

**Borr Drilling Limited and subsidiaries**

**Consolidated Financial Statements**

**For the period from August 8, 2016 (date of inception) to December 31, 2016**

**Borr Drilling Limited and subsidiaries**  
**Consolidated Financial Statements**  
**For the period from August 8 (date of inception) to December 31, 2016**

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# **Borr Drilling Limited and subsidiaries Consolidated Financial Statements**

## **Independent Auditor's Report**

To the General Meeting of Borr Drilling Limited

### *Draft Independent Auditor's Report*

#### *Opinion*

We have audited the consolidated financial statements of Borr Drilling Limited and subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2016, consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the period from August 8 to December 31, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Borr Drilling Limited and its subsidiaries at December 31, 2016, and the results of their operations and their cash flows for the period from August 8 to December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements of the Group in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

# **Borr Drilling Limited and subsidiaries Consolidated Financial Statements**

## **Independent Auditor's Report**

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statement. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stavanger, 19 July 2017

**PricewaterhouseCoopers AS**

Gunnar Slettebø  
State Authorized Public Accountant

**Borr Drilling Limited and subsidiaries**  
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**Consolidated Statement of Operations**  
**For the period from August 8 (date of inception), to December 31, 2016**  
(In US\$ thousands)

	Note	Period ended December 31, 2016
<b>Operating expenses</b>		
General and administrative expenses		(753)
<b>Total operating expenses</b>		<b>(753)</b>
<b>Operating loss</b>		<b>(753)</b>
<b>Financial items and other income/(expense), net</b>		
Foreign exchange gain		-
<b>Total financial items and other income/(expense), net</b>		<b>(753)</b>
<b>Loss before income taxes</b>		<b>(753)</b>
Income tax expense	3	(2)
<b>Net loss for the period</b>		<b>(755)</b>
<b>Basic loss per share</b>	4	<b>(0.075)</b>
<b>Diluted loss per share</b>	4	<b>(0.075)</b>

**Consolidated Statement of Comprehensive Loss**

<b>Loss after income taxes</b>	<b>(755)</b>
<i>Other comprehensive loss</i>	
Currency translation differences	-
<b>Other comprehensive loss for the period</b>	<b>(755)</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

**Borr Drilling Limited and subsidiaries**  
**Consolidated Financial Statements**

**Consolidated Balance Sheet**  
**As at December 31, 2016**  
(In US\$ thousands)

	Note	2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents		138,119
<b>Total current assets</b>		<b>138,119</b>
<b>Non-current assets</b>		
Property, Plant and Equipment		3
Deposit and costs for drilling units	5	19,966
<b>Total non-current assets</b>		<b>19,969</b>
<b>Total assets</b>		<b>158,088</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Other current liabilities	6	244
<b>Total current liabilities</b>		<b>244</b>
<b>Commitments and Contingencies</b>	13	-
<b>EQUITY</b>		
Common shares of par value US\$0.01 per share: 200,000,000 shares authorized, 77,505,000 shares issued and outstanding at December 31, 2016	8	775
Additional paid in capital	8	157,824
Accumulated deficit		(755)
<b>Total equity</b>		<b>157,844</b>
<b>Total liabilities and equity</b>		<b>158,088</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

**Borr Drilling Limited and subsidiaries**  
**Consolidated Financial Statements**

**Consolidated Statement of Cash Flows**  
**for the period from August 8 (date of inception) to December 31, 2016**  
(In US\$ thousands)

	<b>Period ended December 31, 2016</b>
<b>Cash Flows from Operating Activities</b>	
Net (loss)/income	(755)
<i>Adjustments to reconcile net (loss)/income to net cash provided by operating activities:</i>	
Non-cash compensation expense related to warrants	430
Change in other current liabilities	244
<b>Net cash (used in)/provided by operating activities</b>	<b>(81)</b>
<b>Cash Flows from Investing Activities</b>	
Purchase of plant and equipment	(3)
Deposits and costs in respect of drilling units	(13,963)
<b>Net cash (used in)/provided by investing activities</b>	<b>(13,966)</b>
<b>Cash Flows from Financing Activities</b>	
Proceeds from share issuance, net of issuance costs and conversion of shareholder loan	139,166
Proceeds from related party shareholder loan	10
<b>Net cash (used in)/provided by financing activities</b>	<b>152,166</b>
<b>Net increase in cash and cash equivalents</b>	<b>138,119</b>
Cash and cash equivalents at beginning of the period	-
<b>Cash and cash equivalents at the end of period</b>	<b>138,119</b>
<b>Supplementary disclosure of cash flow information</b>	
Interest paid, net of capitalized interest	-
Taxes paid	-

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

**Borr Drilling Limited and subsidiaries**  
**Consolidated Financial Statements**

**Consolidated Statement of Changes in Shareholders' Equity**  
**for the period from August 8 (date of inception) to December 31, 2016**  
(In US\$ thousands)

	Number of shares	Common shares	Additional paid in capital	Other Comprehensive Income	Retained Loss	Total equity
<b>At incorporation, August 8, 2016</b>	<b>5</b>	-	-	-	-	-
Shares subdivided and capital contribution (Note 8)	5,000	-	10	-	-	10
Net share proceeds (Note 8)	77,500,000	775	151,381	-	-	152,156
Fair value of warrants issued (Note 9)	-	-	10,720	-	-	10,720
Equity issuance costs, warrants (Note 9)	-	-	(4,287)	-	-	(4,287)
Net loss for the period	-	-	-	-	(755)	(755)
<b>Consolidated balance at December 31, 2016</b>	<b>77,505,000</b>	<b>775</b>	<b>157,824</b>	-	<b>(755)</b>	<b>157,844</b>

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*



# **Borr Drilling Limited and subsidiaries**

## **Consolidated Financial Statements**

### **Notes to the Consolidated Financial Statements** **for the period ended December 31, 2016**

#### **Note 1 - General information**

Borr Drilling Limited is incorporated in Bermuda. Borr Drilling Limited is an international offshore drilling contractor providing services to the oil and gas industry, with the ambition of acquiring and operating modern drilling units. As at December 31, 2016, the Company owned no drilling units but has entered into an agreement to acquire two jack-up rigs from Hercules Offshore, Frigg (previously Hercules Resilience) and Ran (previously Hercules Triumph). The acquisition of these two rigs was completed on January 23, 2017.

As used herein, and unless otherwise required by the context, the term “Borr Drilling” refers to Borr Drilling Limited and the terms “Company,” “we,” “Group,” “our” and words of similar import refer to Borr Drilling and its consolidated subsidiaries. The use herein of such terms as “group”, “organisation”, “we”, “us”, “our” and “its”, or references to specific entities, is not intended to be a precise description of corporate relationships.

#### **Basis of presentation**

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The amounts are presented in United States dollar (U.S. dollar) rounded to the nearest thousand, unless otherwise stated.

The accompanying consolidated financial statements present the financial position of Borr Drilling Limited and its subsidiaries. Investments in companies in which the Company controls, or directly or indirectly holds more than 50% of the voting control are consolidated in the financial statements.

The accounting policies set out below have been applied consistently in these consolidated financial statements, unless otherwise noted.

We have evaluated subsequent events through July 19, 2017 which is the date of issue of these financial statements.

#### **Basis of consolidation**

The consolidated financial statements include the assets and liabilities of the Company. All intercompany balances, transactions and internal sales have been eliminated on consolidation. Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Company's interest in the entity.

#### **Note 2 - Accounting policies**

##### *Use of estimates*

Preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Rig operating and maintenance Expenses*

Rig operating and maintenance expenses are costs associated with operating a drilling unit that is either in operation or stacked, and include the remuneration of offshore crews and related costs, supplies, insurance costs, expenses for repairs and maintenance as well as costs related to onshore personnel in various locations where we operate the drilling units and are expensed as incurred. Stacking costs for rigs are expensed as incurred.

##### *Repairs, maintenance and periodic surveys*

Costs related to periodic overhauls of drilling units are capitalized under drilling units and amortized over the anticipated period between overhauls, which is generally 5 years. Related costs are primarily yard costs and the cost of employees directly involved in the work. Amortization costs for periodic overhauls are included in depreciation and amortization expense. Costs for other repair and maintenance activities are included in rig operating and maintenance expenses and are expensed as incurred.

# Borr Drilling Limited and subsidiaries

## Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### *Foreign currencies*

The Company and the majority of its subsidiaries use the U.S. dollar as their functional currency because the majority of their revenues and expenses are denominated in U.S. dollars. Accordingly, the Company's reporting currency is also U.S. dollars. For subsidiaries that maintain their accounts in currencies other than U.S. dollars, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate for the period and the assets and liabilities are translated using the period end exchange rate. Foreign currency translation gains or losses on consolidation are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies are translated into U.S. dollars at the rates of exchange in effect at the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Gains and losses on foreign currency transactions are included in the consolidated statement of operations.

#### *Current and non-current classification*

Assets and liabilities (excluding deferred taxes) are classified as current assets and liabilities respectively, if their maturity is within 1 year of the balance sheet date. Otherwise, they are classified as non-current assets and liabilities.

In November 2016, the FASB issued ASU 2016-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes in a classified statement of financial position. The update requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position as opposed to the current requirement to separate these into current and non-current amounts.

#### *Marketable securities*

Investments that are not classified as held to maturity or trading securities are classified as available-for-sale securities. Marketable equity and debt securities held by the Company are considered to be available-for-sale and, as such, are recorded at fair value with resulting unrealized gains and losses recorded as a separate component of accumulated other comprehensive income in shareholders' equity. Gains and losses on forward contracts to purchase marketable equity securities that do not meet the definition of a derivative are accounted for as available-for-sale.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash, bank deposits and highly liquid financial instruments with original maturities of three months or less.

#### *Restricted cash*

Restricted cash consists of bank deposits which have been pledged as collateral for certain guarantees issued by a bank or minimum deposits which must be maintained in accordance with contractual arrangements. Restricted cash amounts with maturities longer than one year are classified as non-current assets.

#### *Receivables*

Receivables, including accounts receivable, are recorded in the balance sheet at their nominal amount less an allowance for doubtful accounts. The Company establishes reserves for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, the Company considers the financial condition of the customer as well as specific circumstances related to the receivable such as customer disputes. Receivable amounts determined as being unrecoverable are written off.

#### *Fair Value*

The Company accounts for fair value in accordance with ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a three tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

**Level 1** - Quoted prices in active markets for identical assets or liabilities.

**Level 2** - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# **Borr Drilling Limited and subsidiaries**

## **Consolidated Financial Statements**

### **Notes to the Consolidated Financial Statements** **for the period ended December 31, 2016**

#### *Fair Value (continued)*

The first two levels in the hierarchy are considered observable inputs and the last is considered unobservable. The Company's cash and cash equivalents and restricted cash, which were held in operating bank accounts, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The carrying value of accounts receivable and payables approximates fair value due to the short time to expected payment or receipt of cash.

#### *Derivative Financial Instruments and Hedging Activities*

Interest-rate swap agreements, foreign currency options and forward exchange contracts are recorded at fair value. Changes in the fair value of interest-rate swap agreements, forward exchange and currency options contracts, which have not been designated as hedging instruments, are recorded as a gain or loss as a separate line item within Financial Items.

#### *Stock-Based Compensation*

The Company applies the fair value provisions of ASC 718, Compensation-Stock Compensation ("ASC 718") and ASC 505-50, Equity-based payments to non-employees ("ASC 505-50"). ASC 718 and ASC 505-50 require the recognition of compensation expense, using a fair-value based method, for costs related to all share-based payments including stock options and warrants. ASC 718 and ASC 505-50 require companies to estimate the fair value of stock-option awards on the grant date using an option pricing model. The fair value of stock options and warrants are determined using Monte Carlo Simulation (where market based conditions exist) or Black-Scholes valuation models as appropriate. The determination of fair value is affected by the stock price, as well as assumptions regarding subjective and complex variables such as expected exercise behavior and expected stock price volatility over the expected term of the award. Generally, these assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes.

#### *- Warrants (Equity-based payments to non-employees)*

Warrants require all non-employee stock-based transactions, in which goods or services are the consideration received in exchange for equity instruments, to be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Performance is complete when the counterparty has delivered or, in the case of sales incentives, purchased the goods or services, despite the fact that at that date the quantity or all the terms of the equity instruments may yet depend on other events (this would occur, for example, if a target stock price requirement has not been met when the counterparty has delivered the goods or services).

The company recognizes the fair value of the equity instruments that are issued. An asset/liability, expense, debt and issuance cost or sales discount as applicable is generally recognized in the same period and in the same manner as if the company paid cash to a vendor in exchange for goods or services, or paid cash to a customer as a sales incentive or discount.

#### *- Employee stock-based compensation*

Employee stock-based compensation expense is calculated based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment to stock-based compensation expense will be recognized at that time. Changes to the assumptions used in the Black-Scholes option valuation calculation and the forfeiture rate, as well as future equity granted or assumed through acquisitions could significantly impact the compensation expense the Company recognizes.

#### *Newbuildings*

The carrying value of drilling units under construction ("Newbuildings") represents the accumulated costs at the balance sheet date. Cost components include payments for yard installments and variation orders, construction supervision, equipment, spare parts, capitalized interest, costs related to first time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the Newbuilding has been completed and it is ready for its intended use.

#### *Drilling units*

Rigs, vessels and related equipment are recorded at historical cost less accumulated depreciation. The cost of these assets, less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated residual value is taken to be offset by any decommissioning costs that may be incurred. The estimated economic useful life of the Company's jack-up rigs, when new, is 30 years.

# **Borr Drilling Limited and subsidiaries**

## **Consolidated Financial Statements**

### **Notes to the Consolidated Financial Statements** **for the period ended December 31, 2016**

#### *Drilling units (continued)*

Significant investments in equipment are capitalized and depreciated in accordance with the nature of the investment. Significant investments that are deemed to increase an asset's value for its remaining useful life are capitalized and depreciated over the remaining life of the asset.

Cost of property and equipment sold or retired, with the related accumulated depreciation and write-downs are removed from the consolidated balance sheet, and resulting gains or losses are included in the consolidated statement of operations.

#### *Income taxes*

Borr Drilling is a Bermuda company that has a number of subsidiaries in various jurisdictions. Currently, the Company is not required to pay taxes in Bermuda on ordinary income or capital gains as they qualify as exempt companies. The Company and its subsidiaries and affiliates have received written assurance from the Minister of Finance in Bermuda that it will be exempt from taxation until March 2035. Certain subsidiaries operate in other jurisdictions where taxes are imposed. Consequently, income taxes have been recorded in these jurisdictions when appropriate. Our income tax expense is based on our income and statutory tax rates in the various jurisdictions in which we operate. We provide for income taxes based on the tax laws and rates in effect in the countries in which operations are conducted and income is earned.

The determination and evaluation of our annual group income tax provision involves interpretation of tax laws in various jurisdictions in which we operate and requires significant judgment and use of estimates and assumptions regarding significant future events, such as amounts, timing and character of income, deductions and tax credits. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. We recognise tax liabilities based on our assessment of whether our tax positions are more likely than not sustainable, based solely on the technical merits and considerations of the relevant taxing authority's widely understood administrative practices and precedence. Changes in tax laws, regulations, agreements, treaties, foreign currency exchange restrictions or our levels of operations or profitability in each jurisdiction may impact our tax liability in any given year. While our annual tax provision is based on the information available to us at the time, a number of years may elapse before the ultimate tax liabilities in certain tax jurisdictions are determined. Current income tax expense reflects an estimate of our income tax liability for the current period, withholding taxes, changes in prior year tax estimates as tax returns are filed, or from tax audit adjustments.

Income tax expense consists of taxes currently payable and changes in deferred tax assets and liabilities calculated according to local tax rules.

Deferred tax assets and liabilities are based on temporary differences that arise between carrying values used for financial reporting purposes and amounts used for taxation purposes of assets and liabilities and the future tax benefits of tax loss carry forwards.

Our deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reflected on the balance sheet. Valuation allowances are determined to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. To determine the amount of deferred tax assets and liabilities, as well as of the Valuation allowances, we must make estimates and certain assumptions regarding future taxable income, including where our drilling units are expected to be deployed, as well as other assumptions related to our future tax position. A change in such estimates and assumptions, along with any changes in tax laws, could require us to adjust the deferred tax assets, liabilities, or valuation allowances. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. The impact of tax law changes is recognized in periods when the change is enacted.

#### *Provisions*

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *Related parties*

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

#### *Earnings per share*

Basic earnings per share ("EPS") is calculated based on the loss for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which for the Company includes share options, restricted stock units and convertible debt. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to net income and for the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

# Borr Drilling Limited and subsidiaries

## Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### *Segments*

The Company has one operating segment, and this is reviewed by the Chief Operating Decision Maker, which is the Company's board of directors, as an aggregated sum of assets, liabilities and activities that exists to generate cash flows.

#### *Debt and Equity issuance costs*

Issuance costs are allocated to the debt and equity components in proportion to the allocation of proceeds to those components. Allocated costs are accounted for as debt issuance costs (capitalized and amortized to interest expense using the interest method) and equity issuance costs (charged to equity) recorded as a reduction of the share balance/additional paid-in capital, respectively.

#### *Recently Issued Accounting Standards*

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which made targeted improvements to the recognition and measurement of financial assets and financial liabilities. The update changes how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The new guidance also changes certain disclosure requirements and other aspects of current US GAAP. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted in some cases. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. The update eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update simplifies the accounting for share based payment transactions. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, which amends Topic 805, "Business Combinations." This amendment eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination at the acquisition date with a corresponding adjustment to goodwill, and revise comparative information for prior periods presented in financial statements. Those adjustments are required when new information about circumstances that existed as of the acquisition date would have affected the measurement of the amount initially recognized. This update requires an entity to recognize these adjustments in the reporting period in which the adjustment amounts are determined. An acquirer must record the effect on earnings of changes in depreciation, amortization, or other income effects, calculated as if the accounting had been completed at the acquisition date. An entity must present separately on the face of the statement of operations, or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment had been recognized as of the acquisition date. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this guidance did not have an impact on our financial condition, results of operations, cash flows or financial disclosures.

In August 2014, the FASB issued ASU No. 2014-15, which amends ASC Subtopic 205-40, "Disclosure of Uncertainties about an Entity's Ability to continue as a Going Concern." The amendments in this ASU provide guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The adoption of this guidance did not require any additional disclosures.

# **Borr Drilling Limited and subsidiaries**

## **Consolidated Financial Statements**

### **Notes to the Consolidated Financial Statements** **for the period ended December 31, 2016**

#### *Recently Issued Accounting Standards (continued)*

In November 2015, the FASB issued ASU No. 2015-17, which amends ASC Topic 740, "Income Taxes." This amendment aligns the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards. International Accounting Standard 1, Presentation of Financial Statements, requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets be offset and presented as a single amount is not affected by the amendments in this update. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We adopted ASU No. 2015-17 in 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or financial disclosures.

#### *Recently Issued Accounting Standards (continued)*

Revenue from Contracts with Customers," supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU No. 2014-9 supersedes the cost guidance in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts," and creates new Subtopic 340-40, "Other Assets and Deferred Costs—Contracts with Customers." In summary, the core principle of Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Companies are allowed to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. The amendments in ASU No. 2014-9 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early application is permitted for periods beginning after December 15, 2016. A number of amendments have been issued in connection with ASU No. 2014-9, all of which are effective upon adoption of Topic 606. In March 2016 and April 2016, the FASB issued clarification amendments ASU No. 2016-8 and ASU No. 2016-10 which clarify the implementation guidance on principle versus agent considerations and identify performance obligations and the licensing implementation guidance, respectively. In May 2016, the FASB issued ASU No. 2016-11 and ASU No. 2016-12 which rescind certain SEC Staff Observer comments that are codified in Topic 605, "Revenue Recognition," and Topic 932, "Extractive Activities—Oil and Gas" and provide improvements to narrow aspects of ASU No. 2014-9, respectively. In December 2016, the FASB issued ASU No. 2016-20, which issues technical corrections and improvements to Topic 606. We will adopt the new standard effective January 1, 2017.

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**for the period ended December 31, 2016**

**Note 3 - Taxation**

**Period ended  
December 31, 2016**

Income taxes consist of the following:

*(In US\$ thousands)*

Current tax expense:

Bermuda	-
Foreign	2

Deferred tax expense/(benefit):

Bermuda	-
Foreign	-

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<b>Total tax expense</b>	<b>2</b>
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Effective tax rate

At present we only pay tax on Norwegian operations but reported an overall loss before tax inclusive of discrete items. The effective tax rate for Norwegian operations for the period ended December 31, 2016 is 30%.

The income taxes for the period ended December 31, 2016 differed from the amount computed by applying the Bermudan statutory income tax rate of 0% as follows:

**Period ended  
December 31, 2016**

*(In US\$ thousands)*

Income taxes at statutory rate	-
Effect of taxable income in various countries	2

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<b>Total tax expense</b>	<b>2</b>
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**for the period ended December 31, 2016**

**Note 4 - Loss per share**

The computation of basic earnings per share ("EPS") is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments.

**Period ended  
December 31, 2016**

The components of the numerator for the calculation of basic and diluted EPS are as follows:

*(In US\$ thousands)*

Net loss for the period	(755)
Effect of dilution	-
<b>Diluted net loss available to stockholders</b>	<b>(755)</b>
<hr/>	
<i>Basic loss per share</i>	<b>(0.075)</b>
<i>Diluted loss per share</i>	<b>(0.075)</b>
<hr/>	
Ordinary shares issued in the period	77,505,000
<b>Issued ordinary shares at the end of the period</b>	<b>77,505,000</b>
<hr/>	
Weighted average number of shares in issue for the period	10,096,146
Dilutive effect of options in issue	-
<b>Weighted average number of common shares outstanding adjusted for the effects of dilution</b>	<b>10,096,146</b>

On December 9, 2016, the Board of the Company issued a total of 9,687,500 share warrants. In accordance with ASC 260-10-50 the non-exercisable tranches of the warrants have not been included in the basic and diluted loss per share calculation as they were not exercisable and anti-dilutive as at December 31, 2016.



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**Note 5 - Deposits and costs for drilling units**

	<b>December 31, 2016</b>
Deposit for drilling units include:	
<i>(In US\$ thousands)</i>	
Deposit paid to seller	13,000
Cost of warrants and other capitalized fees (Note 9, 10)	6,966
<b>Total</b>	<b>19,966</b>

On December 2, 2016, the company paid US\$13.0 million which represents 10% of the contractual price (the deposit) for the jack-up rigs Hercules Triumph and Hercules Resilience. The Company took delivery of the rigs on January 23, 2017 for a total consideration of \$130.0 million. The Company considered the guidance in ASC 805 "Business Combinations" and concluded that this transaction between the Company and Hercules does not constitute a business under ASC 805 and the purchase will therefore be accounted for as an asset acquisition. Please refer to note 12.

**Note 6 - Other current liabilities**

	<b>December 31, 2016</b>
Other current liabilities are comprised of the following:	
<i>(In US\$ thousands)</i>	
Trade creditors	40
Accruals	160
Other current liabilities	44
<b>Total other current liabilities</b>	<b>244</b>

**Note 7 - Fair values of financial instruments**

The carrying value and estimated fair value of the Company's financial instruments as at December 31, 2016 were as follows:

	<b>As at December 31, 2016</b>	
	<b>Fair value</b>	<b>Carrying value</b>
<i>(In US\$ thousands)</i>		
<b>Assets</b>		
Cash and cash equivalents	138,119	138,119
Deposit for drilling rigs	13,000	13,000
<b>Liabilities</b>		
Trade creditors and accruals	200	200
Other current liabilities (excluding taxation)	42	42

All of the above assets and liabilities are included within 'Level 1 and 2' of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The carrying value of accounts receivable and payables approximates fair value due to the short time to expected payment or receipt of cash.

# Borr Drilling Limited and subsidiaries Consolidated Financial Statements

## Notes to the Consolidated Financial Statements for the period ended December 31, 2016

### Note 8 - Common shares

	December 31, 2016	
	Shares	US\$ thousands
<i>All shares are common shares of US\$0.01 par value each</i>		
Authorized share capital	200,000,000	2,000
Issued and fully paid share capital	77,505,000	775
<b>Outstanding shares in issue</b>	<b>77,505,000</b>	<b>775</b>

The Company was incorporated on August 8, 2016 and has issued the following shares:

- i. 5 shares with a par value of US\$10.00 were issued on August 10, 2016;
- ii. On September 7, 2016 additional paid in capital of US\$9,950 was deposited to bring the total issue price of the above to US\$2,000 per share;
- iii. On December 12, 2016 the Company resolved to subdivide the above 5 shares into 5,000 shares of par value US\$0.01 and to increase the authorized share capital of the Company to 200,000,000 shares of US\$0.01 and equivalent to an issue price of US\$2.00 per share;
- iv. 77,500,000 shares with a par value of US\$0.01 were issued for US\$2.00 on December 14, 2016.

Additional Paid in Capital stood at US\$157.8 million at the period-end after deducting the costs of fundraising amounting to US\$2.8 million and after incorporating an additional net adjustment of US\$6.4 million in relation to the issue of warrants (Note 9).

As of December 31, 2016, the Company's shares were registered on the N-OTC. The N-OTC system is an information system for unlisted shares for securities dealers.

### Note 9 - Warrants

#### *Magni Partners (Bermuda) Limited and Ubon Partners AS*

On December 9, 2016, the Board of the Company issued a total of 9,687,500 share warrants. 7,750,000 warrants were issued to Magni Partners (Bermuda) Limited ("Magni Partners") and 1,937,500 warrants were issued to Ubon Partners AS ("Ubon").

The terms of the warrants are as follows:

Each warrant shall entitle the holder to subscribe to ordinary shares in the Company, with each share having a par value of US\$0.01; the subscription price for the share each warrant can be exercised for shall be its par value, US\$0.01:

- (i) the first one fifth of the warrants will be exercisable upon the date in which the aggregate value of shares having traded at a share price above US\$2.40 exceeds US\$1 million;
- (ii) the next one fifth of the warrants will be exercisable upon the date in which the aggregate value of shares having traded at a share price above US\$2.80 exceeds US\$1 million;
- (iii) the next one fifth of the warrants will be exercisable upon the date in which the aggregate value of shares having traded at a share price above US\$3.20 exceeds US\$1 million;
- (iv) the next one fifth of the warrants will be exercisable upon the date in which the aggregate value of shares having traded at a share price above US\$3.60 exceeds US\$1 million;
- (v) the last one fifth of the warrants will be exercisable upon the date in which the aggregate value of shares having traded at a share price above US\$4.00 exceeds US\$1 million.

The share price means the volume weighted average closing price of the Company's ordinary share price as quoted initially on the Norwegian OTC list and, subsequently, on such stock exchange as the Company's board may decide to list such shares.

All warrants not exercised by December 31, 2021 will lapse and the warrants are non-transferable.

## Borr Drilling Limited and subsidiaries Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### Note 9 - Warrants (continued)

The issue of the warrants to Ubon is a reflection of their commitment to subscribe for capital in the December, 2016 Private Placement (Note 10).

The issue of the warrants to Magni Partners is done in recognition of their role in relation to the identification, negotiation and conclusion of the purchase agreement for the two Hercules jack up rigs, their commitment to subscribe in the Private Placement and the provision of general and administrative services to the Company.

The Company estimated the fair value of the warrants using a Monte Carlo Simulation model and the necessary inputs are set out in the following table:

Inception date	December 9, 2016	
Strike price	0.01	US\$
Spot price	2.00	US\$
Interest rate	0.41-1.9	%
Volatility	25	%
Expected exercise dates		
(i)	February 2, 2018	
(ii)	September 27, 2018	
(iii)	February 18, 2019	
(iv)	May 1, 2019	
(v)	July 5, 2019	
Expected dividend		Nil

The warrants outstanding at December 31, 2016 were as follows:

	<b>Number Of Shares Outstanding Under Warrants</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Average Contractual Term</b>
<b>Warrants outstanding at incorporation</b>	-	-	
Granted	9,687,500	US\$ 0.01	5
Exercised	-	-	
<b>Warrants outstanding, December 31, 2016</b>	<b>9,687,500</b>	<b>US\$ 0.01</b>	<b>5</b>

At the inception date, the warrants issued to Magni Partners were valued at US\$8.6 million and were deemed to have vested at the grant date (December 9, 2016) on the basis that Magni Partners had fulfilled all their performance criteria. The amount recognized as Additional Paid in Capital with respect to the warrants issued to Magni Partners was US\$8.6 million, while US\$6.0 million has been capitalized within deposits and costs for drilling units, US\$2.1 million has been allocated against equity as equity issuance costs and US\$0.4 million has been allocated to general and administrative expenses in the Statement of Operations for the period.

At the inception date the warrants issued to Ubon were valued at US\$2.1 million and were deemed to have fully vested at the grant date (December 9, 2016) on the basis that Ubon had fulfilled all their performance criteria. The amount recognized as Additional Paid in Capital with respect to the warrants issued to Ubon was US\$2.1 million, while US\$2.1 million has been allocated against Additional Paid in Capital as issuance costs (a net effect on equity and reserves of US\$Nil).

At December 31, 2016 none of these warrants had been exercised, although these were all exercised by March 23, 2017.

# Borr Drilling Limited and subsidiaries

## Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### Note 10 - Related party transactions

The significant related parties of the Company are as follows:

*(i) Acquisition of Subsidiaries (or affiliated companies)*

During the period, the Company incorporated or acquired 100% of the issued share capital in the subsidiaries listed below, which are included in these consolidated financial statements:

Borr Drilling Management AS (Norway)  
Borr Jack-up I Inc (Marshall Islands)  
Borr Jack-up II Inc (Marshall Islands)

The subsidiaries had all been incorporated immediately prior to the date of the acquisition and as such no trade, assets or liabilities formed part of the transactions. Borr Drilling Management AS provides management services to Borr Drilling Limited under the terms of a management agreement covering the needs of Borr Drilling Limited and its other subsidiaries.

Borr Jack-up I Inc and Borr Jack-up II Inc have both been incorporated for the purpose of taking delivery and being the rig owning entities to the Hercules rigs (Note 12).

*(ii) Transactions with those holding significant influence over the Company*

*Taran Holdings Limited ("Taran")*

Since our formation, our largest shareholder for the period ended December 31, 2016 is Taran, which currently holds approximately 20.0% of our shares. During the period ending December 31, 2016 the Company transacted with Taran on the following transactions:

A short-term loan of US\$13.0 million was provided to the Company on December 2, 2016 to finance the deposit payable for the Hercules rigs (Hercules Triumph and Hercules Resilience) acquisition, which completed in January 2017. The loan was repaid with no interest accruing by way of set-off against Taran's subscription of shares in the Company's first private placement in December 2016.

Taran also provided the Company with a revolving credit facility ("RCF") of \$20.0 million on December 12, 2016. As at December 31, 2016 no amount has been drawn on this facility.

*Advokatfirmaet Wiersholm AS ("Wiersholm")*

Mr Erling Lind is the Chairman of the board of Borr Drilling Limited and a partner of Wiersholm. Wiersholm is engaged as the legal advisor to Borr Drilling Limited. During the period Wiersholm provided Borr Drilling Limited with legal advisory services amounting to US\$0.1 million, of which US\$0.1 million was outstanding at the period end.

*Ubon Partners AS ("Ubon")*

Mr Fredrik Halverson is a director on the board of the Company and also owns 33.33% of the shares in Ubon. Ubon is considered to be a related party under the definition of ASC 850.

On December 9, 2016 the Company issued 1,937,500 warrants to Ubon (Note 9). Each warrant constitutes a right to purchase one new ordinary share in the Company at a strike price of US\$0.01 under the terms of the warrant certificate. At the inception date the warrants issued to Ubon were valued at US\$2.1 million and were deemed to have fully vested at the grant date (December 9, 2016) on the basis that Ubon had fulfilled all their performance criteria. The amount recognized as Additional Paid in Capital with respect to the warrants issued to Ubon was US\$2.1 million, while US\$2.1 million has been allocated against Additional Paid in Capital as issuance costs (a net effect on equity and reserves of US\$Nil).

# Borr Drilling Limited and subsidiaries

## Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### Note 10 - Related party transactions (*continued*)

##### *Magni Partners (Bermuda) Limited ("Magni Partners")*

Mr Tor Olav Trøim is a director on the board of the Company and is the sole owner of Magni Partners.

Magni Partners is party to a Corporate Support Agreement with Borr Drilling Limited pursuant to which it is providing strategic advice and assistance in sourcing investment opportunities, financing etc and is one of the partners of Magni Partners, this agreement was formalised on March 15, 2017.

During the period, Magni Partners received cash compensation of US\$1.4 million for various commercial services provided in connection with the acquisition of the Hercules rigs (Hercules Triumph and Hercules Resilience) which completed in the first quarter of 2017. Of this amount US\$1.0 million has been capitalised within Drilling units, US\$0.3 million has been offset against Additional paid in capital as equity issuance cost and US\$0.07 million has been recognised within General and Administrative expenses in the Statement of Operations for the period ended December 31, 2016.

On December 9, 2016 the Company issued 7,750,000 warrants to Magni Partners (Note 9). Each warrant constitutes a right to purchase one, new ordinary share in the Company of US\$0.01 par value under the terms of the warrant certificate. At the inception date, the warrants issued to Magni Partners were valued at US\$8.6 million and were deemed to have vested at the grant date on the basis that Magni Partners had fulfilled all of their performance criteria. The amount recognized as Additional Paid in Capital with respect to the warrants issued to Magni Partners was US\$8.6 million, while US\$6.0 million has been capitalized within Drilling units, US\$2.1 million has been allocated against equity as issuance costs and US\$0.4 million has been allocated to General and Administrative expenses in the Statement of Operations for the period.

##### *Meritus Trust Company Limited ("Meritus")*

Ms Michelle Wolf is a director and member of the board for Borr Drilling Limited and a director on the board for Meritus. During the period Meritus provided corporate secretarial services to Borr Drilling Limited amounting to US\$0.02 million, all of which was outstanding at the period end.

##### *Option agreements*

On December 18, 2016 Magni and Ubon entered into an agreement with each of Rune Magnus Lundetrae (CEO) and Svend Anton Maier (COO). Under the agreements the CEO and COO purchased an option to buy 960,000 shares each from Magni and Ubon.

Both employees have entered into an option agreement to buy shares from Magni and Ubon ("Grantors") through their individual companies, Primato AS (Rune Magnus Lundetrae) and SAM International Offshore Consulting (Svend Anton Maier). The purchase price for each Option Share shall be US\$2.0. The employees' companies shall pay an option premium to the Grantors an amount of US \$192,414 as consideration for the Option to buy shares in the Company. This has been calculated by an independent third party and reflects market terms or the fair value of the instrument.

#### Note 11 - Risk management and financial instruments

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by Norges Bank up to NOK 2 million. At December 31, 2016 the Company had US\$137.9 million in excess of the Bank of Norway insured limit.

##### **Foreign exchange risk management**

The majority of the Company's transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. However, the Company has operations and assets in other countries and incurs expenditures in other currencies, causing its results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the U.S. dollar. There is thus a risk that currency fluctuations will have a positive or negative effect on the value of the Company's cash flows. The Company has not entered into derivative agreements to mitigate the risk of fluctuations.

# Borr Drilling Limited and subsidiaries Consolidated Financial Statements

## Notes to the Consolidated Financial Statements for the period ended December 31, 2016

### Note 12 - Subsequent Events

Subsequent events have been reviewed regularly from the period end to the date of signing the financial statements.

#### *Purchase of rigs*

As at December 31, 2016, the Company had entered into contractual capital commitments by virtue of the payment of US\$13.0 million deposit on December 2, 2016 with regards to the purchase of the two jack-up rigs Hercules Triumph and Hercules Resilience in 2017 for a total of US\$130.0 million.

On January 23, 2017, the Company announced that it had completed the acquisition and delivery of both jack-up rigs from Hercules Offshore. The two rigs are KFELS Super A Class design, built in 2013.

#### *Transocean Transaction*

On March 15, 2017, the Company entered into an agreement and a signed letter of intent to acquire fifteen high specification jack-up drilling units from Transocean Ltd. The transaction consists of Transocean's entire jack-up fleet, comprising eight rig owning companies in Transocean's fleet and five new-builds under construction at Keppel Fels Limited, Singapore. Total consideration for the transactions is expected to be approximately US\$1.35bn and includes remaining contract backlog and remaining yard instalments to be made to Keppel Fels for the five new-builds. The board of directors of Keppel Fels has pre-approved the novation of the new-building contracts.

On the same day a deposit of US\$32.0 million, in line with the agreement between the parties, has been paid to Transocean. Borr has secured financing for the transaction through a private placement of equity securities. The transaction was subject to the parties executing definitive agreements and satisfying formal closing conditions, including a final approval from the board of directors of both companies. The transaction closed on May 31, 2017. The transaction will be accounted for as a business combination under ASC 805. Total consideration paid to Transocean on closing was \$288.6 million and \$32.0 million (already paid in March, 2017), making a total consideration of \$320.6 million. The Company also assumed the contract and liabilities for the completion of the construction of the five new build jack-up rigs with Keppel Fels, which amounted to \$862.0 million.

An additional short-term loan was provided to the Company on March 15, 2017 US\$12.75 million to finance the deposit payable for the acquisition of the Transocean rig companies, which was expected to complete in May 2017. The loan was repaid with no interest accruing by way of set-off against Taran's subscription of shares in the Company's private placement in March 2017.

On May 31, 2017, the Company completed the Transocean transaction as described above paying a further consideration of US\$288.6 million, net of the US\$32.0 million deposit already paid. As a result of the transaction, the Company took ownership and renamed the established rig owning subsidiaries and branches as follows:

<b>Name of acquired company</b>	<b>New name of acquired company</b>
Constellation II Limited	Borr Jack-Up VIII Limited (name changed once Chevron contract completed)
GlobalSantaFe West Africa Drilling Limited	Borr Jack-Up IX Limited
Transocean Andaman Limited	Borr Jack-Up X Limited (name changed once Chevron contract completed)
Transocean Ao Thai Limited	Borr Jack-Up XI Limited
Transocean Britannia Limited	Borr Jack-Up XII Limited
Transocean Drilling Resources Limited	Borr Jack-Up XIII Limited
Transocean Drilling Services Offshore Inc.	Borr Jack-Up XIV Inc.
Transocean Siam Driller Limited	Borr Jack-Up XV Limited

On June 12, 2017, the Company paid an instalment of \$275.0 million to Keppel Fels. The profile of the remaining payments to be made by the Company are as follows:

<b>Hull</b>	<b>Payment</b>	<b>Date of Payment</b>
B364	\$72.4 million	February 15, 2018
B365	\$72.4 million	May 15, 2018
B366	\$147.4 million	April 15, 2019
B367	\$147.4 million	October 15, 2020
B368	\$147.4 million	December 15, 2020

# Borr Drilling Limited and subsidiaries

## Consolidated Financial Statements

### Notes to the Consolidated Financial Statements for the period ended December 31, 2016

#### Note 12 - Subsequent Events (*continued*)

Following the closing of the Transocean transaction it has been agreed to change the names of the jack-up rigs acquired to the following:

<b>Current name of the rig</b>	<b>New Borr Drilling rig name</b>
GSF Constellation I	Atla
GSF Constellation II	Balder
GSF Galaxy I	Baug
GSF Galaxy II	Brage
GSF Galaxy III	Eir
GSF Monarch	Fonn
Transocean Andaman	Idun
Transocean Ao Thai	Mist
Transocean Honor	Norve
Transocean Siam Driller	Odin

#### *Allocation agreement*

An allocation agreement will regulate the relationship between the Company and Transocean post-closing of the Transocean transaction in respect of the rigs currently working in Thailand on Chevron contracts (Transocean Andaman, Transocean Ao Thai and Transocean Siam Driller) pursuant to which these rigs will continue to be made available for drilling contracts with Chevron Thailand Exploration and Production Limited at the Company's risk.

Transocean will receive all revenues and bear all operational expenses for these rigs (other than H&M and P&I (including crew) insurance costs, which are for the Company) and the Company will pay for capital expenditure and be liable to compensate Transocean for any and all other costs and liabilities incurred by Transocean under the Chevron Contracts.

The Chevron Contracts expire on July 16, 2017 (Transocean Andaman), May 25, 2018 (Transocean Ao Thai) and October 10, 2018 (Transocean Siam Driller) and may only be extended to complete a well then in progress at the request of Chevron, on terms that Transocean and the Company share the profits on a 75% (Company)/25% (Transocean) basis.

#### *New Subsidiaries*

Borr Drilling Limited incorporated five further subsidiaries on March 23, 2017 as follows:

Borr Jack-up III Inc (Marshall Islands)  
Borr Jack-up IV Inc (Marshall Islands)  
Borr Jack-up V Inc (Marshall Islands)  
Borr Jack-up VI Inc (Marshall Islands)  
Borr Jack-up VII Inc (Marshall Islands)

The purpose is for each of these to become party to a novated building contract with Keppel Shipyard following the closure of the deal with Transocean.

On May 8, 2017 Borr Drilling Limited incorporated a new wholly owned UK subsidiary called Borr Drilling Management (UK) Limited.

On May 8, 2017 Borr Drilling Limited incorporated a new wholly owned Marshall Island subsidiary called Borr Drilling Equipment Pool Inc.

On May 28, 2017 Borr Drilling Limited incorporated a new wholly owned Dubai subsidiary called Borr Drilling Management DMCC.

On May 31, 2017, a number of subsidiaries were acquired as part of the Transocean transaction, which were subsequently renamed. The details of these are listed above.

#### *Increase in authorized share capital*

On March 13, 2017 it was agreed that the share capital of the Company be increased from US\$ 2.0 million to US\$ 4.0 million by the creation of 200 million common shares of par value of US\$0.01 each, such shares to rank pari passu with the existing common shares of the Company.

# **Borr Drilling Limited and subsidiaries**

## **Consolidated Financial Statements**

### **Notes to the Consolidated Financial Statements** **for the period ended December 31, 2016**

#### **Note 12 - Subsequent Events (continued)**

##### ***Equity offering***

On March 20, 2017, the Company announced that it was raising US\$800.1 million in new equity consisting of 228,600,000 new shares at a price of US\$3.50 per share. The equity offering took place through an accelerated book building process from a limited number of investors following the execution of wall crossing arrangements.

On March 21, 2017, the Company announced that it completed and had received binding orders for the subscription of 228,600,000 shares at the price of US\$3.50 per share, corresponding to gross proceeds of US\$800.1 million. Net proceeds from the equity offering will mainly be used to secure the funding of the acquisition of Transocean's jack-up fleet through eight rig owning companies.

On March 27, 2017, the Company announced that all shares were delivered to the subscribers, and as a consequence were tradable on the Norwegian OTC. The Company will as a result of this and the exercise of 9,687,500 warrants have 315,792,500 issued shares (subject to the above), each with a par value of US\$0.01, constituting a share capital of US\$3.2 million.

A put option (see below) was entered into for all subscribers of shares with regards to the private placement detailed above. As a result of the written put option all shares issued will be classified within the financial statements as 'mezzanine equity' until such time the Transocean transaction is completed (see above). The written put option is not a freestanding financial instrument as described in ASC480 and is not bifurcated but recorded as part of equity. As such, the above share issue was not recognised within equity on the basis that the Company has adopted the rules for public companies under ASR 268 and ASC 480, which requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity, where the occurrence of the event is not solely with the control of the issuer. Although ASR 268 refers to preferred securities, the SEC also believes it provides guidance for other redeemable securities including common stock.

As noted above, the Transocean Transaction completed on May 31, 2017, therefore the put option is no longer exercisable and the 228,600,000 shares will be held and transferred fully as common shares into the Statement of Changes in Shareholders' Equity in the second quarter of 2017.

##### ***Warrants***

##### **Magni Partners (Bermuda) Limited and Ubon Partners AS**

On March 23, 2017, all of the warrants issued to Magni Partners and Ubon (Note 9) had been exercised in full and in accordance with the terms of the agreements.

##### **Schlumberger Oilfield Holdings Limited**

On March 21, 2017, the Company issued 4,736,887 warrants to subscribe to new Shares at a subscription price of US\$3.50 plus 4% p.a. per Share to Schlumberger Oilfield Holdings Limited ("Schlumberger") for their role, support and participation in the Private Placement in March, 2017. The value of these warrants is US\$3.01 million.

The Company will issue a further 4,736,887 share warrants to Schlumberger conditional upon the conclusion of a comprehensive collaboration agreement at a subscription price of US\$3.50 plus 4% p.a. per share.

The vesting date means the date when the Company announces completion of the transaction described in the Investor Documentation prepared in connection with the private placement of 228,600,000 new shares in March 2017 or if the transaction is not completed, at the date that Schlumberger informs the Company that the put-option granted to the subscribers (the "Put-Option") will not be exercised. Termination Date is the date falling four years after the Vesting Date.

##### ***Put option***

In addition to the warrants issued to Schlumberger a Put option has been granted to it and other investors that have been allocated shares in the Company's offering of 228,600,000 new shares at a subscription price of US\$3.50 per share. All investors shall have a right to require the Company to purchase some or all of its allocated shares, at the subscription price in the event that the transaction does not complete. The Put option is personal to each applicant who receives an allocation of shares in the offering, applies in respect of the number of shares allocated only and is not transferable. The investor automatically loses its Put option rights in respect of their allocated shares on a sale or transfer of the allocated shares and cannot pass its Put option rights to a purchaser.



# **Borr Drilling Limited and subsidiaries Consolidated Financial Statements**

## **Notes to the Consolidated Financial Statements for the period ended December 31, 2016**

### **Note 12 - Subsequent Events (continued)**

#### ***Put option (continued)***

The Put option is exercisable if the Transocean transaction (expected to close in late May 2017) does not close. If the Put option becomes exercisable and an investor wishes to exercise the put option, the relevant investor should apply to the Board of the Company in writing, with evidence of its subscription for their allocated shares and of its then current holding of the allocated shares, stating how many allocated shares it requires the Company to purchase under the Put option. If the Transocean deal does not complete, the put option must be exercised no later than 30 days after the date when the Company informs Schlumberger and the other investors who were allocated shares in the offering.

As noted above, the Transocean Transaction completed on May 31, 2017, therefore the put option is no longer exercisable and the 228,600,000 shares will be held and transferred fully as common shares into the Statement of Changes in Shareholders' Equity in the second quarter of 2017.

#### ***Forward contracts and Bonds***

##### ***Forward contracts***

The Company in the period May to July 2017 entered into forward contracts to purchase 3,250,000 shares in Atwood Oceanics Inc ("Atwood") with a strike price of between US\$8.23 and US\$9.68 with settlement in November 2017.

##### ***Bonds***

The Company on May 25, 2017 purchased 10,000,000 corporate bonds (with a par value of \$1) issued by Oro Negro Drilling Pte. Ltd for approximately \$5.5 million.

#### ***Employee Stock Based Compensation***

On June 15, 2017, the Company committed to granting 4,380,000 options of new shares which will be granted to key employees and directors of the Group, these will be accounted under ASC 718 stock based compensation in Q2 2017. The Options will be granted with a strike price of US\$3.50. The option period is 5 years from June 15, 2017 and shall vest with 1/3 on each of the three first anniversaries in the option period.

A further 3,400,000 shares of the authorised but unissued share capital shall be reserved for further option grants to key individuals in the group.

On July 3, 2017, the Company granted 2.8 million options for new shares to new employees with strike price of US\$ 3.50. The option period is 5 years from July 1, 2017. The Options shall vest with 1/3 on each of the three first anniversaries in the option period.

#### ***Letter of Commitment for drilling services in Nigeria***

The Company in conjunction with the Nigerian Partner Company Valiant Energy Service West Africa Limited ("Valiant"), has received a letter of commitment from Total E&P Nigeria Limited ("Total"), for employment of its premium jack-up, Frigg. The Project will be executed with Nigerian partners.

The commitment is for a firm one-year period with possible extensions, drilling is expected to commence during the third quarter of 2017.

### **Note 13 - Commitments and contingencies**

There are no commitments or contingencies that require disclosure beyond what has already been disclosed elsewhere in these financial statements (see Note 12).