

Preliminary earnings release

Q2 2023



DOLPHIN DRILLING AS

Preliminary Q2 2023 Results

Oslo, Norway, 15 August, 2023.

Dolphin Drilling AS (Dolphin Drilling, OSE: DDRIL) today announced its preliminary financial results for the quarter ended 30 June, 2023.

Q2 2023 highlights

- Blackford Dolphin has been drilling for General Hydrocarbons Limited (GHL) continuously with robust performance throughout the quarter
- The Total Recordable Incident Rate for the Blackford Dolphin operation was zero during the second quarter of 2023
- The earnings for the Blackford Dolphin were at 97.2% of maximum potential, following obtaining all operational licenses by 10 April 2023
- The operational cost, lay-up cost and G&A expenses at USD 17.1 million, corresponding to USD 190k per day excluding USD 3 million or USD 33k per day of deferred mobilisation cost related to Nigeria (offset by deferred mobilisation revenue).
- The Blackford Dolphin drilling contract with GHL is fixed until 25 March 2024, as the client did not exercise its contractual option to shorten the contract to six months
- Dolphin strengthened its fleet and revenue backlog through the intended acquisition of the Paul B Loyd Jr and Transocean Leader, concurrently a private placement worth USD 60 million was contemplated, announced and approved prior to the end of the second quarter
- The company's largest shareholders, Strategic Value Partners and S.D. Standard ETC, committed to provide the company with a Revolving Credit Facility of USD 15 million. The facility was drawn in full on 30 June, 2023
- The total revenue backlog of USD 377 million, excluding option periods, effective on 30 June 30, 2023, including the contemplated acquisition

Subsequent events

- The Private Placement was funded
- All deposits were paid to Transocean in line with the acquisition agreement. No further payments are due until the completion

Financial review

The company reported total revenues of USD 21.8 million in the second quarter of 2023, compared to USD 1.8 million in the previous quarter. The revenues reflect earnings achieved on the Blackford Dolphin at an average earnings efficiency of 97.2% when excluding downtime for days waiting for licenses. This also includes other revenues of USD 3.5 million reflecting the amortisation of mobilisation fees received from and other cost recharges to the client. Reported net loss for the current quarter was USD 1.6 million, or USD 0.01 per share¹.

¹ Calculation based on 124,318,899 shares being the pre Private placement share count

Total rig operating expenses for the quarter were USD 16.5 million, USD 1.1 million higher compared to the previous quarter. The operating expenses reflect a full quarter of operations in Nigeria on the Blackford Dolphin, including USD 3 million of amortised project cost related to the mobilisation of the rig. Lay-up expenses are slightly lower than the previous quarter at USD 2.6 million for both the Borgland Dolphin and Bideford Dolphin with both remaining in stacked mode. G&A costs are below guidance at USD 3.6 million, slightly above the first quarter of the year, principally driven by legal costs related to the defence of the tax case vs HMRC and fees associated with the acquisition process.

Business update

As of 30 June 2023, the estimated contractual backlog value was USD 377 million excluding options. The backlog consists of two contracts for the Blackford Dolphin and the estimated backlog on the to-be-acquired Paul B. Loyd Jr. The first contract with GHL included an option to reduce the overall fixed charter period by six months which lapsed in late June and as such the contract is now a 12-month firm period. The second contract, with Peak Petroleum, consists of a minimum period of 120 days with options to extend up to 485 days. Paul B. Loyd Jr. has an existing contract backlog with Harbour Energy and as part of the conditions to consent to the acquisition of the unit, the firm backlog is to be extended until September 2027 with an estimated revenue value of USD 276 million.

On 30 June, 2023, invoices worth approximately USD 12.2 million were overdue per the terms of the contract with GHL. These are set off against the USD 8 million advance paid by GHL before the commencement of operations leaving a net overdue balance of USD 4.2 million. USD 3.1 million has been received since the end of the second quarter.

Following the confirmation of the 12-month GHL contract term in late June, discussions to alter the commencement window and timing of the mobilisation payment with Peak Petroleum continue. It is anticipated that Blackford will commence operations for Peak Petroleum immediately following the conclusion of the GHL work.

The Borgland Dolphin and Bideford Dolphin remain stacked and are actively bid to multiple rig tenders. Two semisubmersible CS60 Eco Aker MH rigs are marketed by the company and active in commercial discussions. We remain in active dialogue for future contract awards in the North Sea and Internationally.

Financing and capital expenditure

As of 30 June 2023, the company had approximately USD 14.4 million of cash and cash equivalents, including restricted cash amounts of approximately USD 6.3 million. USD 3.0 million of restricted cash relates to a standby letter of credit that supports the importation of the Blackford Dolphin to Nigeria and USD 1.7 million relates to bid bonds for ongoing rig tenders. The remainder of the balance considered restricted represents cash in jurisdictions not readily available for general corporate purposes. USD 15.0 million was drawn against the shareholder loan facility. A deposit in the amount of USD 3.1 million was paid to Transocean before the end of the quarter as per the agreement to acquire Paul B. Loyd Jr. and Transocean Leader. A further USD 3.1 million was paid on 27 July 2023, following the completion of certain inspections as per the terms of the agreement.

Of the total USD 18.7 million in receivables at the end of the quarter, USD 10.3 million has been advanced via the factoring facility.

In early July 2023, net proceeds from private placement worth USD 57 million equivalent were received. Amounts were received in NOK and have been converted to USD to hold for the

contemplated acquisition. At the closing of the Paul B Loyd Jr and Transocean Leader rig acquisition Dolphin will pay Transocean the remaining USD 58.3 million less the net cash flow generated by the rigs from the period 12 June 2023 to the end of the closing date.

During the quarter, capital expenditures of approximately USD 800k were recorded, all related to 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 was granted permission to further appeal the rulings by the Court of Appeal. The hearing is expected to take place in December 2023. The company incurs ad hoc costs in relation to filings related to the case.

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 offshore and onshore employees in Norway, Scotland, Brazil and Nigeria.

The company is well-positioned to secure contracts at attractive levels, benefitting from current market improvements and an attractive positioning in the niche moored semisubmersible market. In addition, the company is positioned 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.

In June 2023 the company announced it had entered into an agreement with Transocean to acquire the Paul B Loyd Jr and Transocean Leader. In conjunction with this agreement the company also entered into an agreement to extend the existing contract for the Paul B Loyd Jr with Harbour Energy, extending the backlog for the rig into 2027 with options for a further five years beyond. The transaction is subject to various closing conditions including the complete transfer of the UK safety case.

Accounting items

The company prepares its financial records in accordance with International Financial Reporting Standards (IFRS).

The 2022 audited financial statements were approved by the board and published on 26 April 2023.

Significant accounting items, estimates and judgements pertaining to 2023 include:

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. To the extent that costs outweigh income the loss on mobilisation is recorded in full as soon as able to be estimated reliably.

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 favourable 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
SECOND QUARTER 2023 REPORT (UNAUDITED)

DOLPHIN DRILLING AS Income Statement (\$ in millions)	2023 2nd Qtr 2Q2023	2023 1st Qtr 1Q2023	2023 YTD 2023
Charter Revenue	18.3	1.5	19.8
Total Other Revenue	3.5	0.2	3.7
Total Revenue	21.8	1.8	23.5
Total Rig Operating Expenses	(10.5)	(9.9)	(20.4)
Total Project Costs	(3.4)	(2.7)	(6.1)
Total Lay-up Expense	(2.6)	(2.8)	(5.4)
Total Operating Expense	(16.5)	(15.4)	(31.9)
G&A			
Total G&A	(3.6)	(3.4)	(7.0)
Other	0.0	0.0	0.0
EBITDA	1.6	(17.0)	(15.4)
D&A	(1.9)	(2.2)	(4.0)
EBIT	(0.2)	(19.1)	(19.4)
Net finance (cost) / income	0.5	(0.5)	0.0
EBT	0.3	(19.6)	(19.3)
Taxes	(1.9)	(0.2)	(2.1)
Net Income (Loss)	(1.6)	(19.8)	(21.5)

Balance Sheet (\$ in Millions)	2023 2nd Qtr	2023 1st Qtr	2023 YTD
Current Assets:			
Unrestricted Cash & Cash Equivalents	8.1	17.4	8.1
Restricted Cash	6.3	4.2	6.3
Total Cash	14.4	21.6	14.4
Accounts Receivable	18.7	6.2	18.7
Inventory	20.1	19.8	20.1
Other Current Assets	22.3	21.7	22.3
Total Current Assets	75.5	69.3	75.5
Non-Current Assets:			
Net PP&E	68.8	66.7	68.8
Other Assets	-	-	-
Total Assets	\$ 144.3	\$ 136.0	\$ 144.3
Current Liabilities			
Accounts Payables	8.4	14.2	8.4
Accrued Interest	0.2	-	0.2
Accrued Expenses	8.8	7.3	8.8
Current Portion of LT Debt	15.0	-	15.0
Other Current Liabilities	44.5	36.5	44.5
Total Current Liabilities	76.9	57.9	76.9
Other Non Current Liabilities	4.0	4.2	4.0
Drawdown Facility	-	8.0	-
Term Loan	(0.0)	(0.0)	(0.0)
Total Liabilities	80.9	70.2	80.9
Shareholders' Equity	63.4	65.9	63.4
Total Liabilities & Shareholders' Equity	\$ 144.3	\$ 136.0	\$ 144.3

Statement of Cash Flows (\$ in millions)	2nd Qtr 2Q2023	1st Qtr 1Q2023	YTD 2023
Operating Cash Flows			
Net Income	(1.6)	(19.8)	(21.5)
Add-Back: Depreciation and Amortization	1.9	2.2	4.0
Less gain on disposal of assets	-	-	-
Change in restricted cash	(2.1)	3.6	1.5
Change in Accounts Receivable	(12.5)	(5.1)	(17.7)
Change in Inventory	(0.3)	0.5	0.2
Change in Other Current Assets	(0.6)	(7.4)	(8.0)
Change in Other Assets	-	-	-
Change in Accounts Payable	(5.8)	5.3	(0.4)
Change in Accrued Interest	0.2	-	0.2
Change in Accrued Expenses	1.5	(5.0)	(3.5)
Change in Other Current Liabilities	8.1	13.0	21.0
Change in Non Current Liabilities	(0.3)	(0.3)	(0.6)
Net Change in Working Capital	(11.8)	4.6	(7.2)
Cash Flow from Operations	(11.6)	(13.1)	(24.6)
Investing Cash Flows			
Cash Flow From Investing	(3.9)	(6.7)	(10.6)
Free Cash Flow Before Financing Activities	(15.5)	(19.8)	(35.3)
Financing Cash Flows			
Cash Flow from Financing	6.1	9.3	15.4
Net Change in Unrestricted Cash	(9.3)	(10.5)	(19.8)