

Preliminary earnings release

Q3 2023



DOLPHIN DRILLING AS

Preliminary Q3 2023 Results

Oslo, Norway, 28 November, 2023.

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

Q3 2023 highlights

- EBITDA of USD 4.6 million (USD 1.6 million in Q2)
- Blackford Dolphin has been operating for General Hydrocarbons Limited (GHL) throughout the quarter and achieved 98.3% operational performance
- The Total Recordable Incident Rate for the Blackford Dolphin operation was zero during the quarter
- Operating cost for Blackford at USD 106,000 per day, improved from USD 116,000 in the previous quarter
- Completed a private placement of USD 60 million and a subsequent repair offering raising USD 8 million. Total outstanding shares of 219,890,099 after the capital raises
- Accounts receivable outstanding has increased during the quarter. Despite extensive efforts made by the company to collect on past due payments from General Hydrocarbons Limited (GHL), the total receivable balance grew to USD 41 million, which includes USD 6 million payable by Peak Petroleum and USD 17.3 million of net amounts due from GHL (after netting advances, withholding tax and VAT)

Subsequent events

- Signed contract with EnQuest PLC for a drilling program in UK for Borgland Dolphin. Firm period of 137 days plus mobilisation plus significant optional periods to be confirmed within 90 days
- Signed LOA with Oil India Limited for a drilling program in India
- Dolphin obtained UK acceptance for Paul B. Loyd, Jr. Safety Case ahead of schedule. Closing of transaction now anticipated early in Qtr 1 2024
- Signed a term sheet for a USD 65 million Loan Facility with Maritime Asset Partners Ltd, expected to complete in conjunction with Paul B. Loyd, Jr acquisition
- The total Revenue backlog of USD 422 million¹, excluding option periods, effective on 30 November 28, 2023, including the contemplated acquisition of Paul B. Loyd, Jr. and Transocean Leader

¹ Peak contract is excluded from the calculation of Revenue backlog due to the continued breach of contract conditions by the client

Financial review

The company reported total revenues of USD 24.2 million in the third quarter of 2023, compared to USD 21.8 million in the previous quarter. The revenues reflect increased earnings achieved on the Blackford Dolphin at an average operational uptime of 98.3%. Total revenues included other revenues of USD 3.4 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 1.4 million, or USD 0.01 per share².

In the third quarter the company had total rig operating expenses of USD 12.5 million, USD 1.0 million lower compared to the previous quarter. Main contribution for the lower cost relates to Blackford Dolphin as her daily operating cost reduced to USD 106,000 versus USD 116,000 in the previous quarter, plus a one-time cost adjustment re-aligning costs between G&A and operating cost of \$0.4 million. Lay-up expenses remain consistent with previous periods as the daily combined stacking cost for Borgland and Bideford were USD 29,000 (USD 28,000 in Q2). G&A costs are up USD 0.6 million quarter on quarter primarily due to additional cost related to the acquisition of Paul B. Loyd, Jr. and Transocean Leader and a one-time adjustment of \$ 0.4 million, increasing G&A and reducing operating expenditures.

Business update

The company has made good progress adding contract revenue backlog following Euronext Growth listing in Q4 2022. As of the date of this report we have increased total firm revenue backlog to USD 422 million. Adding option periods, the revenue backlog increases to USD 941 million.

We are pleased to have secured firm work for three of our drilling rigs (including the to be acquired rig Paul B. Loyd, Jr.), delivering on our promises to return more of our stacked rigs to work. Borgland Dolphin is scheduled to commence a contract with EnQuest PLC in the UK in April 2025. The current firm scope of the contract is 137 days with further significant work scopes to be confirmed within 90 days.

After delivering strong operational performance in Nigeria, the company plans to mobilise the Blackford Dolphin to India. We have earlier announced a Letter of Award from Oil India Ltd, and expect the ongoing negotiations to reach a conclusion in the coming weeks. With regards to Blackford's existing drilling contract with GHL in Nigeria, the expiry of contract is late March 2024. We have experienced repeated delays in payment on this contract, which is reflected in a significant increase in Accounts Receivable at quarter end. We continue to engage in frequent dialogue with GHL and its financiers on resolution to the payment issues and the steps to complete the drilling program. The company earlier this year announced a contract with Peak Petroleum Ltd for Blackford. Following announcement of the contract, Peak has failed to pay the USD 6.0 million mobilisation fee. We are carefully considering our options with regards to this contract given the continuing failure by client to meet its financial obligations. The contract is no longer considered in the calculation of Revenue backlog given the uncertainty.

² Calculation based on 219,890,099 shares

Paul B. Loyd, Jr. and Transocean Leader, which are in process of being acquired from Transocean, are expected to enter Dolphin Drilling's rig fleet in early Qtr 1 2024. Following announcement of the rig acquisition on 22 June 2023 we have in close cooperation with Transocean obtained approval of our Safety Case from the UK Offshore Major Accident Regulator (OMAR). The Leader remains stacked in UK.

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 by 3 years, estimated until September 2027, with an estimated revenue value of USD 249 million.

The Bideford Dolphin remains stacked and we continue to evaluate our options around the asset.

The two semisubmersible CS60 Eco Aker MH rigs owned by RigCo Ltd have earlier been marketed by Dolphin Drilling for drilling campaigns in Norway. We are not actively engaging with any clients on these rigs at the current time.

Financing and capital expenditure

As of 30 September 2023, the company had approximately USD 59.9 million of cash and cash equivalents, including restricted cash amounts of approximately USD 9.1 million. USD 6.0 million of restricted cash relates to a various outstanding bid and performance bonds that support ongoing contracts and marketing initiatives, the remaining amount being related to payments received from 3rd parties on behalf of GHL.

Accounts receivable at 30 September, 2023 of USD 40.9 million included a USD 6.0 million receivable from Peak Petroleum Ltd with a corresponding USD 6.0 million recorded in Other Current Liabilities representing deferred mobilisation revenues. The remaining USD 34.9 million consists of amounts payable by GHL (including VAT and withholding tax balances). These can be set off against the USD 8.0 million advance paid by GHL before the commencement of operations, and a further USD 3.3 million received from parties related to GHL (all recorded as Other Current Liabilities) leaving a net overdue balance of USD 17.3 million (excluding VAT and withholding tax). No payments have been received since the end of Qtr 3 2023 however significant communication continues with the client and with its direct funders on the obligations and future payment plans. At the date of writing these discussions continue and the client indicates significant funding is imminent to allow completion of the drilling plans.

As of end of third quarter the existing shareholder loan facility of USD 15.0 million was fully drawn. The company has paid USD 6.1 million in deposits to Transocean as per the agreement to acquire Paul B. Loyd Jr. and Transocean Leader. The remaining net cash payment of around USD 43.0 million (net of cash flows earned since 12 June 2023) is expected to be paid at closing in early Qtr 1 2024.

Funds drawn from factoring facility represent USD 8.5 million as of end of the quarter and we plan to fully repay and cancel that facility in the near future and replace with a new term loan facility.

Following quarter end the company have signed a term sheet with MAP Ltd for a loan facility of USD 65.0 million. The loan facility is to be secured by a 1st lien mortgage on the rig Paul B. Loyd, Jr. The loan is expected to close contemporaneously with the closing of the acquisition of the Paul B. Loyd Jr..

During the quarter, capital expenditures of approximately USD 0.1 million were recorded, all related to onshore projects.

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, and the company plans to mobilize drilling rigs to India and UK, significantly growing the amount of Dolphin Drilling personnel.

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.

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 represents 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
THIRD QUARTER 2023 REPORT (UNAUDITED)

DOLPHIN DRILLING AS Income Statement (\$ in millions)	2023 3rd Qtr	2023 2nd Qtr	2023 YTD	2022 FY
Charter Revenue	20.8	18.3	40.7	18.8
Total Other Revenue	3.4	3.5	7.1	2.3
Total Revenue	24.2	21.8	47.7	21.1
Total Rig Operating Expenses	(9.7)	(10.5)	(30.1)	(38.0)
Total Project Costs	(3.0)	(3.4)	(9.1)	(3.4)
Total Lay-up Expense	(2.7)	(2.6)	(8.1)	(13.1)
Total Operating Expense	(15.5)	(16.5)	(47.4)	(54.4)
G&A				
Total G&A	(4.2)	(3.6)	(11.2)	(19.0)
Other	(0.0)	0.0	0.1	0.1
EBITDA	4.6	1.6	(10.8)	(52.4)
D&A	(2.6)	(1.9)	(6.6)	(10.6)
EBIT	2.0	(0.2)	(17.4)	(62.9)
Net finance (cost) / income	(1.2)	0.5	(1.2)	(4.8)
EBT	0.8	0.3	(18.6)	(67.7)
Taxes	(2.1)	(1.9)	(4.3)	(0.7)
Net Income (Loss)	(1.4)	(1.6)	(22.8)	(68.4)

Balance Sheet (\$ in Millions)	2023 YTD	2022 YE
Current Assets:		
Unrestricted Cash & Cash Equivalents	50.8	28.0
Restricted Cash	9.1	7.8
Total Cash	59.9	35.8
Accounts Receivable	40.9	1.1
Inventory	20.9	20.3
Other Current Assets	16.7	14.3
Total Current Assets	138.4	71.4
Non-Current Assets:		
Net PP&E	69.2	62.2
Other Assets	-	-
Total Assets	\$ 207.6	\$ 133.6
Current Liabilities		
Accounts Payables	5.1	8.8
Accrued Interest	0.5	-
Accrued Expenses	12.9	12.3
Current Portion of LT Debt	15.0	-
Other Current Liabilities	42.4	23.5
Total Current Liabilities	75.9	44.6
Other Non Current Liabilities	3.9	4.5
Term Loan	(0.0)	(0.0)
Total Liabilities	79.7	49.1
Shareholders' Equity	127.8	84.4
Total Liabilities & Shareholders' Equity	\$ 207.6	\$ 133.6

Statement of Cash Flows (\$ in millions)	2023 YTD	2022 FY
Operating Cash Flows		
Net Income	(22.8)	(68.4)
Add-Back: Depreciation and Amortization	6.6	10.6
Less gain on disposal of assets	-	0.9
Change in restricted cash	(1.3)	(5.5)
Change in Accounts Receivable	(39.8)	24.1
Change in Inventory	(0.6)	(0.3)
Change in Other Current Assets	(2.4)	5.4
Change in Other Assets	-	-
Change in Accounts Payable	(3.8)	(5.7)
Change in Accrued Interest	0.5	(0.0)
Change in Accrued Expenses	0.7	(5.8)
Change in Other Current Liabilities	18.8	0.4
Change in Non Current Liabilities	(0.6)	(0.1)
Net Change in Working Capital	(28.5)	12.5
Cash Flow from Operations	(44.8)	(44.4)
Investing Cash Flows		
Cash Flow From Investing	(13.7)	(13.7)
Free Cash Flow Before Financing Activities	(58.4)	(58.1)
Financing Cash Flows		
Cash Flow from Financing	81.2	65.1
Net Change in Unrestricted Cash	22.8	7.0