



NORTHERN OCEAN LTD. RESULTS FOR THE FIRST QUARTER 2020

Highlights - First Quarter

- On February 6, Northern Drilling Ltd 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.
- On February 26, Northern Drilling Ltd completed the exchange offer reducing its ownership in the Company to zero. After the exchange offer, Hemen Holding owned 39.6% of the Company's shares. The Company completed its subsequent share offering generating NOK 3.7 million of gross proceeds.
- On February 27, the Company's shares began trading on the Oslo Bors under the "NOL" ticker symbol.

Subsequent Events

- In May 2020, Lundin Energy Norway AS requested the start of operations under the drilling contract for *West Bollsta* to be deferred to early fourth quarter 2020. The Company expects to execute an amendment in due course.

Results

In the first quarter, operating revenue was \$19.1 million compared to \$14.0 million in the fourth quarter of 2019. The *West Mira* continued operations under its initial contract for the full quarter and achieved technical utilization of 84%. The downtime in the quarter resulted from events associated with challenging weather conditions in the North Sea. Contract revenue was \$16.8 million, which included 31 days waiting on weather rate and 13 days downtime at zero rate from the unplanned release of a life boat, a safety disconnect from the well in severe weather and repairs to the sub-sea controls. Reimbursable revenue was \$2.3 million for the first quarter and other revenue from the provision of management services was \$0.1 million.

Total operating expenses were \$29.1 million compared to \$19.6 million in the fourth quarter 2019. Rig operating expenses were \$18.4 million, which is \$5.1 million more than last quarter as the *West Mira* operated for an additional month and from \$1.6 million in other pre-commencement costs. Reimbursable expenses were \$2.2 million and depreciation was \$7.7 million including a disposal of life boat. Administrative expenses were \$0.8 million in the quarter, which include other professional services associated with the Company's spin-off from Northern Drilling.

Other financial expenses were \$6.5 million compared to \$2.1 million in the fourth quarter 2019. Loan interest expense was \$3.7 million, amortization of deferred charges was \$0.5 million and there was a foreign exchange loss of \$2.4 million due to depreciation of the Norwegian Kroner throughout the quarter. Interest income was \$0.2 million and there was a tax credit of \$1.1 million in the first quarter.

The net loss in the first quarter was \$15.2 million resulting in a basic and diluted loss per share of \$0.24.

Business Update

In the first quarter 2020, the Company was successfully listed on the Oslo Børs. The spin-off of the premium harsh environment assets from Northern Drilling Ltd creates a distinct market offering that crystalizes value of the harsh environment business and long-term contracts based on its unique characteristics, drivers and economics.

The global pandemic, which began in the first quarter has created new and unprecedented conditions. Our personnel have remained safe and our operations were able to continue with the perseverance of our manager, our vendors and support of our clients. We continue to monitor the situation and adapt our procedures and policies with personnel health and safety taking priority.

The *West Mira* continued drilling through a challenging North Sea winter season experiencing severe weather conditions for prolonged periods and the crew remained safe while quickly responding to unplanned events. The rig has been able to demonstrate its capabilities drilling a British mile in less than 24 hours and continuously collecting energy savings data from use of the integrated hybrid battery system.

The *West Bollsta* continued its operational readiness for its initial contract with Lundin in Norway. While progress slowed briefly in the onset of the pandemic, the project team has recovered the timeline through working with the client and regulators. In May 2020, Lundin requested the start of operations under the drilling contract for *West Bollsta* to be deferred to early fourth quarter 2020, and the Company expects to execute an amendment in due course.

The Company's total revenue backlog at March 31, 2020 is estimated at \$327 million, excluding all options and performance bonuses and adjusted for current estimates of well programs. The second quarter technical utilization to-date is approximately 97%.

As a result of the requested deferral of *West Bollsta* commencement, the Company has entered into constructive discussions with its counterparties and creditors seeking adjusted terms to align with the new expected commencement date.

Outlook

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

The harsh environment market continues to remain stronger compared to other segments that are experiencing a more dramatic impact. Oil companies have begun re-evaluating near term capex investments and potentially deferring or delaying work into later periods. With the supply of premium harsh environment drilling rigs continuing to be relatively limited, the Company is well positioned to remain competitive and employed through this period.

Forward Looking Statements

The Company's activities are subject to significant risks and uncertainties that can have an adverse effect on the Company's business, financial condition, results of operations and cash flow. See Note 1 to the unaudited condensed consolidated financial statements.

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

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

Questions should be directed to:
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NORTHERN OCEAN LTD.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS <i>(in thousands of \$)</i>	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
Contract revenue	16,776	11,184
Reimbursable revenue	2,262	2,108
Other revenues	109	756
Total operating revenues	19,147	14,048
Rig operating expenses	18,419	13,300
Reimbursable expenses	2,157	2,025
Depreciation	7,665	2,984
Administrative expenses	810	1,302
Total operating expenses	29,051	19,611
Net operating loss	(9,904)	(5,563)
Interest income	156	95
Other financial income (expense)	(6,548)	(2,091)
Net loss before tax	(16,296)	(7,559)
Tax	1,141	931
Net loss	(15,155)	(6,628)
Basic and diluted loss per share (\$)	(0.24)	(0.35)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS <i>(in thousands of \$)</i>	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
Net loss	(15,155)	(6,628)
Foreign currency translation (loss) gain	(51)	13
Other comprehensive (loss) income	(51)	13
Comprehensive loss	(15,206)	(6,615)

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

NORTHERN OCEAN LTD.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET <i>(in thousands of \$)</i>	2020 Mar 31	2019 Dec 31
ASSETS		
Short term		
Cash and cash equivalents	101,193	53,895
Restricted cash	103	128
Accounts receivable, net	4,170	7,214
Unbilled receivables	19,065	15,671
Related party receivables	224	6,944
Other current assets	11,547	11,895
Long term		
Drilling units	522,528	524,466
Newbuildings	512,649	480,011
Fixtures and fittings	1	2
Deferred tax	2,072	931
Total assets	1,173,552	1,101,157
LIABILITIES AND EQUITY		
Short term liabilities		
Current portion of long term debt	40,000	40,000
Other current liabilities	12,338	5,475
Deferred revenue	12,814	11,277
Related party payables	110,520	70,595
Long term liabilities		
Long term debt	386,007	345,495
Deferred revenue	13,555	15,191
Related party long term debt	70,000	70,000
Commitments and contingencies (Note 14)		
Total equity	528,318	543,124
Total liabilities and equity	1,173,552	1,101,157

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

NORTHERN OCEAN LTD.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW <i>(in thousands of \$)</i>	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
NET LOSS	(15,155)	(6,628)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of deferred charges	512	443
Amortization of deferred revenue	(2,752)	(1,471)
Depreciation	7,665	2,984
Unrealized foreign exchange loss	(51)	13
Tax	(1,141)	(931)
Change in operating assets and liabilities;		
Accounts receivable, net	3,044	(7,214)
Unbilled receivables	(3,394)	(15,671)
Other current assets	348	(11,556)
Other current liabilities	6,863	4,119
Related party balances	10,611	4,265
Deferred revenue	2,653	16,960
Net cash provided by (used in) operating activities	9,203	(14,687)
INVESTING ACTIVITIES		
Additions to newbuilding	(2,330)	(25,187)
Purchase of fixtures and fittings	—	(2)
Net cash used in investing activities	(2,330)	(25,189)
FINANCING ACTIVITIES		
Net proceeds from share issuances	400	98,300
Proceeds from long term bank debt	50,000	—
Repayment of bank debt	(10,000)	(5,000)
Net cash provided by financing activities	40,400	93,300
Net change	47,273	53,424
Cash, cash equivalents and restricted cash at start of the period	54,023	599
Cash, cash equivalents and restricted cash at end of the period	101,296	54,023

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

NORTHERN OCEAN LTD.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY <i>(in thousands of \$ except number of shares)</i>	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
Number of shares outstanding		
Balance at beginning of period	63,726,692	100
Shares issued	75,686	63,726,592
Balance at end of period	63,802,378	63,726,692
Share capital		
Balance at beginning of period	63,727	—
Shares issued	76	63,727
Balance at end of period	63,803	63,727
Additional paid in capital		
Balance at beginning of period	488,010	—
Shares issued	324	488,010
Balance at end of period	488,334	488,010
Accumulated other comprehensive income		
Balance at beginning of period	13	—
Other comprehensive (loss) income	(51)	13
Balance at end of period	(38)	13
Retained deficit		
Balance at beginning of period	(8,626)	(1,998)
Net loss	(15,155)	(6,628)
Balance at end of period	(23,781)	(8,626)
Total equity	528,318	543,124

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

NORTHERN OCEAN LTD.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Northern Ocean Ltd., or the Company, was incorporated under the laws of Bermuda on March 3, 2017 with its principal executive office located in Hamilton, Bermuda, for the purpose of ownership of offshore drilling rigs. The Company is expected to be primarily engaged in offshore contract drilling for the oil and gas industry in benign and harsh environments worldwide.

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 ("VIE"), which the Company consolidates as it is deemed to be its primary beneficiary. The *West Bollsta* is being mobilized for commencement of its drilling contract with Lundin Energy Norway AS and the contract is expected to be novated to the same VIE subsidiary.

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, securing funding for new rigs and maintaining sufficient operating liquidity. 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

The unaudited condensed consolidated financial statements are stated in accordance with accounting principles generally accepted in the United States as described in the Company's audited financial statements for the year ended December 31, 2019. The condensed consolidated financial statements include the assets and liabilities of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation. The preparation of the condensed consolidated financial statements requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities. Actual results could differ from those estimates.

3. REVENUE FROM CONTACTS WITH CUSTOMERS

The following table provides information about receivables and contract liabilities from our contracts with customers at March 31, 2020:

<i>(in thousands of \$)</i>	
Accounts receivable, net	4,170
Unbilled receivables	19,065
Current contract liabilities (deferred revenue)	12,814
Non-current contract liabilities (deferred revenue)	13,555

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.

(in thousands of \$)

Total contract liabilities at December 31, 2019	26,468
Deferred revenue accruing in the period	2,653
Amortization of deferred revenue	(2,752)
Total contract liabilities at March 31, 2020	26,369
Current contract liabilities	12,814
Long term contract liabilities	13,555

4. 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 of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes 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.

5. EARNINGS PER SHARE

The computation of basic earnings per share is based on the weighted average number of shares outstanding and net income (loss). The Company does not have any dilutive instruments. The components of the numerator and the denominator in the calculation are as follows;

	Jan 1 to Mar 31, 2020	Oct 1 to Dec 31, 2019
Net loss (in thousands of \$)	(15,155)	(6,628)
Weighted average number of ordinary shares (in thousands)	63,755	18,785

6. RESTRICTED CASH

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

7. DRILLING UNITS

Movements in the carrying value of Drilling units, which represents the carrying value of *West Mira*, in the three months ended March, 2020 may be summarized as follows:

<i>(in thousands of \$)</i>	Cost	Accumulated depreciation	Net carrying value
Balance at December 31, 2019	527,450	(2,984)	524,466
Additions	5,727	—	5,727
Depreciation	—	(7,665)	(7,665)
Balance at March 31, 2020	533,177	(10,649)	522,528

The Company recorded depreciation of \$2.6 million in the three months ended March 31, 2020, in addition to the usual quarterly charge, being the value of a lifeboat that was lost in bad weather in February 2020.

8. NEWBUILDINGS

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

<i>(in thousands of \$)</i>	
Balance at December 31, 2019	480,011
Mobilization costs	29,355
Newbuilding supervision fees and costs	638
Interest capitalized	2,645
Balance at March 31, 2020	512,649

9. OTHER CURRENT ASSETS

Other current assets at March 31, 2020 may be summarized as follows:

<i>(in thousands of \$)</i>	
Reimbursable amounts due from customer	9,258
VAT receivable	1,406
Other	883
	11,547

10. DEBT

Debt at March 31, 2020 may be summarized as follows:

<i>(in thousands of \$)</i>	
U.S. dollar denominated floating rate debt:	
\$200.0 million term loan facility - <i>West Mira</i>	185,000
\$200.0 million term loan facility - <i>West Bollsta</i>	195,000
\$50.0 million term loan facility - <i>West Mira and West Bollsta</i>	50,000
Total debt	430,000
Short term debt	40,000
Deferred charges	3,993
Long term debt	386,007

The outstanding debt as of March 31, 2020 is repayable as follows:

<i>(in thousands of \$)</i>	
Year 1	40,000
Year 2	210,000
Year 3	180,000
Year 4	—
Year 5	—
Thereafter	—
	430,000

In March 2020, the Company drew down \$50.0 million from its \$450.0 million secured term loan facility. Half of this drawdown amount is to be repaid in December 2021 being the maturity date of the West Mira term loan facility and half is to be repaid in June 2022 being the maturity date of the West Bollsta term loan facility.

In March 2020, the Company paid a quarterly installment due under the West Mira loan facility and a quarterly installment due under the West Bollsta loan facility, each in the amount of \$5.0 million.

The Company is in compliance with all financial covenants as of March 31, 2020.

Assets pledged

<i>(in thousands of \$)</i>	
Drilling unit	522,528
Newbuildings	512,649
	1,035,177

Deferred charges

<i>(in thousands of \$)</i>	
Debt arrangement fees	5,910
Accumulated amortization	(1,917)
	3,993

In the three months ended March 31, 2020, amortization expense of \$0.5 million in respect of deferred charges was recorded in other financial expense in the condensed consolidated statement of operations.

11. SHARE CAPITAL

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.

12. FAIR VALUES

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

<i>(in thousands of \$)</i>	Carrying Value	Fair Value
Assets:		
Cash and cash equivalents	101,193	101,193
Restricted cash	103	103
Liabilities:		
Floating rate debt	426,007	426,007
Related party long term debt	70,000	65,451

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

<i>(in thousands of \$)</i>	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	101,193	101,193	—	—
Restricted cash	103	103	—	—
Liabilities:				
Floating rate debt	426,007	—	426,007	—
Related party long term debt	65,451	—	—	65,451

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.

13. 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 39.6% of the Company's outstanding ordinary shares at March 31, 2020. The Company transacts business with the following related parties, being companies in which Hemen Holding, or companies affiliated with Hemen Holding, has a significant interest - Seadrill Ltd, or Seadrill, Seatankers Management Co. Ltd, or Seatankers Management, Golden Ocean Management AS, or Golden Ocean, Frontline Management (Bermuda) Limited, or Frontline Management and Northern Drilling Ltd or Northern Drilling.

Seadrill transactions

A wholly-owned subsidiary of Seadrill carries out the newbuilding supervision of the *West Bollsta* and charges a management supervision fee that is capitalized until initial operations commence. The *West Mira* commenced its drilling contract with Wintershall on November 7, 2019, and is charged a fixed fee for management services included in Rig Operating Expenses. The *West Mira* contract is between Wintershall and Seadrill Northern Operations Ltd, a subsidiary of Seadrill Ltd, and a variable interest entity which the Company consolidates as it is deemed to be its primary beneficiary. In the three months ended March 31, 2020, the Company was charged management fees from Seadrill in the amount of \$2.2 million.

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 less than \$0.1 million in the three months ended March 31, 2020.

Northern Drilling transactions

The Company provides management services to Northern Drilling and charged \$0.1 million in the three months ended March 31, 2020.

Related party balances

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

<i>(in thousands of \$)</i>	
Northern Drilling Ltd	143
Seadrill Global Services Ltd	81
	224

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

<i>(in thousands of \$)</i>	
Seadrill Global Services Ltd	110,505
Frontline Management (Bermuda) Ltd	15
	110,520

14. COMMITMENTS AND CONTINGENCIES

As of March 31, 2020, the Company was committed to completing the mobilization of *West Bollsta* for commencement of the drilling contract with Lundin.

Agreements executed to establish the operating framework of the VIE, which performs the drilling contract with Wintershall, include a mechanism for the Company to provide a \$100 million bank guarantee if the Company's net asset value or market capitalization falls below a certain amount. The bank guarantee shall remain in force for the duration of the drilling contract so long as the net asset value or market capitalization remains below the required amount.

15. SUBSEQUENT EVENTS

In May 2020, Lundin Energy Norway AS requested the start of operations under the drilling contract for *West Bollsta* to be deferred to early fourth quarter 2020. The Company expects to execute an amendment in due course. As a result of the requested deferral of *West Bollsta* commencement, the Company has entered into constructive discussions with its counterparties and creditors seeking adjusted terms to align with the new expected commencement date.