

Preliminary Earnings Release

Q4 2022



DOLPHIN DRILLING AS

Preliminary Q4 2022 Results

Oslo, Norway, 28 February, 2023.

Dolphin Drilling AS (Dolphin Drilling, OSE: DDRIL) today announced its preliminary financial results for the quarter ended December 31, 2022.

Q4 2022 Highlights

- First day of trading on Euronext Growth on October 28th 2022
- Commencement of 5-year recertification of Blackford Dolphin in Las Palmas
- Ending the year with a strong balance sheet with USD 35.8m of cash and cash equivalents and a contract backlog of USD 85 million.

Subsequent events

- On January 9th 2023 the Company announced a Letter of Award (LOA) for the Blackford Dolphin for a minimum of 120 days and up to 485 days, with an effective dayrate associated with the minimum firm period of USD 325,000 including a mobilization fee.
- On January 30th 2023 Blackford Dolphin successfully completed its 5-year recertification and was on tight tow to Nigeria on 9th February 2023. The rig is expected to commence its 12-month drilling contract with General Hydrocarbons Limited in early March 2023.

Financial Review

The company reported total revenues of USD 0.4 million in the fourth quarter of 2022, compared to USD 0.1 million in the previous quarter. The revenues reflect the utilization of the fleet in the transition phase toward the mobilization of the Blackford Dolphin. The rig mobilized from Mexico to Las Palmas to begin recertification works in preparation for a 12-month contract in Nigeria in the quarter.

The company received a USD 5.9 million mobilization fee and incurred USD 7.0 million in mobilization costs during the quarter, both were deferred in line with IFRS requirements.

Reported net loss for the current quarter was USD 18.2 million or USD 0.15 per share.

Business Update

As of December 31, 2022, the estimated contractual backlog value was USD 85 million. The backlog consists of a single contract for the Blackford Dolphin, which includes an option for the client to reduce the overall fixed charter period by six months up to 90 days after commencement of the contract. The Blackford Dolphin has received an LOA for further work in Nigeria, which consists of a minimum period of 120 days and a maximum of 485 days. The LOA includes a mobilization fee. The Borgland Dolphin and Bideford Dolphin remain stacked in Norway.

After the closing of the quarter, the company announced the successful reclassification of the Blackford Dolphin for a new five-year period. The maintenance and class work were conducted in close dialogue with flag state, class, yard, key equipment vendors, and sub-contractors.

Financing and Capital Expenditure

As of 31 December 2022, the company had approximately USD 35.8 million of cash and cash equivalents, including restricted cash amounts of approximately USD 7.8 million. USD 6.0 million of restricted cash relates to an advance payment guarantee which is to be released upon the arrival of the Blackford Dolphin in Nigerian waters.

During the quarter, capital expenditures of approximately USD 12.5 million were recorded, with almost all being specifically related to the recertification of the Blackford Dolphin.

Contingent Liability

As reported in the IPO information memorandum, the company is in a legal process with the UK Tax Authorities (HMRC). Following two rulings in favour of the company, HMRC were granted permission to further appeal the rulings by the Court of Appeal.

Strategy and Outlook

Dolphin Drilling is a leading harsh environment drilling contractor for the offshore oil and gas industry. Dolphin Drilling owns a fleet of three high-technical standard 4th and 5th generation enhanced Aker H3 units, Borgland Dolphin, Blackford Dolphin, and Bideford Dolphin, operated by an experienced team with a strong operational track record. The company has approximately 160 offshore and onshore employees, and onshore locations in Norway, Scotland, Brazil, Nigeria, and Mexico.

The company was successfully listed on Euronext growth in 2022, following a capital raise of USD 45 million. In parallel, the company was awarded a 12-month contract for the Blackford Dolphin with General Hydrocarbons Limited in Nigeria, with a total value of USD 96 million, including mobilisation fee. The company is well-positioned to secure additional contracts at attractive levels, benefitting from current market improvements and an attractive positioning in the niche moored semisubmersible market. In addition, the opportunity to acquire and/or manage two latest generation harsh environment semisubmersibles as well as to manage and operate non-owned rigs provide attractive additional growth opportunities.

Accounting Items

The company prepares its financial records in accordance with International Financial Reporting Standards (IFRS). Significant accounting items, estimates and judgements pertaining to 2022 include:

New-group formation under parent company Dolphin Drilling AS

In September 2022, Dolphin Drilling AS entered into an agreement to acquire, directly and indirectly, all shares of Dolphin Drilling Holdings Limited. Under the terms of the agreement Dolphin Drilling AS legally acquired Dolphin Drilling Holdings Limited and subsidiaries and the former shareholders of Dolphin Drilling Holdings Limited became shareholders in Dolphin Drilling AS.

Post September 2022 reference to 'company' is Dolphin Drilling AS (or Dolphin Drilling AS and its subsidiaries, as parent of the consolidated group). Any item discussed prior to this date relates to Dolphin Drilling Holdings Limited (or Dolphin Drilling Holdings Limited and its subsidiaries, as previous parent of the consolidated group).

Review for impairment indicators – rig asset carrying values

An impairment indicator was identified for Borgland Dolphin and Bideford Dolphin at 31 December 2021, as a result of the volatility of oil prices in the year, caused in part by the macro-economic impact of the Covid-19 pandemic and geo-political events. The company has re-assessed this at 31 December 2022 and no change to this position has been effected whilst the rigs remain stacked.

The value in use / cash flow model prepared by the company supports the Blackford Dolphin carrying value and no impairment is contemplated at 31 December 2022. Future cash flow models are judgemental and highly sensitive to a number of factors including commodity prices, charter day rates, rig utilisation, discount rates and growth rates.

Accounting for project cost – recertification of Blackford Dolphin

The useful lives of drilling rigs are inherently difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and natural gas exploration and development, changes in market or economic conditions and changes in laws or regulations affecting the drilling industry. Expenses for normal maintenance and repairs are expensed on an ongoing basis. Expenditure for major replacement and renewal that significantly increase the service life on an asset are capitalised. The capital expenditure incurred on the Blackford Dolphin represent investment towards future economic benefit and a five-year class renewal. Depreciation is being calculated on the spend based on the five-year programme to next upgrade.

Accounting for project cost – mobilisation of Blackford Dolphin

In connection with some contracts, lump-sum fees or similar compensation for the mobilisation of equipment and personnel prior to the commencement of drilling services are received. Mobilisation fees received and costs incurred are deferred and recognised on a straight-line basis over the period that the related drilling services are performed.

Cautionary Statement Regarding Forward Looking Statements

This Operating and Financial Review contains certain forward-looking statements that involve risks and uncertainties. Forward-looking statements are sometimes, but not always, identified by such phrases as “will”, “expects”, “is expected to”, “should”, “may”, “is likely to”, “intends” and “believes”. These forward-looking statements reflect current views with respect to future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. These statements are based on various assumptions, many of which are based, in turn, upon further assumptions, including an examination of historical operating trends. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including the competitive nature of the offshore drilling industry, oil and gas prices, technological developments, government regulations, changes in economic conditions or political events, the inability of the Company to obtain financing on favorable terms, changes of the spending plan of our customers, changes in the Company’s operating expenses including crew wages, insurance, dry-docking, repairs and maintenance, failure of shipyards to comply with delivery schedules on a timely basis and other important factors mentioned from time to time in our report.

DOLPHIN DRILLING AS
FOURTH QUARTER 2022 REPORT (UNAUDITED)

Balance Sheet (\$ in Millions)	2022 4th Qtr	2022 3rd Qtr	2022 Full Year
Current Assets:			
Unrestricted Cash & Cash Equivalents	28.0	54.7	28.0
Restricted Cash	7.8	2.3	7.8
Total Cash	35.8	57.0	35.8
Accounts Receivable	1.1	0.8	1.1
Inventory	20.3	20.1	20.3
Other Current Assets	11.4	5.1	11.4
Total Current Assets	68.5	83.0	68.5
Non-Current Assets:			
Net PP&E	65.5	54.8	65.5
Other Assets	-	-	-
Total Assets	134.0	137.8	134.0
Current Liabilities			
Accounts Payables	8.8	7.5	8.8
Accrued Expenses	12.7	6.3	12.7
Other Current Liabilities	20.0	11.2	20.0
Total Current Liabilities	41.6	25.0	41.6
Other Non Current Liabilities	5.1	4.6	5.1
Drawdown Facility	-	-	-
Term Loan	(0.0)	(0.0)	(0.0)
Total Liabilities	46.6	29.6	46.6
Shareholders' Equity	87.4	108.2	87.4
Total Liabilities & Shareholders' Equity	134.0	137.8	134.0

Statement of Cash Flows (\$ in millions)	2022 4th Qtr	2022 3rd Qtr	2022 Full Year
Operating Cash Flows			
Net Income	(18.2)	(23.4)	(67.5)
Add-Back: Depreciation and Amortization	1.7	2.7	7.6
Less gain on disposal of assets	-	0.9	0.9
Change in restricted cash	(5.5)	-	(5.5)
Change in Accounts Receivable	(0.3)	25.2	24.1
Change in Inventory	(0.2)	0.4	(0.3)
Change in Other Current Assets	(6.2)	2.8	8.4
Change in Other Assets	-	-	-
Change in Accounts Payable	1.4	(5.8)	(5.7)
Change in Accrued Interest	(0.0)	-	(0.0)
Change in Accrued Expenses	6.4	(8.4)	(5.7)
Change in Other Current Liabilities	8.8	(14.1)	(2.7)
Change in Non Current Liabilities	0.4	0.3	0.0
Net Change in Working Capital	4.8	0.3	12.6
Cash Flow from Operations	(11.6)	(19.5)	(46.4)
Investing Cash Flows			
Cash Flow From Investing	(12.5)	(0.2)	(13.7)
Free Cash Flow Before Financing Activities	(24.1)	(19.7)	(60.1)
Financing Cash Flows			
Cash Flow from Financing	(2.6)	58.1	67.1
Net Change in Unrestricted Cash	(26.7)	38.4	7.0
Unrestricted Cash and Equivalents at Beginning of Period	54.7	16.2	20.9
Unrestricted Cash and Equivalents at End of Period	28.0	54.7	28.0
Restricted Cash at Beginning of Period	2.3	2.3	2.3
Restricted Cash at end of Period	7.8	2.3	7.8

DOLPHIN DRILLING AS Income Statement (\$ in millions)	2022 4th Qtr	2022 3rd Qtr	2022 Full Year
Charter Revenue	-	-	18.8
Total Other Revenue	0.4	0.1	2.3
Total Revenue	0.4	0.1	21.1
Total Rig Operating Expenses	(6.9)	(6.3)	(38.0)
Total Project Costs	(2.7)	(0.7)	(3.4)
Total Lay-up Expense	(2.6)	(3.6)	(13.1)
Total Operating Expense	(12.2)	(10.6)	(54.4)
Total G&A	(5.8)	(6.4)	(21.1)
Other	0.1	-	0.1
EBITDA	(17.6)	(16.9)	(54.4)
D&A	(1.7)	(2.7)	(7.6)
EBIT	(19.3)	(19.6)	(62.0)
Net finance (cost) / income	1.6	(3.7)	(4.8)
EBT	(17.7)	(23.3)	(66.8)
Taxes	(0.5)	(0.0)	(0.7)
Net Income (Loss)	(18.2)	(23.4)	(67.5)