Company as part of the Reorganization and NODL 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.

#### *Northern Drilling transactions*

Prior to the *West Mira* loan facility of \$200.0 million that was fully drawn in December 2018, the Company and its subsidiaries had no source of cash and NODL made all payments on the Company's behalf. The amount owed to NODL at December 31, 2018 is primarily due to instalments and costs paid by NODL in respect of *West Mira* and *West Bollsta*.

In 2019, the Company charged \$0.8 million (2018: nil) to NODL for the provision of management support and administrative services.

#### *Seatankers Management transactions*

As at December 31, 2017, the Company owes \$0.4 million to Seatankers Management being consideration for a payment guarantee that Seatankers Management gave to the yard in December 2017 in respect of the second installment due on *West Bollsta*.

#### *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 and \$0.1 million, respectively, in the year ended December 31, 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>	<b>2018</b>
Seadrill Global Services Ltd	<b>6,899</b>	2,251
Frontline Management (Bermuda) Limited	<b>45</b>	—
	<b>6,944</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>	<b>2018</b>
Northern Drilling Ltd	—	414,285
Seadrill Global Services Ltd	<b>70,595</b>	—
	<b>70,595</b>	414,285

## **15. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2019, the Company was committed to completing the mobilization of *West Bollsta* for commencement of the drilling contract with Lundin.

## 16. SUPPLEMENTAL INFORMATION

In 2018, there were non-cash additions to newbuildings of \$200.0 million in respect of a payment on account of newbuilding acquisition paid by NODL on behalf of the Company in December 2017 in connection with *West Bollsta*. There were also non-cash additions to newbuildings of \$27.0 million being the amount paid by NODL.

In 2019, there were non-cash additions to newbuildings of \$181.8 million being the amount paid by NODL and Seadrill.

On December 3, 2019, the Reorganization was completed and the Company purchased all of the common shares in NDOL from NODL for a consideration of \$1.00. Furthermore, the Company purchased all of the common shares in NDMN from NODL for a negative consideration of \$49,200 as NDMN had negative net assets that was settled through a credit granted by the Company to NODL.

As part of the Reorganization, a net inter-company balance due from the Company and its subsidiaries to NODL of \$453,436,508 was settled by the Company issuing 45,000,000 new shares to NODL at a subscription price of approximately \$10.08 thereby increasing the issued share capital of the Company from 100 shares to 45,000,100 shares.

As part of the Reorganization, the \$100.0 million revolving credit facility that was provided by Sterna Finance to NODL ("Sterna Facility") of which \$70.0 million had been drawn as of September 30, 2019, was novated to the Company and NODL was released from its obligations. The Company was compensated for this by a \$70.0 million reduction of the balance owed to NODL, 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 NODL) were released from their obligations as guarantors (and the facility is now unsecured).

## 17. SUBSEQUENT EVENTS

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

On February 26, 2020, NODL announced that 91,422,966 of its shares were accepted in the exchange offer and exchanged with 45,000,100 shares in the Company that were owned by NODL. Following completion of the exchange offer, NODL does not hold any shares in the Company and 91,422,966 of NODL's shares were cancelled. Upon completion of the exchange offer, Hemen Holding owns 39.5% of the Company.

On February 26, 2020, the Company issued 75,686 shares in the subsequent offering at a subscription price of NOK 49 per share, generating gross proceeds of NOK 3.7 million and has 63,802,378 shares issued and outstanding as at the date of this report.

On February 27, 2020, the Company's shares began trading on the Oslo Børs.

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. As a result of these measures, the operations of our rigs maybe adversely impacted. 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.