



Interim Report for
NorAm Drilling Company AS
1st Quarter 2020



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CONSOLIDATED FINANCIALS:

MUSD	<u>Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Revenue	21.0	20.1
Operating Profit	-0.1	2.9
Net Profit before tax	-2.0	0.9
EBITDA	4.3	6.8

DRILLING CONTRACT STATUS:

- Rig 21 - available
- Rig 22 - on contract through January 2021
- Rig 23 - on contract through April 2021
- Rig 25 - on contract through June 2020
- Rig 26 - available
- Rig 27 - on contract through August 2020
- Rig 28 - available
- Rig 29 - available
- Rig 30 - on contract through May 2021
- Rig 32 - available
- Rig 34 - available

SUMMARY

NorAm Drilling Company AS owns 100% of NorAm Drilling Company, a Texas corporation, collectively referred to as NorAm herein. NorAm owns and operates a quality rig portfolio of "super spec" advanced high-end AC driven rigs tailored for the drilling of horizontal wells in the US land drilling market. Currently, six of our eleven rigs are under contract and operating in the Permian Basin. These rigs are designed to combine the cost efficiency of a compact rig with the versatility of different rig classes, enabling the rigs to cover a broad range of wells for both liquids and gas.

MARKET & ACTIVITIES

Reduced demand for crude oil and refined products related to the COVID-19 pandemic, combined with production increases from OPEC+, has led to a significant reduction in crude oil prices and demand for drilling services in North America.

Oil prices remain extremely volatile, as the closing price of US West Texas Intermediate (WTI) crude reached a first quarter 2020 high of \$63.27 per barrel on January 6, 2020 and a

low of negative \$37.63 per barrel on April 20, 2020. WTI closed at \$34.35 per barrel on May 26, 2020.

As of May 22, 2020, the US land drilling active rig count has declined 60.8% since December 31, 2019 to 306 active rigs. Rig counts in the Permian Basin, where all of our rigs are currently located, have declined 60.0% since December 31, 2019 to 162 active rigs as of May 22, 2020. As of May 22, 2020, the Permian Basin rig count represented 52.9% of the total US land drilling active rig count.

As of March 31, 2020, all eleven of our rigs were under contract and operating in the Permian Basin. Our rig count started to decline in late April. We currently have five rigs under contract including one that is scheduled to expire before July 1, 2020 and a second contract that is scheduled to expire in September 2020. The remaining 3 rigs are contracted into 2021.

As a result of the COVID - 19 pandemic we initiated several steps at our rig sites and operational service centers to ensure the safety of our employees, customers and 3rd party partners. Among other initiated steps, we introduced (i) daily meetings for education and awareness of COVID - 19 symptoms, (ii) implemented cleaning of common areas, (iii) taking, monitoring and reporting temperatures and (iv) provide supplies for the practice of good hygiene. To date, our staffing and rig operations have not experienced any disruption as a result of COVID - 19.

In response to the significant reduction in crude oil prices and the resulting fall in demand for drilling services in North America, we have taken decisive action to quickly scale down our expenses and conserve liquidity including: (i) lowering our direct field level personnel as rigs are released, (ii) implemented wage reductions for all employees and Board of Director fees, (iii) suspended our employer 401 K match, (iv) working with our vendor partners for best pricing on goods and services and (v) eliminated all non-essential capital. Additionally, we are maintaining any stacked rig in a manner to ensure that we can reactivate any rig in the most cost effective and efficient manner when demand for drilling services improves.

CARES ACT

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

On May 5, 2020, we entered into an unsecured loan in the aggregate principal amount of \$5.5 million pursuant to the Paycheck Protection Program (the "PPP"), sponsored by the Small Business Administration as guarantor of loans under the PPP. The PPP is part of the CARES Act, and it provides for loans to qualifying businesses in a maximum amount equal to the lesser of \$10.0 million and 2.5 times the average monthly payroll expenses of the qualifying business. The proceeds of the loan may only be used for payroll costs, rent, utilities, mortgage interests, and interest on other pre-existing indebtedness (the "permissible purposes").

BOND AMEDMENT

On May 8, 2020, a bondholders' meeting was held and the following was approved including: (i) the principal installment scheduled for June 3, 2020 was waived; (ii) the equity covenant was waived through maturity date of June 3, 2021 and (iii) an amendment fee of \$250,000 would be paid to the bondholders' within 10 business days of the meeting. NorAm paid the amendment fee on May 18, 2020.

OPERATIONS

During 1Q 2020, NorAm achieved a 94.3% utilization on an average available fleet of 11.0 rigs compared to a 97.4% utilization rate on an average available fleet of 10.2 rigs in 4Q 2019. In comparison, we achieved a utilization rate of 99.3% on an average available fleet of 9.0 rigs in 1Q 2019.

Combined with focus on our rig personnel staffing levels and effectively managing our other daily operating costs we were able to maintain rig operating costs during 1Q 2020 and in line with our historical performance although we did incur increased repairs and maintenance in the normal course of operations.

FINANCIALS

NorAm had revenue of MUS\$ 21.0 during 1Q 2020 compared to MUS\$ 20.1 in 1Q 2019. During 1Q 2020 we generated an operating profit of MUS\$ -0.1 compared to an operating profit of MUS\$ 2.9 in 1Q 2019. The decline in revenue and operating profit was primarily the result of the lower utilization and increases in rig service and supplies. During 1Q 2020 we generated an EBITDA of MUS\$ 4.3 compared to MUS\$ 6.8 in 1Q 2019. Decreased EBITDA in 4Q 2019 was a result of lower revenue, increased operating costs related to repairs and a \$200,000 bond amendment fee paid in January 2020.

Capital expenditures were MUS\$ 1.5 in 1Q 2020 and 6.5 in 1Q 2020. As of March 31, 2020, our cash position was MUS\$ 18.7. As of March 31, 2020, we had MUS\$ 86.0 of outstanding bonds payable to 3rd parties.

In July 2019, the Company entered into a Revolving Loan Facilities Agreement with a bank. The committed facility provides for borrowings up to USD \$6,000,000 for purposes of financing capital expenditures investments and general working capital purposes. The facility terminates on June 30, 2021. On March 16, 2020, we borrowed the full availability of \$6,000,000 in connection with this facility.

As mentioned above, on May 5, 2020, NorAm entered into a \$5.5mm unsecured loan signed May 5, 2020 under the Payroll Protection Plan from the Small Business Administration for government relief. The loan is a 2 year note with no payments due for 6 months and bears interest at 1%. Monies spent on payroll during the subsequent 8-week period of the loan date will be forgiven. Additionally, 25% of the \$5.5mm loan can be spent on utilities, rent and intercompany interest. At the end of 8 weeks we will submit support for our expenditures and file a report whereby we currently expect that all or virtually all of the \$5.5mm will be forgiven.

Due to the uncertain market conditions, resulting from COVID-19 pandemic and the production changes from OPEC+, the board of directors are following market developments closely. The uncertainty increased during Q1 2020 and is considered an impairment trigger. Management has performed a subsequent impairment calculation as of end Q1 2020. As input to the model expected assumptions prevailing for development in day rates, OPEX and other critical inputs was adjusted. There is significant uncertainty relating to the recovery of the market, and the key inputs are therefore uncertain. The conclusion on the impairment calculation, based on information available now and the prevailing estimates for recovery of oil prices etc, is that there is no need for impairment charges as of Q1 2020, but management and the board of directors will follow the developments in the market closely and assess impairment continuously if expected future market conditions changes.

OUTLOOK

Given the recent significant volatility in oil prices and customers aggressively releasing US onshore drilling rigs since late March 2020 we cannot reasonably predict when the market will bottom, when a recovery will commence and to what extent any recovery may occur. We expect that demand for "super spec" land rigs to continue for any required level of activity and such demand for "super spec" rigs should increase as any recovery of market conditions will benefit from the efficient and effective capabilities of the "super spec" rigs. However, any further significant volatility in WTI oil prices, could have an adverse effect on the demand for US drilling rigs.



Nor Am Drilling Company



Interim Report as of Q1 2020

Report for NorAm Drilling Group

	VTD Q1 2020	VTD Q1 2019	VTD 31.12.2019	Q1 2020	Q1 2019
<i>(All amounts in US\$ 1000s)</i>					
Revenue/Expense					
Sales	21,009	20,073	82,382	21,009	20,073
Other Income					
Total operating income	21,009	20,073	82,382	21,009	20,073
Payroll Expenses	6,896	6,624	27,298	6,896	6,624
Depreciation of tangible and intangible assets	4,407	3,875	17,214	4,407	3,875
Rig mobilization, service and supplies	5,795	3,917	18,898	5,795	3,917
Insurance rigs and employees	1,135	797	3,975	1,135	797
Other Operating Expenses	2,917	1,939	8,132	2,917	1,939
Total Operating Expenses	21,150	17,152	75,516	21,150	17,152
Operating profit(+)/ loss (-)	-141	2,921	6,865	-141	2,921
Financial Income and Expenses					
Other Interest Income	6		49	6	
Other Financial Income		207	259		207
Other Interest Expenses	1,869	2,041	8,163	1,869	2,041
Other Financial Expenses	1	196	-2	1	196
Net Financial Items	-1,865	-2,030	-7,852	-1,865	-2,030
Profit (+)/Loss(-) before Income Tax	-2,005	891	-987	-2,005	891
Income Tax Expense	311	311	1,209	311	311
Net Profit (+)/Loss(-)	-2,316	580	-2,196	-2,316	580
EBITDA	4,267	6,796	24,079	4,267	6,796



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Q1 2020

Q1 2019

31.12.19

*{All amounts in USO 1000s}***Assets***Tangible Assets*

Rigs and accessories	129 259	138 326	132 118
Vehicles and Office Equipment	436	626	482
Total Tangible Assets	129 694	138 952	132 600

Current Assets*Receivable*

Accounts Receivable	10 025	12 660	14 007
Other Receivable	1351	1063	1627
Total Receivable	11376	13 723	15 634

Cash and cash equivalents

Bank Deposits/Cash	18 715	13 643	7 917
Total Current Assets	30 091	27 365	23 551

Total Assets

159 786	166 317	156151
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Group - Balance sheet USO

Q1 2020

Q1 2019

31.12.19

(All amounts in USO 1000s)

Equity

Owners Equity

Issued Capital	15 932	15 932	15 932
Share Premium	94 860	94 860	94 860
Other shareholder contribution	369	369	369
Total Owners Equity	111162	111162	111162

Accumulated Profits

Other Equity	-54 836	-49 384	-52 520
Total Accumulated Profits	-54 836	-49 384	-52 387

Total Equity

56 326 61777 58 641

liabilities

Deferred tax	4 886	3 658	4 576
Total deferred tax	4886	3 658	4 784

Non-Current Liabilities

Liabilities to Financial Institutions	6 000		
Bond Loan	80 000	90 000	80 000
Other Long Term Liabilities	437	333	981
Total Non-Current Liabilities	86437	90 333	80981

Current Liabilities

Accounts Paya ble	3 951	2 371	6 703
Tax payable	415		415
Public Duties Payable	143	119	150
Other Current Liabilities	7 627	8 059	4 660
Total Current Liabilities	12136	10 549	11953

Total Liabilities

103 460 104 539 97 509

Total Equity & Liabilities

159 786 166 317 156150

NOTE DISCLOSURE



Note 1- Accounting Principles

The interim report is based on management reporting, and is prepared in accordance with the Norwegian Accounting Act and Norwegian GAAP.

Principles and policy is the same for the interim report as in the last Annual Report. For comprehensive description of accounting principles, we therefore refer to the last issued Annual Report

1-1 Basis for consolidation

The Group's consolidated financial statements comprise NorAm Drilling Company AS and companies in which NorAm Drilling Company AS has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50% of the shares in the company and can exercise control over the company. Minority interests are included in the Group's equity. Transactions between Group companies have been eliminated in the consolidated financial statement. The consolidated financial statement has been prepared in accordance with the same accounting principles for both parent and subsidiary.

1-2 Income tax

The tax expense for management reporting and interim reporting purposes is a simplified tax calculation where the tax rate in the different jurisdictions are applied to the net result in the different jurisdiction booked against deferred tax/deferred tax asset. If a jurisdiction has a negative result, and no deferred tax asset is expected to be capitalized, no tax expense are calculated for that jurisdiction.

1-3 Foreign Currency

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into USD using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into USD using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognized in the income statement as they occur during the accounting period.

The functional currency for the NorAm Group is USD, in which also is the presentation currency.

1-4 Audit of management reporting/interim reporting

The interim financials are unaudited.

Note 2 - Equity and Shareholders Information

	Share capital	Share premium	Other paid in capital	Other equity	Total
Equity 01.01.20	15,932,262	94,860,376	369,053	-52,520,248	58,641,443
Profit/loss in the period				-2,315,835	-2,315,835
Adjustment prior periods					
Stock option					
Issued Capital					
Equity as of 31.03.20	15,932,262	94,860,376	369,053	-54,836,083	56,325,608

10 largest Shareholders as of 31.03.2020 in NorAm Drilling Company AS

Name	# Shares	'Share
Geveran Trading Ltd	15,842,707	67.7 %
Pactum AS	2,673,034	11.4 %
SFL Corporation Ltd .	1,266,225	5.4%
Camaca AS	537,112	2.3 %
Thabo Energy AS	450,000	1.9 %
Prima Green investment AS	321,593	1.4 %
Jahrmann AS	264,590	1.1 %
Robert Wood Johnson Foundation	235,385	1.0 %
Naeringslivets Hovedorganisasjon	197,301	0.8 %
Damima Invest AS	163,242	0.7 %
Total	21,951,189	
Total number of shares	23,392,317	

Note 3 - Long term liabilities and covenants

The Group has a Bond loan as of 31.03.20

Outstanding as of 31.03.20	80,000,000
Maturity date on bond loan	6/3/21
Repayment during 2020 *	10,000,000

On December 16, 2019 , a bondholders' meeting was held, and updated covenants was approved with effects from January 1, 2020 until maturity . The updated financial covenants includes;

Equity Ratio > 30%

Liquidity-The Group's liquidity should be held at minimum MUSD 5

Current Ratio - Minimum 1:1

Asset Coverage Ratio - The Issuer shall ensure that the sum of the recorded Amount and the Market Value of the Rigs at any time is minimum 130% of the total par value of the Outstanding Bonds.

An amendment fee of USD 200.000 was paid to the bondholders on January 16, 2020 .

See subsequent event information on bond changes in note 7.

As of 31.03.20 the Group is compliant with existing covenants.

Other long term liabilities to financial institutions, MUSD 6, is due in 2022

Note 4 - Key figures and ratios

(USO mill)	Q1 2020	YTD 2020	Q1 2019	YTD 2019
Revenue	21.0	21.0	20.1	20.1
Operating profit	-0.1	-0.1	2.9	2.9
Net profit before tax	-2.0	-2.0	0.9	0.9

	Q1 2020	Q1 2019
Equity to asset ratio	35.3 %	37.1 %
Total number of shares	23,392,317	23,392,317
Earning per share*	-0.10	0.02

Note 5 - Cash Flow overview

	3/31/20	31.12.2019
Cash from operation	6,843,829	17,695,227
Cash from investments	-1,501,545	-13,473,782
Cash from financing	5,456,072	-9,830,589
Change in cash	10,798,357	-5,609,144
Cash position opening balance	7,917,075	13,472,573
Cash position closing balance	18,715,432	7,863,429

As of 31.03.20 USO of 757 221 bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

Note 6- Impairment

The COVID -19 and the effect of the sudden fall in oil prices that became relevant during Q1 2020 is assessed as an impairment risk.

As a consequence, management has performed impairment test on fixed assets in Q1 2020. Due to the uncertainty relating to the long term effects of both COVID-19 and the fall in oil prices, these has been reflected as a temporary set-back on day-rates and utilization, with a gradual recovery over 3 years, to revert back to the levels used the expectations used as of Q4. No impairment expense has been charged to the account as of Q1 2020. Due to the uncertainty in the market, especially regarding timing of recovery for the oil market, this conclusion could change in the upcoming quarters. Management monitor the situation closely.

Note 7 - Subsequent Events

Subsequent changes in bond loan after 31.03.20:

On 08.05.2020, a bondholders' meeting was held and the following was approved including:

(i) the principal installment scheduled for 03.06.2020 was waived, reducing a repayment total in 2020 to MUSD 5

(ii) the equity covenant was waived through maturity date of 03.06.2021 and

(iii) an amendment fee of \$250,000 would be paid to the bondholders' within 10 business days of the meeting,

NorAm paid the amendment fee on 18.05.2020.