

Preliminary earnings release

Q1 2024



DOLPHIN DRILLING AS

## Preliminary First Quarter 2024 Results

Oslo, Norway, 29 May, 2024.

Dolphin Drilling AS (Dolphin Drilling, OSE: DDRIL) today announced its preliminary financial results for the three months ended 31 March 2024

### Q1 2024 highlights and subsequent events

- **Q1 2024 results and highlights:** Dolphin Drilling reported operating revenues of USD 10.1 million, EBITDA of USD (17.0) million, and earnings per share of USD (0.08) in the first quarter of 2024, Paul B. Loyd, Jr has been added to the contracted rig fleet from 16 February.
- **Seamless integration of the acquired rig Paul B Loyd, Jr.:** Paul B. Loyd Jr, entered Dolphin Drilling rig fleet and has operated for Harbour Energy Ltd (“Harbour”) in the UK.
- **New contract with Oil India for Blackford Dolphin:** Dolphin Drilling received a contract award from Oil India for the Blackford Dolphin.
- **Reactivation and scheduled yard-stay underway for Borgland Dolphin:** Borgland Dolphin underwent preparation work ahead of planned sail to Las Palmas for the class renewal and the five-year special periodic survey (“SPS”). The rig’s next contract is with EnQuest Ltd (“EnQuest”) in the UK.
- **Sale of Bideford Dolphin, recycled in a responsible manner:** Bideford Dolphin, sold following a long idle period. The sale generated proceeds of USD 4.1 million.
- **UK legacy tax case update:** Dolphin Drilling was granted permission in May 2024 to appeal to the Supreme Court. The grant followed an appeal made by Dolphin Drilling after the judgement by the UK Court of Appeal found in favour of the HMRC. The potential liability is estimated at GBP 9.9 million, plus interest and cost. Discussions continue with HMRC in an attempt to have payments related to the case suspended until the final court ruling which is anticipated in 2025.
- **Blackford Nigeria:** Following repeated failures by the client, Dolphin terminated the drilling contract with General Hydrocarbons Limited (“GHL”) and immediately commenced arbitration proceedings. GHL sought and was granted an injunction requiring the status quo to be maintained pending the appointment of the arbitrator. An arbitrator was appointed and initial arguments on the interim protection measures sought by GHL were heard on May 25<sup>th</sup>. The arbitrator further directed parties to submit further written proposals by noon on May 28<sup>th</sup> and we await the outcome. An ex parte order was also granted by the court arresting the Blackford in relation to a separate claim made by a 3<sup>rd</sup> party, Dolphin has applied to the court to set aside that order and strike out the entire suit. Dolphin continues to contest its position in both cases.

## **Financial review**

The company reported total revenues of USD 10.1 million in the first quarter of 2024. This is compared to USD 25.8 million in the fourth quarter of 2023 (prior to the impairment of GHL related revenues). The revenues in the first quarter reflect earnings achieved on the Paul B. Loyd, Jr. from 16 February following successful integration into the Dolphin Drilling fleet. No revenue for Blackford Dolphin has been recognised in the quarter. Total revenues include other revenues of USD 3.2 million being the amortisation of mobilisation fees already received from GHL and the rental of certain equipment to 3<sup>rd</sup> parties.

In the first quarter the company had total rig operating expenses of USD 17.1 million. This is in comparison to the previous quarter of USD 14.0 million. The main driver of the increase is the rig operating expenditure of the acquired units. Blackford Dolphin rig operating expenditure remained steady and includes costs that contractually should have been borne by GHL.

Following the sale of Bideford Dolphin, proceeds of USD 4.1 million were collected in the first quarter. The rig was sold for a book loss of USD 1.4 million following a long idle period.

G&A increased by USD 0.3 million to USD 5.5 million in the current quarter however included USD 1.5 million in one off and unusual items.

Adjustments to EBITDA recorded in the quarter for one off and unusual items include costs associated with the acquisition and disposal of rigs of USD 3.3 million and USD 0.7 million reimbursement of cost to HMRC related to the ongoing court processes.

Reported net loss for the quarter was USD 16.8 million, or USD 0.08 loss per share.

The fourth quarter 2023 numbers referenced in the financial review as comparatives have been updated from the previous quarter earnings report following conclusion of the 2023 financial audit. Adjustments primarily relate to an impairment provision associated with GHL receivables.

## **Rig operational update**

Paul B. Loyd, Jr. performed drilling activities on its long-term drilling contract with Harbour in the UK. The rig and its operating crews have been successfully transferred into Dolphin Drilling and continue with excellent safety records and strong uptime. The rig is contracted to Harbour until first quarter 2028 with priced and unpriced option periods until first quarter 2032.

Blackford Dolphin terminated the drilling contract with GHL in Nigeria on April 30, following a series of non-performance contractual matters by the client. The next destination for Blackford is India with a contract commencement during the third quarter with Oil India Limited. The firm part of the contract is 14 months with a 7-month additional option period available to the client.

Borgland Dolphin is on its way to Las Palmas, Grand Canarias Island, where the rig will undergo planned class renewal prior to the upcoming drilling contract with EnQuest in the UK. We expect the rig to remain at Las Palmas until early 2025 with contract commencement late quarter one / early quarter two 2025. Borgland is firmly committed until August 2025 with multi-year contract options and a Letter of Intent subject to being exercised.

The decision to recycle the Dolphin Leader has been confirmed by the Board.

## **Financing and capital expenditure**

As of 31 March 2024, the company had approximately USD 36.3 million of cash and cash equivalents, including restricted cash amounts of approximately USD 8.6 million. USD 7.5 million of restricted cash relates to various outstanding bid and performance bonds that support ongoing contracts and marketing initiatives, USD 0.5 million of this amount was released into unrestricted cash following the return of a bid bond after the close of the quarter. The remainder of the balance considered restricted represents cash in jurisdictions not readily available for general corporate purposes.

As at the end of the first quarter the existing shareholder loan facility of USD 15.0 million was fully drawn. The maturity date has been extended to 31 May 2025.

In December 2024 the company signed a loan agreement with a subsidiary of Maritime Asset Partners Ltd for a loan facility of USD 65.0 million. At 31 March 2024 this was fully drawn.

The remaining cash payment to Transocean related to the rig purchase of Paul B. Loyd, Jr. and Leader was made of USD 43.5 million in February 2024. The book value of these assets is recorded as USD 17.0 million with a useful life of approximately 10 years, with other amounts recorded as intangible assets, inventory and expenses as required. Other capital expenditure in the quarter of approximately USD 1.0 million was recorded, primarily related to Borgland Dolphin.

## **Contingent liability**

The company is in a legal process with the UK Tax Authorities (“HMRC”). Following two rulings in favour of the company, the Court of Appeal found in favour of HMRC in January 2024. During May 2024 the company was granted permission to appeal to the Supreme Court and the case is anticipated to be heard sometime in 2025. HMRC have pursued collection of the amounts based on the ruling by the Court of Appeal and a “Time To Pay” plan was agreed just prior to the permission to appeal being granted. We continue in dialogue with HMRC in an effort to have all payments suspended until the final outcome at the Supreme Court level.

## **Strategy and outlook**

Dolphin Drilling is a prominent offshore drilling company with world-wide operational track record owning and operating drilling rigs since 1965. The company is one of the true drilling rig contractor pioneers providing exceptional services for the offshore oil and gas industry. The drilling rig fleet consists of three conventional moored semisubmersible drilling rigs, well maintained and marketed to most offshore basins. The rigs are capable of drilling in shallow to deep water ranging between 65 to 1500 metres. As of March 31 2024, Dolphin Drilling has secured contracts for all of its rig fleet. The company has offshore and onshore offices and operations in the UK, Norway, Brazil, Nigeria, and is preparing to return to India with one rig scheduled to commence operations in the third quarter of 2024.

The company is well-prepared to secure contracts at favourable levels, benefiting from current market improvements, and targeting the niche moored semisubmersible market. The total global rig supply is constrained with not more than 20 similarly capable rigs, and bidding and tendering activity suggests demand levels continue to increase.

Overall, the outlook appears robust for the offshore drilling segment for the foreseeable future based on a balanced rig demand and supply situation. We acknowledge the fact of long and slow rig tender processes likely affected by the in general high activity and constrained resources throughout the value chain. Key regions with an estimated growth in rig demand includes Asia, Africa, and South

America. Rig demand in the North Sea and UK in particular is currently soft on the basis of recent fiscal policy amendments and narrative surrounding the potential future tax burdens and investment allowances for the oil and gas companies.

## **Accounting items**

### Accounting for provisions v contingent liabilities

The company is in a legal process with the UK Tax Authorities (HMRC) – The company discloses in its financial statements a contingent liability in accordance with IAS 37 as the outcome of the case is still unknown.

### IFRS 15 and IFRS 9 considerations – GHJ (late payment of invoices)

A provision for impairment was recorded in 2023 in respect of sums due from GHJ in line with IFRS 9. Any funds received from GHJ in respect of this will be marked as an unutilised provision. For 2024, the continued provision of service to GHJ falls outside of the scope of IFRS 15 as the company is required to re-assess the probability of collection of consideration. No revenue is recognised for 2024 activity under the contract. Any funds received from GHJ in respect of this will allow revenue recognition.

### IFRS 3 Business combination – purchase of Paul B Loyd Jr

The company have assessed the purchase of Paul B Loyd Jr as a business combination and will account for the purchase in conjunction with IFRS 3 using the ‘acquisition method’.

## **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  
FIRST QUARTER 2024 REPORT (UNAUDITED)

Income Statement (\$ in millions)	2024 1st Qtr	2023 Full Year
Charter Revenue	6.9	61.0
Total Other Revenue	3.2	12.5
<b>Total Revenue</b>	<b>10.1</b>	<b>73.5</b>
Total Rig Operating Expenses	(13.1)	(41.2)
Total Project Costs	(3.0)	(12.2)
Total Lay-up Expense	(4.0)	(11.0)
<b>Total Operating Expense</b>	<b>(20.1)</b>	<b>(64.4)</b>
<b>Total G&amp;A</b>	<b>(5.5)</b>	<b>(16.4)</b>
Other	(1.4)	(42.5)
<b>EBITDA</b>	<b>(17.0)</b>	<b>(49.9)</b>
D&A	(3.2)	13.4
<b>EBIT</b>	<b>(20.2)</b>	<b>(36.4)</b>
Net finance (cost) / income	3.5	(6.5)
<b>EBT</b>	<b>(16.8)</b>	<b>(43.0)</b>
Taxes	(0.1)	(1.0)
<b>Net Income (Loss)</b>	<b>(16.8)</b>	<b>(44.0)</b>

Balance Sheet (\$ in Millions)	2024 1st Qtr	2023 Full Year
<b>Current Assets:</b>		
Unrestricted Cash & Cash Equivalents	27.7	24.5
Restricted Cash	8.6	9.5
<b>Total Cash</b>	<b>36.3</b>	<b>34.0</b>
Accounts Receivable	7.4	11.0
Inventory	35.4	30.4
Other Current Assets	17.4	16.2
<b>Total Current Assets</b>	<b>96.5</b>	<b>91.5</b>
<b>Non-Current Assets:</b>		
Net PP&E & Intangible	109.6	74.3
Other Assets	-	-
<b>Total Assets</b>	<b>206.1</b>	<b>165.8</b>
<b>Current Liabilities</b>		
Accounts Payables	9.9	7.2
Accrued Interest	1.2	0.8
Accrued Expenses	17.0	18.5
Current Portion of LT Debt	15.0	15.0
Other Current Liabilities	6.6	10.7
<b>Total Current Liabilities</b>	<b>49.7</b>	<b>52.3</b>
Other Non Current Liabilities	3.8	4.1
Term Loan	65.0	-
<b>Total Liabilities</b>	<b>118.4</b>	<b>56.4</b>
Shareholders' Equity	87.7	109.4
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>206.1</b>	<b>165.8</b>

Statement of Cash Flows (\$ in millions)	2024 1st Qtr	2023 Full Year
<b>Operating Cash Flows</b>		
Net Income	(16.8)	(44.0)
Add-Back: Depreciation and Amortization	3.2	(13.4)
Add-Back: Loss on disposal of assets	1.4	-
Change in Accounts Receivable	3.6	(9.9)
Change in Inventory	(5.0)	(0.2)
Change in Other Current Assets	(6.8)	3.6
Change in Other Assets	-	-
Change in Accounts Payable	2.7	(1.6)
Change in Accrued Interest	0.3	0.8
Change in Accrued Expenses	(1.5)	6.3
Change in Other Current Liabilities	(4.1)	(12.8)
Change in Non Current Liabilities	(0.3)	(0.4)
<b>Net Change in Working Capital</b>	<b>(11.2)</b>	<b>(14.2)</b>
<b>Cash Flow from Operations</b>	<b>(23.3)</b>	<b>(71.5)</b>
<b>Cash Flow From Investing</b>	<b>(34.5)</b>	<b>(14.2)</b>
<b>Free Cash Flow Before Financing Activities</b>	<b>(57.8)</b>	<b>(85.7)</b>
<b>Cash Flow from Financing</b>	<b>60.1</b>	<b>83.9</b>
<b>Net Change in Cash</b>	<b>2.3</b>	<b>(1.8)</b>