



NorAm Drilling Company

**Interim Report for**  
**NorAm Drilling Company AS**  
**1<sup>st</sup> Quarter 2021**



## Interim Report for NorAm Drilling Company AS 1<sup>st</sup> Quarter 2021

### CONSOLIDATED FINANCIALS:

MUSD	Q1 2021	Q1 2021
Revenue	10.2	21.0
Operating Profit	(2.7)	(0.1)
Net Profit before tax	(4.5)	(2.0)
EBITDA	1.9	4.3

### DRILLING CONTRACT STATUS:

- Rig 21 – on contract pad-pad
- Rig 22 – on contract through July 2021
- Rig 23 – on contract pad-pad
- Rig 25 – on contract through June 2021
- Rig 26 – on contract through July 2021
- Rig 27 – on contract through August 2021
- Rig 28 – available
- Rig 29 – available
- Rig 30 – on contract pad-pad
- 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, seven 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 pandemics, combined with production increases from OPEC+, led to a significant reduction in crude oil prices and demand for drilling services in North America during 2020.

More recently, as a result of improved optimism for increased global oil demand as vaccines are being administered related to COVID – 19 and OPEC+ controlling its production, crude oil prices and demand for drilling services in North America started to improve in late 2020. WTI increased steadily from late April 2020 and remained relatively stable near \$40 per barrel through October 2020. Since October 2020, WTI improved and is currently trading near \$65.00 per barrel.

As of May 21, 2021, the US land drilling active rig count and Permian rig count was 440 and 231, respectively. As of December 31, 2020, the US land drilling active rig count and Permian rig count was 332 and 175, respectively.

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 and were operating 4 rigs in Q3 2020. We reactivated a 5<sup>th</sup> rig in Q4 2020 and reactivated a 6<sup>th</sup> and 7<sup>th</sup> rig in Q1 2021. We currently have seven rigs under contract.

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 3<sup>rd</sup> party partners. To date, our staffing and rig operations have not experienced any significant 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 during 2020, we initiated decisive actions to quickly scale down our expenses and conserve liquidity including: (i) lowering our direct field level personnel as rigs were released, (ii) implemented wage reductions for all employees and Board of Director fees, (iii) suspended our employer 401K match, (iv) work with our vendor partners for best pricing on goods and services and (v) eliminated all non-essential spending. Additionally, we are maintaining any stacked rig in a manner to ensure that we can reactivate these rigs in the most cost effective and efficient manner when demand for drilling services improves. We successfully reactivated three of our rigs and were reactivated in line with our expectations and performing well.

## **OPERATIONS**

During Q1 2021, NorAm achieved 50.7% utilization on an average available fleet of 11.0 rigs compared to 44.4% utilization rate on an average available fleet of 11.0 rigs in Q4 2020. In comparison, we achieved a utilization rate of 94.3% on an average available fleet of 11.0 rigs in Q1 2020.

Combined with focus on our rig personnel staffing levels and effectively managing our other daily operating costs we were able to reduce rig operating costs during Q2 2020 through Q1 2021.

## **FINANCIALS**

NorAm had revenue of MUSD 10.2 during Q1 2021 compared to MUSD 21.0 in Q1 2020. During Q1 2021 we generated an operating profit of MUSD (2.7) compared to an operating profit of MUSD (0.1) in Q1 2020. The decline in revenue and operating profit was primarily the result of the lower utilization and dayrates. During Q1 2021 we generated an EBITDA of MUSD 1.9 compared to MUSD 4.3 in Q1 2020.

Capital expenditures were MUSD 0.4 in Q1 2021 and were attributable to upgrades. As of March 31, 2021, our cash position was MUSD 18.4, and we had MUSD 80.0 of outstanding bonds payable to 3<sup>rd</sup> parties.

In July 2019, the Company entered into a MUSD 6.0 Revolving Loan Facilities Agreement with a bank for purposes of financing capital expenditures investments and general working capital purposes. The facility terminates on June 30, 2021. On May 27, 2021, the Company entered into an amendment of the facility that (i) extends the maturity date to the earlier of May 2023 or the maturity of the bonds and (ii) allows for borrowings to finance capital expenditures.

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 MUSD 5.5 pursuant to the Paycheck Protection Program which is part of the CARES Act initiatives. This loan was forgiven in full on May 11, 2021.

On December 27, 2020, an additional COVID-19 Pandemic Relief Bill was approved. This bill authorized another round of PPP loans (“second draw PPP loans”). On February 5, 2021, we entered into a second PPP loan in the aggregate principal amount of MUSD \$2.0.

Due to the uncertain market conditions, resulting from COVID-19 pandemic and the oil production changes, we have reviewed assumptions for the carrying values of our assets. This includes assumptions for development in dayrates, OPEX and other critical inputs were adjusted. There is significant uncertainty relating to the recovery of the market, and the key inputs are therefore uncertain.

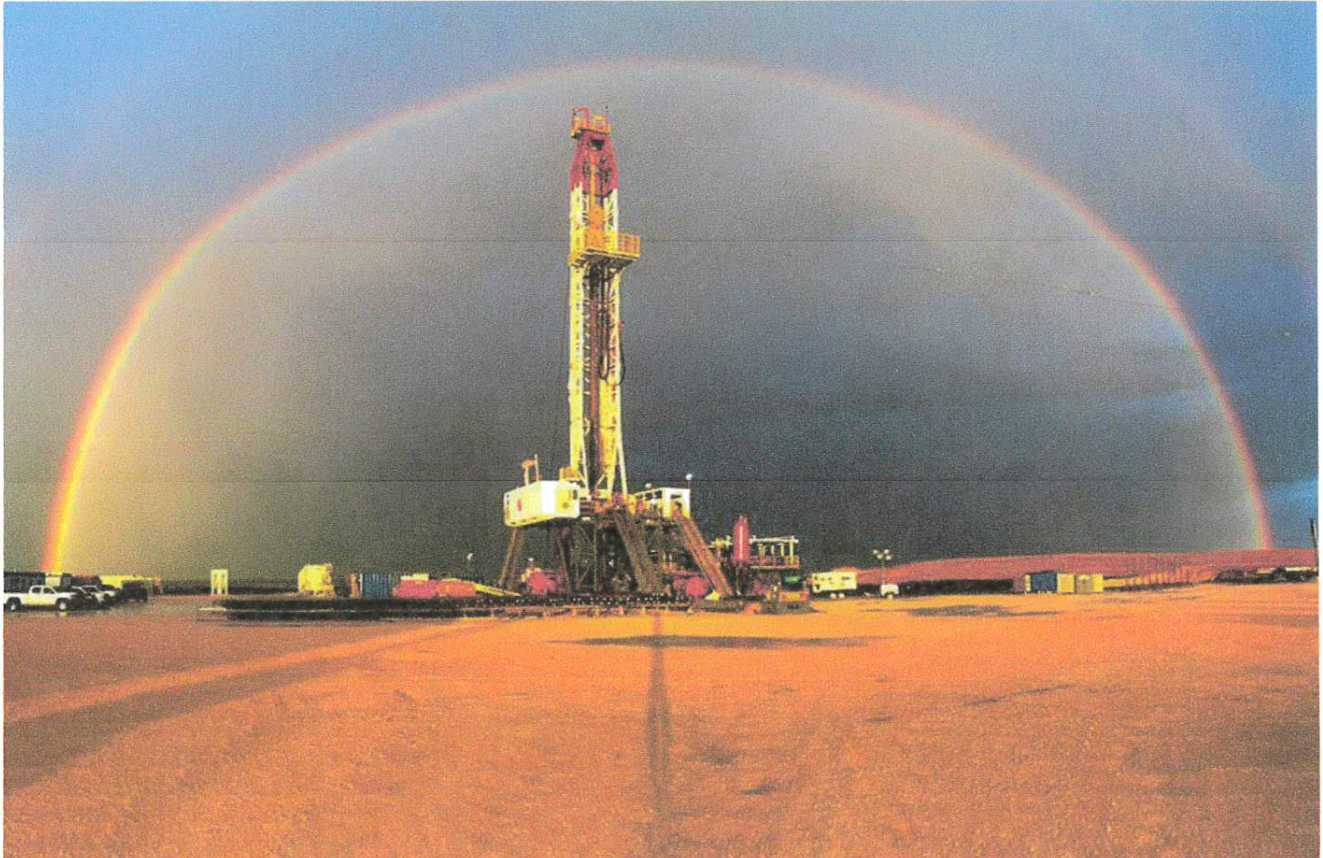
The conclusion on the impairment calculation, based on information available and the prevailing estimates for recovery of oil prices etc, is that there is no need for impairment charges as of Q1

2021. 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**

Since August 2020, WTI oil prices and US land rig counts have steadily increased indicating that the US drilling industry bottomed in 3Q 2020. The extent of any continued recovery in the US drilling industry cannot be reasonably predicted and is subject to many variables including, but not limited to: (i) global oil demand (ii) OPEC+ maintaining and complying with appropriate supply targets, (iii) economic recovery as the COVID - 19 pandemic is mitigated, (iv) operating discipline demonstrated by US E&P operators and (v) any possible regulatory changes issued by the new US government. We expect the future demand for US drilling rigs will be primarily focused on and require Super Spec rigs as a result of their efficient and effective capabilities. Any further significant negative volatility in WTI oil prices could have an adverse impact on the demand for US drilling rigs.

Report for NorAm Drilling Group



**Interim Report as of  
Q1 2021**



**NorAm Drilling Company**



Group - Income Statement	YTD		YTD	YTD	
	Q1 2021	Q1 2020	31.12.20	Q1 2021	Q1 2020
<i>(All amounts in USD 1000s)</i>					
<b>Revenue/Expense</b>					
Sales	10 230	21 009	54 659	10 230	21 009
Other Income					
<b>Total operating income</b>	<b>10 230</b>	<b>21 009</b>	<b>54 659</b>	<b>10 230</b>	<b>21 009</b>
Payroll Expenses	3 672	6 896	18 758	3 672	6 896
Depreciation of tangible and intangible assets	4 560	4 407	18 041	4 560	4 407
Rig mobilization, service and supplies	2 742	5 795	14 662	2 742	5 795
Insurance rigs and employees	617	1 135	3 492	617	1 135
Other Operating Expenses	1 314	2 917	7 897	1 314	2 917
<b>Total Operating Expenses</b>	<b>12 904</b>	<b>21 150</b>	<b>62 851</b>	<b>12 904</b>	<b>21 150</b>
<b>Operating profit (+)/ loss (-)</b>	<b>-2 674</b>	<b>-141</b>	<b>-8 192</b>	<b>-2 674</b>	<b>-141</b>
<b>Financial Income and Expenses</b>					
Other Interest Income		6	7		6
Other Financial Income			39		
Other Interest Expenses	1 803	1 869	7 427	1 803	1 869
Other Financial Expenses	6	1	391	6	1
<b>Net Financial Items</b>	<b>-1 808</b>	<b>-1 865</b>	<b>-7 772</b>	<b>-1 808</b>	<b>-1 865</b>
<b>Profit (+)/Loss(-) before Income Tax</b>	<b>-4 482</b>	<b>-2 005</b>	<b>-15 964</b>	<b>-4 482</b>	<b>-2 005</b>
Income Tax Expense	-430	311	-2 385	-430	311
<b>Net Profit (+)/Loss (-)</b>	<b>-4 052</b>	<b>-2 316</b>	<b>-13 579</b>	<b>-4 052</b>	<b>-2 316</b>
<b>EBITDA</b>	<b>1 886</b>	<b>4 267</b>	<b>9 849</b>	<b>1 886</b>	<b>4 267</b>



## Group - Balance sheet USD

	Notes	Q1 2021	Q1 2020	31.12.20
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(All amounts in USD 1000s)

**Assets***Tangible Assets*

Rigs and accessories	7	112 727	129 259	116 804
Vehicles and Office Equipment	7	157	436	215
<b>Total Tangible Assets</b>		<b>112 885</b>	<b>129 694</b>	<b>117 019</b>

**Current Assets***Receivable*

Accounts Receivable		5 435	10 025	4 423
Other Receivable		865	1 351	1 191
<b>Total Receivable</b>		<b>6 301</b>	<b>11 376</b>	<b>5 614</b>

*Cash and cash equivalents*

Bank Deposits/Cash	5	18 406	18 715	16 337
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<b>Total Current Assets</b>		<b>24 706</b>	<b>30 091</b>	<b>21 951</b>
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<b>Total Assets</b>		<b>137 591</b>	<b>159 786</b>	<b>138 971</b>
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## Group - Balance sheet USD

	Notes	Q1 2021	Q1 2020	31.12.20
<i>(All amounts in USD 1000s)</i>				
<b>Equity</b>				
<i>Owners Equity</i>				
Issued Capital	2	15 932	15 932	15 932
Share Premium	2	94 860	94 860	94 860
Other shareholder contribution	2	369	369	369
<b>Total Owners Equity</b>		<b>111 162</b>	<b>111 162</b>	<b>111 162</b>
<i>Accumulated Profits</i>				
Other Equity	2	-70 148	-54 836	-66 099
<b>Total Accumulated Profits</b>		<b>-70 148</b>	<b>-54 836</b>	<b>-66 099</b>
<b>Total Equity</b>		<b>41 014</b>	<b>56 326</b>	<b>45 062</b>
<b>Liabilities</b>				
Deferred tax		2 220	4 886	2 651
<b>Total deferred tax</b>		<b>2 220</b>	<b>4 886</b>	<b>2 651</b>
<i>Non-current liabilities</i>				
Liabilities to Financial Institutions			6 000	
Bond Loan	3	80 000	80 000	80 000
Other Long Term Liabilities	6	7 500	437	5 718
<b>Total Non-Current Liabilities</b>		<b>87 500</b>	<b>86 437</b>	<b>85 718</b>
<i>Current Liabilities</i>				
Liabilities to Financial Institutions			6 000	
Accounts Payable		1 647	3 951	1 330
Tax payable			415	3
Public Duties Payable		146	143	150
Other Current Liabilities		5 064	7 627	4 055
<b>Total Current Liabilities</b>		<b>6 857</b>	<b>12 136</b>	<b>5 539</b>
<b>Total Liabilities</b>		<b>96 577</b>	<b>103 460</b>	<b>93 908</b>
<b>Total Equity &amp; Liabilities</b>		<b>137 591</b>	<b>159 786</b>	<b>138 971</b>

### 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 DISCLOSURE



### Note 2 - Equity and Shareholders Information

	Share capital	Share premium	Other paid in capital	Other equity	Total
Equity 01.01.21	15 932	94 860	369	-66 099	45 062
Profit/loss in the period				-4 052	-4 052
Adjustment prior periods				3	3
<b>Equity Q1 2021</b>	<b>15 932</b>	<b>94 860</b>	<b>369</b>	<b>-70 148</b>	<b>41 014</b>

#### 10 largest Shareholders as of Q1 2021 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	166 987	0,7 %
Total	21 954 934	
Total number of shares	23 392 317	

## NOTE DISCLOSURE



### Note 3 - Long term liabilities and covenants

#### Bond loan

The Group has a Bond loan as of Q1 2021

Outstanding as of Q1 2021	80 000 000
Maturity date on bond loan	03.06.2022
Repayment during 2021	-

Financial covenants;

- 1 Liquidity – The Group's liquidity should be held at minimum MUSD 5
- 2 Current Ratio – Minimum 1:1
- 3 Asset Coverage Ratio - Market value of the rigs to be minimum 130% of total par value of the outstanding bond.

As of Q1 2021 the Group is compliant with existing covenants.

#### Revolving Credit Facility

The company has an Revolving Credit Facility of MUSD 6 available for working capital and CAPEX upgrade purposes.

### Note 4 - Key figures and ratios

<i>(USD mill)</i>	Q1 2021	YTD 2021	Q1 2020	YTD 2020
Revenue	10,2	10,2	21,0	21,0
Operating profit	-2,7	-2,7	-0,1	-0,1
Net profit before tax	-4,5	-4,5	-2,0	-2,0

	Q1 2021	Q1 2020
Equity to asset ratio	29,8 %	35,3 %
Total number of shares	23 392 317	23 392 317
Earning per share*	-0,17	-0,10

## NOTE DISCLOSURE



### Note 5 - Cash Flow overview

Year to date	Q1 2021	Q1 2020	31.12.2020
Cash from operation	712	6 844	6 143
Cash from investments	-426	-1 502	-2 460
Cash from financing	1 782	5 456	4 737
Change in cash	2 068	10 798	8 420
Cash position opening balance	16 337	7 917	7 917
Cash position closing balance	18 406	18 715	16 337

As of Q1 2021 USD of 759k bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

### Note 6 - 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 MUS\$ 5.5 pursuant to the Paycheck Protection Program which is part of the CARES Act initiatives.

On October 16, 2020, we filed our final application for forgiveness requesting forgiveness of the entire MUS\$ 5.5 based upon the guidelines provided by the governing authorities.

On December 27, 2020, an additional COVID-19 Pandemic Relief Bill was approved. This bill both materially changed existing PPP loans and authorized another round of PPP loans ("second draw PPP loans").

On February 5, 2021, we entered into a second draw PPP loan in the aggregate principal amount of MUS\$ 2.

## NOTE DISCLOSURE



### Note 7 - Impairment

During Q1 2020, the company experienced the effect of COVID-19 and the sudden fall in oil prices, which both was assessed as impairment indicators. Based on this, an impairment calculation was performed, showing no impairment in Q1. In the model, the long term effects of COVID-19 and change in oil prices is reflected as temporary set-backs on day-rates and utilization. Both is expected to gradual recover over the next 3 years, to the same levels used in the impairment model for Q4 2019.

Management has continued to monitor the development in inputs to the impairment model, and has seen these improve slightly quicker than expected, hence no impairment trigger identified as of Q1 2021. The basis for this assessment is increased demand for services in the market and recovery of rig utilization at an earliger stage than expected, thogh at a lower day rate than expected.

There is still significant uncertainty in the marked, especially regaring timing of recovery for the oil marked, hence conclusion relating to impairment can change in the upcoming quarters.

### Note 8 - Subsequent events

On May 11 2021, the first PPP loan of MUSD 5,5 was forgiven in full.

On May 27 2021, the Company entered into a second supplementary agreement on its Revolving Credit Facility of MUSD 6,0.

The second supplementary agreement (i) extends the maturity to the earlier of May 2023 or maturity of the Bond Loan, and (ii) makes the facility available for capital expenditures.