



**NORTHERN OCEAN LTD.**  
**RESULTS FOR THE FOURTH QUARTER AND YEAR ENDED**  
**DECEMBER 31, 2021**

**Highlights - Fourth Quarter**

- On December 23, 2021, the Company announced an agreement with Odfjell Drilling Ltd (“Odfjell”) for management services relating to marketing and operations for the Company’s rig fleet.
- On December 23, 2021, the Company announced entering into agreements to amend the Company’s bank debt and revolving credit facility, in connection with a conditional subscription agreement with its two largest shareholders pursuant to which a private placement of new shares would generate proceeds of \$20.0 million (the "Private Placement").
- On December 23, 2021, the Company and Seadrill met all the conditions to fully effect the settlement agreement from November 26, 2021 and confirmed its continuing receipt of the bareboat lease payments related to the *West Bollsta*.
- On December 29, 2021, the Company issued a Notice of Proposed Written Resolution of the Shareholders, to reduce the nominal value of each Share to \$0.50, and on January 13, 2022 announced the resolution was approved.

**Subsequent Events**

- On January 13, 2022, the Company announced that the Private Placement had been completed, and as a result, the Board of Directors will propose a subsequent offering of up to eight million shares, which are expected to be satisfied from the Private Placement shares, in which case no cash proceeds will be generated for the Company. The subsequent offering is expected to commence in March 2022.
- On January 14, 2022, the Company closed the amendment and extension processes for its bank debt and revolving credit facility, and made related payments to the banks under the revised agreement.

**Results**

In the fourth quarter, operating revenue was \$18.1 million compared to \$10.4 million in the previous quarter. Contract revenue of \$17.7 million included \$14.4 million of bareboat revenue that was recognized for the period from August 10, 2021 to December 31, 2021 following the settlement agreement with Seadrill and \$3.3 million of variation order deferred revenue. Contract revenue of \$3.3 million in the previous quarter resulted from variation order deferred revenue only. Reimbursable revenue was nil compared with \$6.9 million in the previous quarter. Other revenue, primarily from the provision of management services, was \$0.4 million in the quarter.

Total operating expenses were \$19.1 million compared to \$30.6 million in the previous quarter. Rig operating expenses fell to \$5.6 million compared to \$9.3 million in the previous quarter primarily due to a decrease in demobilization costs. Reimbursable expenses were nil compared with \$2.8 million in the previous quarter. The provision for doubtful debts was nil compared with \$5.4 million in the previous quarter. Administrative expenses were \$2.7 million compared with \$2.4 million in the previous quarter.

The net loss from continuing operations before taxes in the fourth quarter was \$6.0 million compared with a loss of \$26.5 million in the previous quarter.

There was a non-cash gain, net of taxes, of \$57.6 million in the fourth quarter resulting from the settlement agreement with Seadrill.

The net gain in the fourth quarter was \$51.6 million resulting in a basic and diluted gain per share of \$0.81 for the quarter.

## **Business Update**

On December 23, 2021, the Company agreed to enter contracts with Odfjell Drilling Ltd. (“Odfjell”) for the provision of marketing and management services for the Company's rig fleet, with commercial chartering decisions to remain with the Company.

The Company announced that it was amending and extending the Company's bank debt. The final debt maturity is extended by 36 months from closing, and the amortization of \$40.0 million due in 2022 is deferred and \$30.0 million of this amount added to the balloon repayment. The amendments are subject to certain conditions, which includes the Company raising equity and amendments to the revolving credit facility provided by Sterna Finance Ltd. (“Sterna”). Additionally, the Company may raise additional equity proceeds in 2022 for general corporate purposes in order to fulfil requirements under the bank commitments,

The Company entered into a conditional subscription agreement with Hemen Holding Limited (“Hemen”) and investment funds managed and/or advised by Hayfin Capital Management LLP and its affiliates (“Hayfin”, and together with Hemen, the “Subscribers”) pursuant to which they have agreed to subscribe for 40 million new shares (the “New Shares”) in the Company at a subscription price of \$0.50 per share raising proceeds of \$20.0 million (the “Private Placement”).

The Company amended the revolving credit facility to extend the final maturity date of the junior secured revolving credit facility by 39 months and provide the Company with improved liquidity of \$30.0 million through funding \$15.0 million to the Company and payment in kind for the interest over the remaining term. Sterna shall have the ability at its discretion to convert \$15.0 million of the loan amount into the Company's shares at a strike price of \$0.50 per share.

The Company and Seadrill met all the conditions of the their settlement, which was announced on November 26, 2021, and the agreement became fully effective. The bareboat lease payments on the *West Bollsta* have been and continue to be received from Seadrill. The Company recorded a non-cash gain, net of taxes, of \$57.6 million in the fourth quarter resulting from the settlement agreement with Seadrill.

On December 29, 2021, the Company issued a Notice of Proposed Written Resolution of the Shareholders, proposing the reduction of the nominal value of each Share from \$1.00 to \$0.50.

On January 13, 2022, the Company announced that the Notice of Proposed Written Resolution of the Shareholders had been passed and the new nominal value of each share of the Company's issued and authorized share capital is \$0.50.

On January 13, 2022, the Company announced that the Private Placement had been completed, and as a result the Board of Directors will propose a subsequent offering of up to eight million shares, which are expected to be satisfied from the Private Placement shares, in which case no cash proceeds will be generated for the Company. The subsequent offering is expected to commence in March 2022.

On January 14, 2022, the Company closed the amendment and extension process for its bank debt in line with what was announced on December 23, 2021. It was simultaneously agreed to pay to the banks the amortization payments of \$5.0 million due on March 3, 2021 for the West Mira facility and the \$5.0 million due on March 13, 2021 for the West Bollsta facility and \$10.0 million was paid to the banks on January 14, 2022. This amount had been set aside in a restricted account secured on behalf of the lenders.

On January 14, 2022, the Company closed the amendment and extension process for the Sterna revolving credit facility in line with what was announced on December 23, 2021, and borrowed an additional \$15.0 million taking the outstanding balance to \$85.0 million.

## **Outlook**

Northern Ocean sees a strengthening offshore drilling market, however this year may remain muted for the harsh environment segment. Key macro indicators and current contract tenders are reflecting that 2023 and beyond will be quite active. Demand continues to increase for modern high specification rigs that can achieve high efficiencies while maintaining environmentally responsible operations. Modern Tier 1 rigs, such as the *West Bollsta* and *West Mira*, are well suited to meet these demand requirements.

With the financing amendments complete and a new manager now in place, the Company is able to focus on safely transitioning operations to Odfjell and working to secure new backlog. The *West Mira* remains in a warm idle condition outside of Bergen under Odfjell's management. When the *West Bollsta* concludes its work with Lundin soon, Odfjell will take over management and bring the rig alongside in Bergen to realize efficiencies in the idle periods until reactivation occurs.

## **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  
February 15, 2022

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

<b>2020</b> <b>Oct-Dec</b>	<b>2021</b> <b>Oct-Dec</b>	<b>CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS</b> <i>(in thousands of \$)</i>	<b>2021</b>	<b>2020</b>
26,862	17,704	Contract revenue	56,648	86,849
2,145	—	Reimbursable revenue	9,685	7,142
247	440	Other income	1,445	621
<b>29,254</b>	<b>18,144</b>	<b>Total operating revenues</b>	<b>67,778</b>	<b>94,612</b>
19,851	5,638	Rig operating expenses	51,978	77,224
2,145	—	Reimbursable expenses	7,565	6,996
10,803	10,774	Depreciation	42,657	29,584
—	38	Provision for doubtful debts	5,441	—
1,180	2,681	Administrative expenses	10,147	4,495
<b>33,979</b>	<b>19,131</b>	<b>Total operating expenses</b>	<b>117,788</b>	<b>118,299</b>
<b>(4,725)</b>	<b>(987)</b>	<b>Net operating loss</b>	<b>(50,010)</b>	<b>(23,687)</b>
5	—	Interest income	5	171
(4,989)	(4,939)	Interest expense	(19,643)	(16,071)
3,181	421	Foreign exchange (loss) gain	(88)	3,351
(531)	(495)	Other financial expenses	(1,930)	(2,125)
<b>(7,059)</b>	<b>(6,000)</b>	<b>Net loss from continuing operations before taxes</b>	<b>(71,666)</b>	<b>(38,361)</b>
(419)	48	Tax credit (charge)	3,067	1,853
<b>(7,478)</b>	<b>(5,952)</b>	<b>Net loss from continuing operations</b>	<b>(68,599)</b>	<b>(36,508)</b>
—	57,574	Related party settlement gain, net of taxes	57,574	—
<b>(7,478)</b>	<b>51,622</b>	<b>Net (loss) income</b>	<b>(11,025)</b>	<b>(36,508)</b>
<b>(0.12)</b>	<b>(0.09)</b>	<b>Basic and diluted loss from continuing operations per share (\$)</b>	<b>(1.07)</b>	<b>(0.57)</b>
<b>0.00</b>	<b>0.90</b>	<b>Basic and diluted income from related party settlement gain, net of taxes, per share (\$)</b>	<b>0.90</b>	<b>0.00</b>
<b>(0.12)</b>	<b>0.81</b>	<b>Basic and diluted (loss) income per share (\$)</b>	<b>(0.17)</b>	<b>(0.57)</b>

<b>2020</b> <b>Oct-Dec</b>	<b>2021</b> <b>Oct-Dec</b>	<b>CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS</b> <i>(in thousands of \$)</i>	<b>2021</b>	<b>2020</b>
<b>(7,478)</b>	<b>51,622</b>	<b>Net (loss) income</b>	<b>(11,025)</b>	<b>(36,508)</b>
57	(318)	Foreign currency translation (loss) gain	(418)	59
<b>57</b>	<b>(318)</b>	<b>Other comprehensive (loss) income</b>	<b>(418)</b>	<b>59</b>
<b>(7,421)</b>	<b>51,304</b>	<b>Comprehensive (loss) income</b>	<b>(11,443)</b>	<b>(36,449)</b>

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

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

<b>CONDENSED CONSOLIDATED BALANCE SHEET</b> <i>(in thousands of \$)</i>	<b>Dec 2021</b>	<b>Dec 2020</b>
<b>ASSETS</b>		
<b>Short term</b>		
Cash and cash equivalents	5,461	37,471
Restricted cash	10,152	157
Accounts receivable, net	—	7,296
Unbilled receivables	—	8,913
Related party receivables	3,514	696
Other current assets	4,637	6,373
<b>Long term</b>		
Drilling units	953,750	1,070,745
Fixtures and fittings	5	1
Deferred tax	35	2,973
<b>Total assets</b>	<b>977,554</b>	<b>1,134,625</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Short term liabilities</b>		
Current portion of long term debt	10,000	190,000
Other current liabilities	7,454	14,188
Deferred revenue	1,924	17,909
Related party payables	79	122,670
<b>Long term liabilities</b>		
Long term debt	389,531	207,552
Deferred revenue	2,934	5,231
Related party long term debt	70,000	70,000
<b>Commitments and contingencies (Note 15)</b>		
Total equity	495,632	507,075
<b>Total liabilities and equity</b>	<b>977,554</b>	<b>1,134,625</b>

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

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

<b>2020 Oct-Dec</b>	<b>2021 Oct-Dec</b>	<b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of \$)</b>	<b>2021</b>	<b>2020</b>
<b>(7,478)</b>	<b>51,622</b>	<b>NET (LOSS) INCOME</b>	<b>(11,025)</b>	<b>(36,508)</b>
		Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:		
517	445	Amortization of deferred charges	1,979	2,057
(4,181)	(3,299)	Amortization of deferred revenue	(19,459)	(12,101)
—	38	Provision for doubtful debts	5,441	—
10,803	10,774	Depreciation	42,657	29,584
57	(383)	Unrealized foreign exchange (gain) loss	(418)	59
229	(48)	Tax	(3,067)	(2,043)
—	(57,574)	Related party settlement gain, net of taxes	(57,574)	—
		Change in operating assets and liabilities;		
534	(37)	Receivables	1,855	(82)
1,368	—	Unbilled receivables	8,913	6,758
(2,920)	(605)	Other current assets	1,752	5,343
(11,676)	(2,598)	Other current liabilities	(7,127)	6,871
30,627	1,257	Related party balances	13,087	5,784
7,014	—	Deferred revenue	1,177	8,773
<b>24,894</b>	<b>(408)</b>	<b>Net cash (used in) provided by operating activities</b>	<b>(21,809)</b>	<b>14,495</b>
		<b>INVESTING ACTIVITIES</b>		
(33,921)	—	Additions to drilling units	(206)	(41,290)
<b>(33,921)</b>	<b>—</b>	<b>Net cash used in investing activities</b>	<b>(206)</b>	<b>(41,290)</b>
		<b>FINANCING ACTIVITIES</b>		
—	—	Net proceeds from share issuances	—	400
—	—	Proceeds from long term debt	—	50,000
(10,000)	—	Repayment of bank debt	—	(40,000)
<b>(10,000)</b>	<b>—</b>	<b>Net cash provided by (used in) financing activities</b>	<b>—</b>	<b>10,400</b>
<b>(19,027)</b>	<b>(408)</b>	<b>Net change</b>	<b>(22,015)</b>	<b>(16,395)</b>
<b>56,655</b>	<b>16,021</b>	<b>Cash, cash equivalents and restricted cash at start of the period</b>	<b>37,628</b>	<b>54,023</b>
<b>37,628</b>	<b>15,613</b>	<b>Cash, cash equivalents and restricted cash at end of the period</b>	<b>15,613</b>	<b>37,628</b>

See Note 16. Supplemental Information for disclosure of non-cash items.

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

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

<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b> <i>(in thousands of \$ except number of shares)</i>	<b>2021</b>	<b>2020</b>
<b>Number of shares outstanding</b>		
Balance at beginning of period	63,802,378	63,726,692
Shares issued	—	75,686
Balance at end of period	<b>63,802,378</b>	<b>63,802,378</b>
<b>Share capital</b>		
Balance at beginning of period	63,803	63,727
Shares issued	—	76
Balance at end of period	<b>63,803</b>	<b>63,803</b>
<b>Additional paid in capital</b>		
Balance at beginning of period	488,334	488,010
Shares issued	—	324
Balance at end of period	<b>488,334</b>	<b>488,334</b>
<b>Accumulated other comprehensive (loss) income</b>		
Balance at beginning of period	72	13
Other comprehensive (loss) income	(418)	59
Balance at end of period	<b>(346)</b>	<b>72</b>
<b>Retained deficit</b>		
Balance at beginning of period	(45,134)	(8,626)
Net loss	(11,025)	(36,508)
Balance at end of period	<b>(56,159)</b>	<b>(45,134)</b>
<b>Total equity</b>	<b>495,632</b>	<b>507,075</b>

*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 drilling for the oil and gas industry in harsh environments worldwide.

As of the date of this report, the Company owns two semi-submersible rigs, *West Mira* and *West Bollsta*, which were delivered to the Company in December 2018 and June 2019, respectively.

The *West Mira* commenced a drilling contract with Wintershall Norge AS ("Wintershall") on November 7, 2019. This contract was between Wintershall and a variable interest entity ("VIE") subsidiary of Seadrill Ltd ("Seadrill"), which the Company consolidates as it is deemed to be its primary beneficiary. On May 4, 2021, the Company received a notice of termination from Wintershall for the *West Mira* drilling contract, which was being managed by a Seadrill subsidiary in Norway. The notice follows an extended downtime period after an operational incident on March 19, 2021.

On October 6, 2020, the *West Bollsta* commenced a 10 well drilling contract in Norway with Lundin Energy Norway AS ("Lundin"). This contract is between a wholly-owned subsidiary of Seadrill, which has a bareboat contract with a wholly-owned subsidiary of the Company, whereby Seadrill charters in the rig while it is on contract with Lundin. The contract between the Seadrill entity and Lundin is expected to be completed during the first quarter of 2022 at which time the bareboat contract between Seadrill and the Company will also end.

On December 23, 2021, the Company agreed to enter contracts with Odfjell Drilling Ltd. ("Odfjell") for the provision of marketing and management services for the Company's rig fleet, with commercial chartering decisions to remain with the Company.

The Company announced that it was amending and extending the Company's bank debt. The final debt maturity is extended by 36 months from closing, and the amortization of \$40.0 million due in 2022 is deferred and \$30.0 million of this amount added to the balloon repayment. The amendments are subject to certain conditions, which includes the Company raising equity and amendments to the revolving credit facility provided by Sterna Finance Ltd. ("Sterna"). Additionally, the Company may raise additional equity proceeds in 2022 for general corporate purposes in order to fulfil requirements under the bank commitments,

The Company entered into a conditional subscription agreement with Hemen Holding Limited ("Hemen") and investment funds managed and/or advised by Hayfin Capital Management LLP and its affiliates ("Hayfin", and together with Hemen, the "Subscribers") pursuant to which they have agreed to subscribe for 40 million new shares (the "New Shares") in the Company at a subscription price of \$0.50 per share raising proceeds of \$20.0 million (the "Private Placement").

The Company amended the revolving credit facility to extend the final maturity date of the junior secured revolving credit facility by 39 months and provide the Company with improved liquidity of \$30.0 million through funding \$15.0 million to the Company and payment in kind for the interest over the remaining term. Sterna shall have the ability at its discretion to convert \$15.0 million of the loan amount into the Company's shares at a strike price of \$0.50 per share.

The Company and Seadrill met all the conditions of their settlement, which was announced on November 26, 2021, and the agreement became fully effective. The bareboat lease payments on the *West Bollsta* have been and continue to be received from Seadrill. The Company recorded a non-cash gain, net of taxes, of \$57.6 million in the fourth quarter resulting from the settlement agreement with Seadrill.

On December 29, 2021, the Company issued a Notice of Proposed Written Resolution of the Shareholders, proposing the reduction of the nominal value of each Share from \$1.00 to \$0.50.

On January 13, 2022, the Company announced that the Notice of Proposed Written Resolution of the Shareholders had been passed and the new nominal value of each share of the Company's issued and authorized share capital is \$0.50.

On January 13, 2022, the Company announced that the Private Placement had been completed, and as a result the Board of Directors will propose a subsequent offering of up to eight million shares, which are expected to be satisfied from the Private Placement shares, in which case no cash proceeds will be generated for the Company. The subsequent offering is expected to commence in March 2022.

On January 14, 2022, the Company closed the amendment and extension process for its bank debt in line with what was announced on December 23, 2021. It was simultaneously agreed to pay to the banks the amortization payments of \$5.0 million due on March 3, 2021 for the West Mira facility and the \$5.0 million due on March 13, 2021 for the West Bollsta facility and \$10.0 million was paid to the banks on January 14, 2022. This amount had been set aside in a restricted account secured on behalf of the lenders.

On January 14, 2022, the Company closed the amendment and extension process for the Sterna revolving credit facility in line with what was announced on December 23, 2021, and borrowed an additional \$15.0 million taking the outstanding balance to \$85.0 million.

The Company's 6th generation semi-submersible drilling rig *West Mira* is currently warm stacked at Hanøytangen outside Bergen, Norway and Odjfell will commence rig management and marketing of the rig immediately. The Company's 6th generation semi-submersible drilling rig *West Bollsta* is contracted to Lundin, Norway through the first quarter of 2022. The current manager for the rig, a wholly-owned subsidiary of Seadrill, will complete operations as per the current drilling contract and then transfer rig management to Odjfell in direct continuation of its activities. Preparations for a seamless transfer of rig management is already underway being led by the Company's management. Marketing of both rigs will commence immediately by Odjfell.

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, 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. The unaudited condensed consolidated financial statements do not include all of the disclosures required in annual and interim consolidated financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2020.

### **Going concern assumption**

These unaudited condensed consolidated financial statements are prepared under the going concern assumption. In January 2022, the Company completed a private placement of 40 million new shares generating proceeds of \$20.0 million, extended the repayment profiles of its bank debt and Sterna revolving credit facility and drew down an additional \$15.0 million from the latter. The Company, however, remains dependent on loans and/or equity issuances to finance its loan obligations and working capital in the next twelve months, which raises substantial doubt about the Company's ability to continue as a going concern.

### 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table provides information about receivables and contract liabilities from our contracts with customers at December 31, 2021:

*(in thousands of \$)*

Accounts receivable, net	—
Unbilled receivables	—
Current contract liabilities (deferred revenue)	1,924
Non-current contract liabilities (deferred revenue)	2,934

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, 2020	23,140
Deferred revenue accruing in the period	1,177
Amortization of deferred revenue	(19,459)
Total contract liabilities at December 31, 2021	4,858
Current contract liabilities	1,924
Long term contract liabilities	2,934

### 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. RELATED PARTY SETTLEMENT GAIN

On February 11, 2021, the Company announced that it has reached an agreement in principle with Seadrill to settle outstanding balances. The settlement was subject to several conditions, including amendments from the Company's secured lenders and approval by the bankruptcy court under Seadrill's Chapter 11 protection in the US. In connection with the settlement, the Company committed to raise \$30.0 million of new equity.

On August 8, 2021, the Company announced it had signed an amended settlement agreement with Seadrill and its subsidiaries ("Amended Settlement Agreement"), which closes all outstanding balances and claims between the companies, provides transition services for the Company's rigs, and requires bareboat lease payments on the *West Bollsta* to become payable from Seadrill starting August 10, 2021. The settlement was subject to several conditions, including approval by the bankruptcy court under Seadrill's Chapter 11 protection in the US, before the bareboat lease payments will be made.

On October 29, 2021, the Company announced the Amended Settlement Agreement had been approved by the bankruptcy court in Seadrill's Chapter 11 process in the US. While certain conditions for the settlement agreement to become effective remained outstanding at the date of the Company's third quarter earnings release on November 26, 2021, Seadrill paid \$5.2 million to the Company on November 1, 2021, in respect of the *West Bollsta* bareboat payments due for the period from August 10, 2021 to September 30, 2021.

The Amended Settlement Agreement became effective on December 23, 2021 when the final condition precedent was waived and the Company recorded a non-cash gain, net of taxes, of \$57.6 million in the fourth quarter of 2021. This non-cash gain comprises;

- a. \$36.4 million of *West Bollsta* bareboat revenue for the period from February 6, 2020, being the date the rig entered Norwegian waters, to August 9, 2021;
- b. \$27.2 million compensation for the Xmas Tree incident on the *West Mira* in May 2021, less
- c. tax expense of \$6.0 million on b. above.

The \$138.0 million payable to Seadrill at September 30, 2021 became a receivable of \$6.1 million on December 23, 2021, being the effective date of the Amended Settlement Agreement, as a result of

- i. a decrease in capitalized project costs on the *West Mira* and the *West Bollsta* of \$74.9 million,
- ii. an aggregate amount of \$63.6 million in respect of a. and b. above,
- iii. \$14.4 million of *West Bollsta* bareboat revenue for the period from August 10, 2021 to December 31, 2021, which has been recorded in Contract Revenue in the fourth quarter, less
- iv. \$0.5 million for future transition services for the *West Bollsta*, less
- v. cash paid by Seadrill in respect of *West Bollsta* bareboat charges of \$5.2 million and \$3.1 million on November 1, 2021 and December 3, 2021, respectively.

Seadrill paid \$3.0 million on December 31, 2021 in respect of *West Bollsta* bareboat charges. The balance due from Seadrill at December 31, 2021 was \$3.1 million.

## 6. EARNINGS PER SHARE

The computation of basic and diluted 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;

2020 Oct-Dec	2021 Oct-Dec		2021	2020
(7,478)	(5,952)	Net loss from continuing operations (in thousands of \$)	(68,599)	(7,478)
—	57,574	Related party settlement gain, net of taxes (in thousands of \$)	57,574	—
(7,478)	51,622	Net (loss) income (in thousands of \$)	(11,025)	(7,478)
63,802	63,802	Weighted average number of ordinary shares (in thousands)	63,802	63,791

## 7. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account for payroll taxes and unpaid loan payments, as agreed with the banks, of \$5.0 million that was due on March 3, 2021 for the West Mira facility and \$5.0 million that was due on March 13, 2021 for the West Bollsta facility.

## 8. DRILLING UNITS

Movements in the carrying value of Drilling units in the year ended December 31, 2021 may be summarized as follows:

<i>(in thousands of \$)</i>	Cost	Accumulated depreciation	Net carrying value
Balance at December 31, 2020	1,103,313	(32,568)	1,070,745
Additions	593	—	593
Impact of Related party settlement (note 5)	(74,931)	—	(74,931)
Depreciation	—	(42,657)	(42,657)
Balance at December 31, 2021	1,028,975	(75,225)	953,750

## 9. OTHER CURRENT ASSETS

Other current assets at December 31, 2021 may be summarized as follows:

<i>(in thousands of \$)</i>	
Deposit held	1,187
VAT receivable	998
Other	2,452
	4,637

## 10. OTHER CURRENT LIABILITIES

Other current liabilities at December 31, 2021 may be summarized as follows:

<i>(in thousands of \$)</i>	
Accounts payable	2,332
Accrued administrative expenses	945
Other payables	995
Accrued interest expense	3,182
	7,454

## 11. DEBT

Debt at December 31, 2021 may be summarized as follows:

*(in thousands of \$)*

U.S. dollar denominated floating rate debt:	
\$200.0 million term loan facility - <i>West Mira</i>	170,000
\$200.0 million term loan facility - <i>West Bollsta</i>	180,000
\$50.0 million term loan facility - <i>West Mira and West Bollsta</i>	50,000
Total debt	400,000
Short term debt	(10,000)
	390,000
Deferred charges	(469)
Long term debt	389,531

The outstanding debt as of December 31, 2021 is repayable as follows:

*(in thousands of \$)*

2022	10,000
2023	40,000
2024	40,000
2025	310,000
2026	—
Thereafter	—
	400,000

On February 26, 2021, it was agreed to extend the certain covenant waivers (the "Covenant Waivers") until April 3, 2021. It was simultaneously agreed to waive the amortization payments of \$5.0 million becoming due on March 3, 2021 for the West Mira facility and the \$5.0 million becoming due on March 13, 2021 for the Bollsta Facility, until March 30, 2021 (together the "Amortization Waiver"). The aggregate amount of \$10.0 million (the "Amortization Amount") was set aside in an account secured on behalf of the lenders.

On March 30, 2021, both the Covenant Waivers and the Amortization Waiver were extended to April 15, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On April 15, 2021, both the Covenant Waivers and the Amortization Waiver were extended until May 15, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On May 13, 2021, both the Covenant Waivers and the Amortization Waiver were extended until June 3, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On June 3, 2021, both the Covenant Waivers and the Amortization Waiver were extended until July 9, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On July 8, 2021, both the Covenant Waivers and the Amortization Waiver were extended until August 16, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On August 11, 2021, both the Covenant Waivers and the Amortization Waiver were extended until September 3, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On September 1, 2021, both the Covenant Waivers and the Amortization Waiver were extended until October 15, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On October 13, 2021, both the Covenant Waivers and the Amortization Waiver were extended until November 21, 2021. The Amortization Amount remained in an account secured on behalf of the lenders.

On November 19, 2021, the lenders in the term loan facilities agreed that the instalments due under the West Mira and West Bollsta facilities in March, June, September and December 2021 (in aggregate \$40.0 million) are deferred until January 17, 2022 and that the maturity date of the West Mira facility is extended from December 3, 2021 until January 21, 2022. In addition, certain changes were made to the financial covenants.

#### Assets pledged

<i>(in thousands of \$)</i>	
Drilling units	953,750

#### Deferred charges

<i>(in thousands of \$)</i>	
Debt arrangement fees	5,910
Accumulated amortization	(5,441)
	469

## 12. SHARE CAPITAL

On December 29, 2021, and with reference to the Company's announcement on December 23, 2021 concerning a Private Placement and a subsequent offering of shares with each such share to be issued at a subscription price of \$0.50 (see Note 1), the Company, by virtue of Bye-laws 65-68 and 80 of the Company's Bye-laws, issued a Notice of Proposed Written Resolution of the Shareholders, proposing the reduction of the nominal value of each Share from \$1.00 to \$0.50 (the "Proposal"). The majority requirement for the Proposal is 50% of the issued share capital of the Company (a "Relevant Majority") and the Proposal is carried out as soon as votes supporting the Proposal is cast by a Relevant Majority.

## 13. FAIR VALUES

The carrying value and estimated fair value of the Company's financial instruments as of December 31, 2021 are as follows:

<i>(in thousands of \$)</i>	Carrying Value	Fair Value
<b>Assets:</b>		
Cash and cash equivalents	5,461	5,461
Restricted cash	10,152	10,152
<b>Liabilities:</b>		
Floating rate debt	399,531	399,531
Related party long term debt	70,000	65,862

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
<b>Assets:</b>				
Cash and cash equivalents	5,461	5,461	—	—
Restricted cash	10,152	10,152	—	—
<b>Liabilities:</b>				
Floating rate debt	399,531	—	399,531	—
Related party long term debt	65,862	—	—	65,862

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 (being total debt less the carrying value of deferred charges) - 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 39.5% of the Company's outstanding ordinary shares at December 31, 2021. 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, Sterna Finance Ltd, or Sterna, Golden Ocean Management AS, or Golden Ocean, Frontline Management (Bermuda) Limited, or Frontline Management, Flex LNG Limited, or Flex, Front Ocean Management AS and Front Ocean Management Ltd. (together “Front Ocean”) and Northern Drilling Ltd or Northern Drilling.

##### **Related party balances**

###### *Seadrill transactions*

The *West Mira* commenced its drilling contract with Wintershall on November 7, 2019, and was 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 nine months ended September 30, 2021 the Company was charged management fees from Seadrill in the amount of \$2.6 million. On December 23, 2021, these agreements were concluded as a result of the Amended Settlement Agreement (see Note 5).

###### *Golden Ocean, Frontline, Flex, Front Ocean and Seatankers transactions*

The Company and its subsidiaries receive treasury, accounting, corporate secretarial and advisory services from these entities and was charged \$0.5 million in the year ended December 31, 2021. The Golden Ocean agreement was cancelled during 2021, leaving the agreements with Frontline, Flex, Front Ocean and Seatankers in place at end of the year.

###### *Northern Drilling transactions*

The Company provides management services to Northern Drilling and charged \$1.3 million in the year ended December 31, 2021.

A summary of balances due from related parties at December 31, 2021 is as follows:

<i>(in thousands of \$)</i>	
Northern Drilling Ltd	411
Seadrill companies	3,103
	3,514

A summary of short term balances due to related parties at December 31, 2021 is as follows:



<i>(in thousands of \$)</i>	
Flex LNG	34
Frontline companies	45
	79

A summary of long term balances due to related parties at December 31, 2021 is as follows:

<i>(in thousands of \$)</i>	
Sterna	70,000

The loan from Sterna is repayable on April 17, 2025.

## 15. COMMITMENTS AND CONTINGENCIES

As of December 31, 2021, the Company had no capital commitments.

## 16. SUPPLEMENTAL INFORMATION

The carrying value of Drilling units and the amount payable to Seadrill decreased by \$74.9 million and \$138.5 million, respectively, in the fourth quarter of 2021 as a result of the Amended Settlement Agreement (see Note 5).

## 17. SUBSEQUENT EVENTS

On January 13, 2022, with reference to the Company's announcement on December 29, 2021 regarding the Proposal (see Note 12), the Company announced that the Proposal has been carried by a Relevant Majority. The new nominal value of each share of the Company's issued and authorized share capital is \$0.50.

On January 13, 2022, with reference to the Company's announcement on December 29, 2021 regarding the Private Placement (see Note 1), the Company announced that the Private Placement had been completed. The New Shares will be delivered on a separate ISIN pending approval of a listing prospectus. Following registration in the relevant register of members, the authorized share capital of the Company is \$968,098,811 divided into 1,936,197,622 common shares of a par value of \$0.50 each, of which 103,802,378 common shares have been issued and fully paid or credited as fully paid.

On January 13, 2022, the Company announced that as a result of the Private Placement, the Board of Directors will propose a subsequent offering (the "Subsequent Offering") of up to 8 million shares, in which shareholders of the Company as of close of trading on January 13, 2022, as recorded in the VPS on January 17, 2022, who were not allocated shares in the Private Placement, and who are not resident in a jurisdiction where such offering would be unlawful, or would (in jurisdictions other than Norway) require any prospectus filing, registration or similar action, will receive subscription rights. The Subsequent Offering will, inter alia, be conditional upon (i) approval from the Board of Directors of the Company, and (ii) approval and publication of a prospectus regarding, inter alia, the Subsequent Offering. The subscription price in the Subsequent Offering is equal to the Private Placement, \$0.50 per share. The Subsequent Offering shares are expected to be satisfied from the shares that have been subscribed for by Hayfin, in which case no cash proceeds will be generated for the Company. The Subsequent Offering is expected to commence in March 2022. Further terms and conditions in the Subsequent Offering will be set out in the prospectus.

On January 14, 2022, the Company closed the amendment and extension process for its bank debt in line with what was announced on December 23, 2021. It was simultaneously agreed to pay to the banks the amortization payments of \$5.0 million due on March 3, 2021 for the West Mira facility and the \$5.0 million due on March 13, 2021 for the West Bollsta facility and \$10.0 million was paid to the banks on January 14, 2022. This amount had been set aside in a restricted account secured on behalf of the lenders. \$30.0 million to be paid in January 2022, as agreed in November 2021, was added to the balloon payment.

On January 14, 2022, the Company closed the amendment and extension process for the Sterna revolving credit facility in line with what was announced on December 23, 2021, and borrowed an additional \$15.0 million taking the outstanding balance to \$85.0 million.