



NORTHERN OCEAN LTD.
RESULTS FOR THE THIRD QUARTER 2023 AND NINE MONTHS ENDED
SEPTEMBER 30, 2023

KEY INFORMATION

Unless otherwise indicated, the terms "Northern Ocean" and the "Company", refer to Northern Ocean Ltd. and its consolidated subsidiaries.

Unless otherwise indicated, all references to "\$" in this annual report are to the lawful currency of the United States of America.

HIGHLIGHTS - THIRD QUARTER 2023

- The *Deepsea Mira* completed its first full quarter of operations under its contract with a subsidiary of TotalEnergies SE ("TotalEnergies") in Namibia.
- The *Deepsea Bollsta* continued to work under its contract with a subsidiary of Shell Plc. ("Shell") in Namibia.

RESULTS

In the third quarter total operating revenues were \$81.0 million compared to \$43.4 million in the previous quarter. The movement was driven by an increase in contract revenue to \$73.3 million compared to \$34.7 million in the previous quarter. Contract revenue was earned from the drilling contracts of the *Deepsea Bollsta* with Shell (which achieved an economic utilization of 96.5%) and the *Deepsea Mira* with TotalEnergies (which achieved an economic utilization of 95.3%).

The increase in contract revenue was a result of the first full quarter of operations for the *Deepsea Mira* since commencement of the current contract with TotalEnergies in June 2023. This has led to an increase in dayrate revenue of \$28.0 million, and an increase in the amortized deferred revenue of \$10.3 million. The amortized deferred revenue represents the mobilization fees which are being amortized over the initial firm contract duration.

Total operating expenses were \$85.5 million compared to \$50.6 million in the previous quarter. The largest constituent of this balance was rig operating expenses, which increased to \$65.5 million compared to \$30.1 million in the previous quarter due to the *Deepsea Mira* operating for the full quarter. The commencement of operation of the *Deepsea Mira* has led to an increase of \$17.6 million in daily operating expenses and an increase of \$20.3 million in the amortization of deferred costs compared to the previous quarter. The amortized deferred costs are the direct and incremental costs of mobilizing to Namibia and preparing the rig for operations, and these costs have been amortized ratably over the initial term of the drilling contract.

Administrative expenses were \$1.9 million compared to \$1.8 million in the previous quarter.

Foreign exchange losses were \$0.1 million compared to a gain of \$0.2 million in the previous quarter.

The net loss from continuing operations before taxes in the third quarter was \$17.7 million compared to a loss of \$18.0 million in the previous quarter. The net loss in the third quarter resulted in a basic and diluted loss per share of \$0.10, on par with the previous quarter.

COMPANY UPDATE

Operations

Year to date, the *Deepsea Bollsta* has continued to work under its contract with Shell in Namibia and further demonstrated the rig's capabilities through Namibia's winter season. On May 25, 2023, Shell declared its option on the *Deepsea Bollsta* for continued work in Namibia and the firm term of the contract was extended for six months into June 2024. An additional option for a consecutive six month period was agreed and if exercised, this would bring employment with Shell to December 2024.

In the second quarter, the *Deepsea Mira* departed from Bergen, Norway, and mobilized to the first well location in Namibia for its multi-country contract with TotalEnergies. On June 28, 2023, the rig arrived at the first well location and commenced drilling operations. The *Deepsea Mira* has drilled two wells in ultra deep water depths around 3,000 meters (9,842 feet), which is in the upper limits of water depth for most semi submersible rigs. The *Deepsea Mira* was not only able to handle large swells at this water depth, the crew was also able to move the rig between well locations in an extremely efficient manner, thereby further demonstrating the delivery of advanced technical solutions for our customers.

At the date of this report, the Company's total revenue backlog is estimated to be \$139 million, excluding options, performance bonuses and reimbursable revenue. The fleet technical utilization year to date is 95.1%.

Financing

On June 28, 2023, the Company amended and restated its credit facilities agreement with related party Sterna Finance Ltd. ("Sterna") to provide an additional \$50.0 million in short-term funding with this balance repayable by the end of September 2023. On September 28, 2023, the agreement was further amended and extended with a new maturity date of December 31, 2023.

On July 7, 2023, the Company amended and restated its term loan facilities bank debt agreement, deferring the next three amortization payments totaling \$30.0 million and adding the balance to the balloon payment at maturity.

OUTLOOK

Northern Ocean remains confident in the continued improvement of the offshore drilling market.

During the last period there have been several fixtures in both the harsh and the benign environment markets. While it's encouraging to see these activity levels reflecting strong demand, the results of the awards demonstrate that our customers continue to be extremely disciplined in their allocation of capital.

Recently, E&P companies in the Northern Continental Shelf awarded contracts to rigs with lesser capabilities than those owned by the Company and at lower economical terms. These awards have in turn pushed the overall market sideways, despite some improvements in the length of terms. We expect activity in the harsh environment markets to remain stable in the near-term, with gradual improvements materializing over the next two years. We continue to expect that there will be incremental demand that will support the business case for rigs to return to this market. Northern Ocean is maintaining the ability to return to Norway and the United Kingdom markets with little to no incremental investment beyond mobilization.

The emerging activities in Namibia continues to grow, and is expected to increase as more successful exploration wells are completed. This year three E&P companies (two being super majors) are completing exploration programs on three separate license blocks. There have been several reports of new applications for 10 well programs being submitted with the local authorities, which continues to support the expectation for an elevated near-term demand in this area. With activity picking up in Brazil and other ultra deepwater markets, several of the larger drillships that could be seasonally competitive in this market are being spoken for and expected to leave West Africa in the next year. Northern Ocean is able to provide an efficient solution to meet this growing demand, as our operations have now been established for over a year in Namibia.

Northern Ocean's rigs are two out of very few rigs equipped to work in all basins of the world, including harsh environments and ultra deep waters. The fleet is one of the youngest and most capable high specification semi submersibles integrated with the latest automation technologies to provide safe and efficient operations. We have a commitment to continue to find new and innovative solutions that reduce our impact on the environment without compromising on safety and performance. We continue to build strong relationships with our current and future customers, and aim to keep the rigs fully utilized in the foreseeable future.

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 and Chief Executive Officer
Northern Ocean Ltd.
Hamilton, Bermuda
November 27, 2023

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

| Jul 1 to Sep 30, 2022 | Jul 1 to Sep 30, 2023 | CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS <i>(in thousands of \$)</i> | Jan 1 to Sep 30, 2023 | Jan 1 to Sep 30, 2022 | 2022 |
|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|-----------------|
| — | 73,302 | Contract revenue | 138,625 | 9,830 | 20,440 |
| — | 6,890 | Reimbursable revenue | 16,702 | — | — |
| 266 | 851 | Other income | 1,581 | 952 | 1,222 |
| 266 | 81,043 | Total operating revenues | 156,908 | 10,782 | 21,662 |
| 5,850 | 65,539 | Rig operating expenses | 122,216 | 22,674 | 37,434 |
| — | 6,796 | Reimbursable expenses | 16,429 | — | — |
| 10,103 | 11,204 | Depreciation | 31,806 | 29,980 | 40,209 |
| 148 | — | Provision for doubtful debts | — | 358 | 358 |
| 1,500 | 1,937 | Administrative expenses | 5,675 | 5,514 | 7,620 |
| 17,601 | 85,476 | Total operating expenses | 176,126 | 58,526 | 85,621 |
| (17,335) | (4,433) | Net operating loss | (19,218) | (47,744) | (63,959) |
| 74 | 435 | Interest income | 1,332 | 130 | 363 |
| (7,366) | (12,623) | Interest expense | (32,969) | (18,982) | (27,855) |
| (2,749) | (118) | Foreign exchange (loss) gain | 97 | (3,978) | (1,040) |
| (1) | (2) | Other financial expenses | (6) | (4) | (11) |
| (27,377) | (16,741) | Net loss from continuing operations before taxes | (50,764) | (70,578) | (92,502) |
| (32) | (923) | Tax charge | (1,720) | (171) | (388) |
| (27,409) | (17,664) | Net loss from continuing operations | (52,484) | (70,749) | (92,890) |
| | | | | | |
| (0.24) | (0.10) | Basic and diluted loss from continuing operations per share (\$) | (0.29) | (0.67) | (0.80) |

| Jul 1 to Sep 30, 2022 | Jul 1 to Sep 30, 2023 | CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS <i>(in thousands of \$)</i> | Jan 1 to Sep 30, 2023 | Jan 1 to Sep 30, 2022 | 2022 |
|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|-----------------|
| (27,409) | (17,664) | Net loss | (52,484) | (70,749) | (92,890) |
| 461 | (20) | Foreign currency translation (loss) gain | 29 | 1,308 | 201 |
| 461 | (20) | Other comprehensive (loss) income | 29 | 1,308 | 201 |
| (26,948) | (17,684) | Comprehensive loss | (52,455) | (69,441) | (92,689) |

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> | Sep 2023 | Dec 2022 |
|--|------------------|------------------|
| ASSETS | | |
| Short-term assets | | |
| Cash and cash equivalents | 21,002 | 67,494 |
| Restricted cash | 114 | 5,428 |
| Related party receivables | 360 | 405 |
| Accounts receivable, net | 47,088 | 7,770 |
| Unbilled receivables | 13,446 | 11,390 |
| Short-term portion of deferred costs | 50,322 | 28,424 |
| Other current assets | 9,099 | 13,162 |
| Accrued income | 7,274 | 542 |
| Short-term portion of right-of-use assets under operating leases | 157 | 185 |
| Total short-term assets | 148,862 | 134,800 |
| Long-term assets | | |
| Drilling units | 928,761 | 917,465 |
| Fixtures and fittings | 37 | 50 |
| Right-of-use assets under operating leases | — | 197 |
| Long-term deferred costs | — | 1,270 |
| Total long-term assets | 928,798 | 918,982 |
| Total assets | 1,077,660 | 1,053,782 |
| LIABILITIES AND EQUITY | | |
| Short-term liabilities | | |
| Short-term portion of long-term debt | 19,981 | 19,970 |
| Other current liabilities | 54,167 | 36,971 |
| Short-term portion of deferred revenue | 27,444 | 22,218 |
| Related party payables | — | — |
| Short-term portion of related party debt | 51,679 | — |
| Short-term obligations under operating leases | 139 | 196 |
| Total short-term liabilities | 153,410 | 79,355 |
| Long-term liabilities | | |
| Long-term debt | 369,649 | 369,449 |
| Long-term deferred revenue | 2,742 | 6,237 |
| Long-term related party debt | 96,556 | 91,778 |
| Obligations under operating leases | — | 164 |
| Total long-term liabilities | 468,947 | 467,628 |
| Commitments and contingencies (Note 17) | | |
| Total equity | 455,303 | 506,799 |
| Total liabilities and equity | 1,077,660 | 1,053,782 |

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

NORTHERN OCEAN LTD.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| Jul 1 to Sep 30, 2022 | Jul 1 to Sep 30, 2023 | CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of \$) | Jan 1 to Sep 30, 2023 | Jan 1 to Sep 30, 2022 | 2022 |
|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|-----------------|
| (27,409) | (17,664) | NET LOSS | (52,484) | (70,749) | (92,890) |
| | | Adjustment to reconcile net (loss) income to net cash used in operating activities; | | | |
| 65 | 74 | Amortization of deferred charges | 212 | 651 | 718 |
| — | 39,629 | Amortization of deferred costs | 39,629 | — | — |
| (27) | (4,793) | Amortization of deferred revenue | (17,788) | (1,896) | (2,466) |
| (210) | — | Provision for doubtful debts | — | — | — |
| 10,102 | 11,204 | Depreciation | 31,806 | 29,979 | 40,209 |
| 461 | (20) | Unrealized foreign exchange loss (gain) | 29 | 1,308 | 201 |
| (104) | — | Tax | — | 35 | 35 |
| — | (2,268) | Accrued demobilization income | (6,731) | — | (542) |
| | | Change in operating assets and liabilities; | | | |
| 210 | (20,573) | Receivables | (39,319) | — | (7,770) |
| — | (4,573) | Unbilled receivables | (2,056) | — | (11,390) |
| (7,422) | 31,105 | Other current assets | 4,061 | (6,117) | (13,478) |
| (1,438) | (1,270) | Other long-term assets | — | (1,438) | 2,033 |
| (426) | 141 | Right-of-use assets under operating leases | 225 | (426) | (382) |
| — | (60,258) | Additions to deferred costs | (60,258) | — | — |
| 7,609 | (13,723) | Other current liabilities | 17,196 | 11,568 | 29,516 |
| (255) | 304 | Related party balances | 45 | 3,037 | 3,031 |
| — | 4,883 | Additions to deferred revenue | 19,520 | — | — |
| 409 | (145) | Obligations under operating leases | (221) | 409 | 360 |
| (18,435) | (37,947) | Net cash used in operating activities | (66,134) | (33,639) | (52,815) |
| | | INVESTING ACTIVITIES | | | |
| (1,304) | (12,929) | Additions to drilling units | (43,089) | (1,304) | (4,626) |
| (38) | — | Additions to fixtures and fittings | — | (52) | (53) |
| (1,342) | (12,929) | Net cash used in investing activities | (43,089) | (1,356) | (4,679) |
| | | FINANCING ACTIVITIES | | | |
| 39,355 | — | Net proceeds from share issuances | 959 | 59,355 | 103,855 |
| 1,513 | 3,299 | Related party debt: Proceeds | 56,458 | 20,221 | 21,778 |
| — | — | Long term debt: Repayments | — | (10,000) | (10,000) |
| — | — | Debt fees paid | — | (780) | (830) |
| 40,868 | 3,299 | Net cash provided by financing activities | 57,417 | 68,796 | 114,803 |
| 21,091 | (47,577) | Net change | (51,806) | 33,801 | 57,309 |
| 28,323 | 68,693 | Cash, cash equivalents and restricted cash at start of the period | 72,922 | 15,613 | 15,613 |
| 49,414 | 21,116 | Cash, cash equivalents and restricted cash at end of the period | 21,116 | 49,414 | 72,922 |

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 Sep 30, 2023 | 2022 |
|---|----------------------------------|--------------------|
| Number of shares outstanding | | |
| Balance at beginning of period | 181,618,186 | 63,802,378 |
| Shares issued | 1,058,921 | 117,815,808 |
| Balance at end of period | 182,677,107 | 181,618,186 |
| Share capital | | |
| Balance at beginning of period | 90,809 | 63,803 |
| Shares issued | 530 | 58,908 |
| Reduction in nominal value of shares | — | (31,902) |
| Balance at end of period | 91,339 | 90,809 |
| Additional paid in capital | | |
| Balance at beginning of period | 565,184 | 488,334 |
| Shares issued | 429 | 44,948 |
| Reduction in nominal value of shares | — | 31,902 |
| Balance at end of period | 565,613 | 565,184 |
| Accumulated other comprehensive income (loss) | | |
| Balance at beginning of period | (145) | (346) |
| Other comprehensive income | 29 | 201 |
| Balance at end of period | (116) | (145) |
| Retained deficit | | |
| Balance at beginning of period | (149,049) | (56,159) |
| Net loss | (52,484) | (92,890) |
| Balance at end of period | (201,533) | (149,049) |
| Total equity | 455,303 | 506,799 |

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 was incorporated under the laws of Bermuda on March 3, 2017. The Company was incorporated for the primary purpose of engaging in offshore contract drilling for the oil and gas industry in harsh environments worldwide through the ownership of offshore drilling rigs.

As of the date of this report, the Company owns two semi-submersible rigs, *Deepsea Mira* and *Deepsea Bollsta*. The *Deepsea Mira* is currently operating a drilling contract with TotalEnergies SE ("TotalEnergies") off the coast of Namibia. The *Deepsea Bollsta* is currently operating a drilling contract with Shell Upstream Namibia B.V., a subsidiary of Shell Plc. ("Shell") also off the coast of Namibia.

2. BASIS OF ACCOUNTING

The unaudited condensed consolidated financial statements are stated in accordance with accounting principles generally accepted in the United States of America. 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, 2022.

Going concern assumption

These consolidated financial statements are prepared under the going concern assumption.

Following the *Deepsea Mira* commencing drilling activities under its contract with TotalEnergies in the previous quarter both rigs are operating profitably. The Company had a remaining estimated firm revenue backlog of \$176 million as of September 30, 2023. The Company continues to have a positive outlook for the offshore drilling market and Northern Ocean's ability to continue obtaining profitable contracts.

On June 28, 2023, the Company amended and restated its credit facilities agreement with related party Sterna Finance Ltd. ("Sterna") to provide an additional \$50.0 million of short-term funding. In September the parties agreed on an extension of the maturity of the facility from the end of September to the end of December 2023.

Due to the short-term nature of the current funding, the Company will be dependent on loan amendments, obtaining new loans and/or equity issuances to finance its loan obligations and working capital in the next twelve months. This potentially raises substantial doubt about the Company's ability to continue as a going concern. The Board remains confident that a solution will be reached.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table provides information about the composition of contract revenue:

| | July 1 to Sep 30, 2023 (in thousands of \$) | Jan 1 to Sep 30, 2023 |
|----------------------------------|--|--------------------------|
| | 54,683 | 107,174 |
| Dayrate revenue | | |
| | 12,878 | 17,707 |
| Amortization of deferred revenue | | |
| | 2,268 | 6,731 |
| Accrued demobilization revenue | | |
| | 3,473 | 7,013 |
| Other | | |
| 73,302 | Contract revenue | 138,625 |

Dayrate revenue

Dayrate revenue earned from the *Deepsea Bollsta* and *Deepsea Mira* drilling contracts is recognized as it is earned.

Amortization of deferred revenue

Mobilization charges to customers are being recognized over the initial firm contract durations.

Accrued demobilization revenue

Fixed demobilization charges are being recognized over the initial firm contract duration.

Other

This balance primarily consists of add-on revenue and the sale of fuel at contract commencement.

4. RIG OPERATING EXPENSES

The following table provides information about the composition of rig operating expenses:

| | Jul 1 to Sep 30, 2023 | <i>(in thousands of \$)</i> | Jan 1 to Sep 30, 2023 |
|--|----------------------------------|--------------------------------|----------------------------------|
| | 36,827 | Daily operating expenses | 74,455 |
| | 26,635 | Amortization of deferred costs | 39,630 |
| | 2,077 | Other | 8,131 |
| | 65,539 | Rig operating expenses | 122,216 |

Amortization of deferred 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 and enhance resources that will be used in satisfying performance obligations. 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

Balance primarily consists of the cost of fuel sold at contract commencement, and withholding taxes payable in Namibia.

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, Ireland, Namibia and the USA are subject to income tax in their respective jurisdictions.

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.

6. EARNINGS PER SHARE

The computation of basic earnings per share is calculated by dividing the net loss attributable to the Company by the weighted average number of shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net income attributable to the Company by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. If in the period there is a loss then any dilutive potential ordinary shares have been excluded from the calculation of diluted loss per share, as their effect would be anti-dilutive.

The components of the numerator and the denominator in the calculation are as follows:

| Jul 1 to Sep 30, 2022 | Jul 1 to Sep 30, 2023 | | Jan 1 to Sep 30, 2023 | Jan 1 to Sep 30, 2022 | 2022 |
|--------------------------|--------------------------|---|--------------------------|--------------------------|----------|
| (27,409) | (17,664) | Net loss (in thousands of \$) | (52,484) | (70,749) | (92,890) |
| 115,852 | 182,677 | Weighted average number of ordinary shares (in thousands) | 182,440 | 105,958 | 115,494 |

7. DEFERRED REVENUE AND COSTS

The following table provides information about the composition of deferred revenue:

| <i>(in thousands of \$)</i> | Contract revenue | Other | Total |
|--|---------------------|-------|----------|
| Total deferred revenue at December 31, 2022 | 25,521 | 2,934 | 28,455 |
| Deferred revenue accruing in the period | 19,520 | — | 19,520 |
| Amortization of deferred revenue | (17,707) | (82) | (17,789) |
| Total deferred revenue at September 30, 2023 | 27,334 | 2,852 | 30,186 |
| Short-term deferred revenue | 27,334 | 110 | 27,444 |
| Long-term deferred revenue | — | 2,742 | 2,742 |

Contract revenue

We may receive fees (on either a fixed lump-sum or variable rate 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.

Other

The balance primarily consists of funds received from the Norwegian government as a grant due to the *Deepsea Mira* being equipped with systems which reduce NOx emissions. The grant is being amortized over the estimated useful life of the *Deepsea Mira*.

The following table provides information about the composition of deferred contract costs:

| <i>(in thousands of \$)</i> | Contract costs |
|--|-----------------------|
| Total deferred costs at December 31, 2022 | 29,694 |
| Deferred costs accruing in the period | 60,258 |
| Amortization of deferred costs | (39,630) |
| Total deferred costs at September 30, 2023 | 50,322 |
| Short-term deferred costs | 50,322 |
| Long-term deferred costs | — |

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 and enhance resources that will be used in satisfying performance obligations. Such costs are deferred and amortized ratably to contract drilling expense as services are rendered over the initial term of the related drilling contract.

8. RESTRICTED CASH

The restricted cash as of September 30, 2023, of \$0.1 million consists of cash withheld for a guarantee to NIS and payroll taxes.

9. DRILLING UNITS

Movements in the carrying value of drilling units in the nine months ended September 30, 2023 are summarized as follows:

| <i>(in thousands of \$)</i> | Cost | Accumulated depreciation | Net carrying value |
|-------------------------------|-------------|---------------------------------|---------------------------|
| Balance at December 31, 2022 | 1,032,891 | (115,426) | 917,465 |
| Additions | 43,090 | — | 43,090 |
| Depreciation | — | (31,794) | (31,794) |
| Balance at September 30, 2023 | 1,075,981 | (147,220) | 928,761 |

10. OTHER CURRENT ASSETS

Other current assets as of September 30, 2023 may be summarized as follows:

| <i>(in thousands of \$)</i> | |
|-----------------------------|-------|
| Deposit held | 35 |
| VAT receivable | 1,504 |
| Other | 7,560 |
| | 9,099 |

Other

This category principally consists of \$6.1 million of prepayments for operational costs and \$1.3 million of insurance prepayments.

11. OTHER CURRENT LIABILITIES

Other current liabilities as of September 30, 2023 may be summarized as follows:

| <i>(in thousands of \$)</i> | |
|--------------------------------|--------|
| Accounts payable | 14,429 |
| Accrued administrative expense | 2,133 |
| Accrued operating expense | 21,017 |
| Other payables | 5,172 |
| VAT liability | 2,370 |
| Accrued interest expense | 9,046 |
| | 54,167 |

12. DEBT

Debt due to non-related parties as of September 30, 2023 may be summarized as follows:

| <i>(in thousands of \$)</i> | |
|---|---------|
| U.S. dollar denominated floating rate debt: | |
| \$200.0 million term loan facility - <i>Deepsea Mira</i> | 165,000 |
| \$200.0 million term loan facility - <i>Deepsea Bollsta</i> | 175,000 |
| \$50.0 million term loan facility - <i>Deepsea Mira and Deepsea Bollsta</i> | 50,000 |
| Total debt - gross of deferred charges | 390,000 |
| Short-term portion of debt issuance costs | (19) |
| Long-term portion of debt issuance costs | (351) |
| Total debt - net of deferred charges | 389,630 |
| Short-term debt | 19,981 |
| Long-term debt | 369,649 |
| Total debt - net of deferred charges | 389,630 |

The outstanding debt to non- related parties as of September 30, 2023 is repayable as follows:

| <i>(in thousands of \$)</i> | |
|-----------------------------|---------|
| Year 1 | 20,000 |
| Year 2 | 370,000 |
| Year 3 | — |
| Year 4 | — |
| Year 5 | — |
| Thereafter | — |
| | 390,000 |

The Company is in compliance with the covenants set out in the bank debt agreements.

Assets pledged

| <i>(in thousands of \$)</i> | |
|-----------------------------|---------|
| Drilling units | 928,761 |

Deferred charges

| | |
|-----------------------------|-------|
| <i>(in thousands of \$)</i> | |
| Debt arrangement fees | 830 |
| Accumulated amortization | (460) |
| | 370 |

13. RELATED PARTY DEBT

Debt due to related parties as of September 30, 2023 may be summarized as follows:

| | |
|------------------------------------|---------|
| <i>(in thousands of \$)</i> | |
| \$ denominated fixed rate debt: | |
| \$100.0 million term loan facility | 96,556 |
| \$50.0 million term loan facility | 51,679 |
| Total debt | 148,235 |
| | |
| Short-term debt | 51,679 |
| Long-term debt | 96,556 |
| Total debt | 148,235 |

The outstanding debt as of September 30, 2023 is repayable as follows:

| | |
|-----------------------------|---------|
| <i>(in thousands of \$)</i> | |
| Year 1 | 51,679 |
| Year 2 | 96,556 |
| Year 3 | — |
| Year 4 | — |
| Year 5 | — |
| Thereafter | — |
| | 148,235 |

The Company is in compliance with the covenants set out in the agreement with Sterna.

Since 2019, the Company has held a \$100.0 million revolving credit facility with Sterna. As of September 30, 2023, the Company had drawn a total of \$96.6 million from the facility, an increase of \$1.7 million from the previous quarter, drawn to settle the payment in kind interest of the facility as it fell due. The remaining available funds of the facility are restricted for settling the future interest payments of the Sterna revolving credit facility as they fall due. Sterna has 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 \$100.0 million facility from Sterna is repayable in full on April 17, 2025.

On June 28, 2023, the Company amended and restated its credit facilities agreement with related party Sterna to provide an additional \$50.0 million of short-term funding repayable by the end of September 2023.

In the quarter the maturity of the additional \$50.0 short-term funding facility has been extended until the end of December 2023, and the interest component of the loan will be settled on final maturity.

14. SHARE CAPITAL

On March 2, 2023, a subsequent offering connected to the private placement in December 2022 was completed. New shares in the amount of 1,058,921 were issued as part of the subsequent offering at a subscription price of NOK 9.50 per share, resulting in gross proceeds of approximately \$1.0 million.

Following the subsequent offering and registration in the relevant register of members, the Company has 182,677,107 fully paid common shares outstanding and authorized share capital of \$968,098,811 divided into 1,936,197,622 common shares of a par value of \$0.50 each.

15. FAIR VALUES

The carrying value and estimated fair value of the Company's financial instruments as of September 30, 2023 are as follows:

| <i>(in thousands of \$)</i> | Carrying value | Fair value |
|-------------------------------|-----------------------|-------------------|
| Assets: | | |
| Cash and cash equivalents | 21,002 | 21,002 |
| Restricted cash | 114 | 114 |
| Liabilities: | | |
| Floating rate debt | 389,630 | 389,630 |
| Long-term related party debt | 96,556 | 95,165 |
| Short-term related party debt | 51,679 | 52,275 |

The estimated fair values 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 | 21,002 | 21,002 | — | — |
| Restricted cash | 114 | 114 | — | — |
| Liabilities: | | | | |
| Floating rate debt | 389,630 | — | 389,630 | — |
| Long-term related party debt | 95,165 | — | — | 95,165 |
| Short-term related party debt | 52,275 | — | — | 52,275 |

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 recalculated on a quarterly basis.
- Long-term related party debt – the fair value has been determined using level 3 inputs being the discounted expected cash flows of the outstanding debt.
- Short-term related party debt – the fair value has been determined using level 3 inputs being the discounted expected cash flows of the outstanding debt.

16. RELATED PARTY TRANSACTIONS

Hemen Holding Ltd. ("Hemen"), a Cyprus holding company, indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family, owned 39.0% of the Company's outstanding ordinary shares at September 30, 2023.

The Company currently transacts, or previously has transacted, business with the following related parties, being companies in which Hemen, or companies affiliated with Hemen, has a significant interest:

- Sterna Finance Ltd. ("Sterna");
- Front Ocean Management Ltd. and Front Ocean Management AS (together "Front Ocean");
- Frontline Management (Bermuda) Ltd. ("Frontline");
- Seatankers Management Co. Ltd. and STM Cyprus Ltd. (together "Seatankers");
- Northern Drilling Ltd. ("NODL").

Sterna transactions

See related party debt (Note 13).

Frontline, Front Ocean and Seatankers transactions

The Company and its subsidiaries have received treasury, accounting, corporate secretarial and advisory services from these entities and was charged \$0.1 million in the nine months ended September 30, 2023 (2022: \$0.3 million).

NODL transactions

In 2023, the Company continues to provide management services to NODL and charged \$0.9 million in the nine months ended September 30, 2023 (2022: \$0.7 million).

A summary of balances due from related parties as of September 30, 2023 is as follows:

| | |
|-----------------------------|-----|
| <i>(in thousands of \$)</i> | |
| NODL | 360 |

A summary of short-term balances due to related parties as of September 30, 2023 is as follows:

| | |
|-----------------------------|--------|
| <i>(in thousands of \$)</i> | |
| Sterna | 51,679 |

A summary of long-term balances due to related parties as of September 30, 2023 is as follows:

| | |
|-----------------------------|--------|
| <i>(in thousands of \$)</i> | |
| Sterna | 96,556 |

17. COMMITMENTS AND CONTINGENCIES

As of September 30, 2023, the Company had no capital commitments.

18. SUBSEQUENT EVENTS

Between the balance sheet date and the date of this report there have been no subsequent events of note.