



NorAm Drilling Company

**Interim Report for**  
**NorAm Drilling Company AS**  
**1<sup>st</sup> Quarter 2022**



## Interim Report for NorAm Drilling Company AS 1<sup>st</sup> Quarter 2022

### CONSOLIDATED FINANCIALS:

MUSD	<u>Q1 2022</u>	<u>Q1 2021</u>
Revenue	17.1	10.2
Operating Profit	(2.9)	(2.7)
Net Profit before tax	(4.7)	(2.1)
EBITDA	1.7	1.9

### DRILLING CONTRACT STATUS:

- Rig 21 – on contract pad-pad
- Rig 22 – on contract through July 2022
- Rig 23 – on contract pad-pad
- Rig 25 – on contract through November 2022
- Rig 26 – on contract through September 2022
- Rig 27 – on contract through August 2022
- Rig 28 – on contract through November 2022
- Rig 29 – on contract pad-pad
- Rig 30 – on contract pad-pad
- Rig 32 – on contract pad-pad through September 2022
- Rig 34 – under contract through June 2022

### 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, all eleven (11) of our rigs are under contract 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

As a result of the COVID – 19 pandemic, changes in global oil supplies and demand and the recent Russian invasion of Ukraine, oil prices remain volatile. WTI began 2022 trading in the upper \$70 per barrel range and is currently trading above \$100.00 per barrel.

As of May 20, 2022, the US land drilling active rig count and Permian rig count was 709 and 343, respectively. As of December 31, 2021, the US land drilling active rig count and Permian rig count was 570 and 293, respectively. We currently have all eleven rigs under contract.

## **OPERATIONS**

During Q1 2022, NorAm achieved a 79.3% utilization compared to a 72.2% utilization rate in Q4 2021. In comparison, we achieved a utilization rate of 63.2% and 64.8% in Q2 2021 and Q3 2021, respectively.

Combined with focus on our rig personnel staffing levels and effectively managing our other daily operating costs we were able to manage rig operating costs during Q1 2022 in line with our expectations.

## **FINANCIALS**

NorAm had revenue of MUSD 17.1 during Q1 2022 compared to MUSD 10.2 in Q1 2021. During Q1 2022 we generated an operating loss of MUSD 2.9 compared to an operating loss of MUSD 2.7 in Q1 2021. During Q1 2022 we generated EBITDA of MUSD 1.7 compared to MUSD 1.9 in Q1 2021. The increase in revenue was primarily the result of higher and dayrates. The decrease in operating profit and EBITDA is primarily due to rig reactivation costs incurred on 2 of our rigs and stacking incurred while 2 more of our rigs transitioned to new customers during Q1 2022.

Capital expenditures were MUSD 1.2 in Q1 2022. As of March 31, 2021, our cash position was MUSD 11.6, and we had MUSD 80.0 of outstanding bonds payable to 3<sup>rd</sup> parties. The Company has a Revolving Credit Facility with a maturity date of June 2023 and allows for borrowings for financing capital expenditures. As of Q1 2022, there were no borrowings outstanding under this facility.

On May 16, 2022, the Company and holders of the Bond loan agreed to the following amendments: (i) extend the maturity date from June 3, 2022, to June 3, 2023; (ii) schedule a principal installment of MUSD 5.0 on December 3, 2022; (iii) amend the prepayment structure to allow for partial prepayments at par value at a minimum of MUSD 5.0; and (iv) pay an amendment fee of USD 400,000.

## **CARES ACT**

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The Company secured 2 unsecured loans totaling MUSD 7.5mm pursuant to the Paycheck Protection Program which is part of the CARES Act Initiatives. Both loans were forgiven in full 2021.

As a result of the COVID-19 pandemic, and as part of the Cares act, NorAm Drilling applied for support relating to the Employee Retention Tax Credit (ERTC) which is a payroll credit available from March 12, 2020 through September 30, 2021, for a total amount of approximately MUSD 4.0. The company has not received confirmation that the application is

approved nor received confirmation that they comply with the requirements for receiving the payroll credit. Due to this, there is significant uncertainty if the company will receive any support through this public system, hence no payroll credit has been recognized to date.

## **IMPAIRMENT ON FIXED ASSETS**

Due to the uncertain market conditions, resulting from COVID-19 pandemic and 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. The development in dayrates and rig utilization during 2020 and early 2021 was considered as temporary setbacks, and not permanent changes, hence this is reflected in the company's impairment model

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 that dayrates and utilization have been better than projected, is that there is no need for impairment charges during 2020, 2021 and as of Q1 2022. As of May 20, 2022, all of our rigs were under contract. The timing of our rig reactivations, actual dayrates and margins being earned on current contracts and the near-term outlook as a result of oil prices are all favorable compared to the assumptions used in our impairment analysis. Management and the board of directors will continue to follow the developments in the market closely and assess impairment continuously if expected future market conditions change.

## **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 a 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) Russian invasion of Ukraine, (iii) OPEC+ maintaining and complying with appropriate supply targets, (iv) economic recovery as the COVID - 19 pandemic is mitigated, (v) operating discipline demonstrated by US E&P operators, (vi) availability and costs of labor, equipment and rig supplies and (vii) any possible regulatory changes issued by the new US government.

We expect market conditions to remain volatile in the near term. Subject to key risks and uncertainties mentioned in this report we currently expect continued demand for high end "super spec" drilling rigs. Currently, dayrates for high end "super spec" drilling rigs continue to improve primarily due to the lack of available rig supply, operator and drilling contractor financial discipline and supply chain constraints for both labor and supplies.

# NorAm Drilling Group



## Interim Report as of Q1 2022



NorAm Drilling Company





Group - Income Statement		YTD	YTD	YTD
	Notes	Q1 2022	Q1 2021	31.12.21
<i>(All amounts in USD 1000s)</i>				
<b>Revenue/Expense</b>				
Sales		17 096	10 230	50 382
Other Income				
<b>Total operating income</b>		<b>17 096</b>	<b>10 230</b>	<b>50 382</b>
Payroll Expenses	6	7 108	3 672	19 751
Depreciation of tangible and intangible assets		4 639	4 560	18 307
Rig mobilization, service and supplies		5 824	2 742	16 388
Insurance rigs and employees		887	617	3 959
Other Operating Expenses		1 566	1 314	4 281
<b>Total Operating Expenses</b>		<b>20 024</b>	<b>12 904</b>	<b>62 687</b>
<b>Operating profit (+)/ loss (-)</b>		<b>-2 927</b>	<b>-2 674</b>	<b>-12 305</b>
<b>Financial Income and Expenses</b>				
Other Interest Income				
Other Financial Income		11		49
Other Interest Expenses		1 809	1 803	7 266
Other Financial Expenses		5	6	12
<b>Net Financial Items</b>		<b>-1 803</b>	<b>-1 808</b>	<b>-7 229</b>
<b>Profit (+)/Loss(-) before Income Tax</b>		<b>-4 730</b>	<b>-4 482</b>	<b>-19 534</b>
Income Tax Expense		-425	-430	-699
<b>Net Profit (+)/Loss (-)</b>		<b>-4 305</b>	<b>-4 052</b>	<b>-18 836</b>
<b>EBITDA</b>		<b>1 712</b>	<b>1 886</b>	<b>6 002</b>



Group - Balance sheet USD

	Notes	Q1 2022	Q1 2021	31.12.21
<i>(All amounts in USD 1000s)</i>				
<b>Assets</b>				
<i>Tangible Assets</i>				
Rigs and accessories	7	98 420	112 727	101 918
Vehicles and Office Equipment	7	241	157	170
<b>Total Tangible Assets</b>		<b>98 661</b>	<b>112 885</b>	<b>102 087</b>
<b>Current Assets</b>				
<i>Receivable</i>				
Accounts Receivable		7 486	5 435	6 143
Other Receivable		694	865	1 060
<b>Total Receivable</b>		<b>8 179</b>	<b>6 301</b>	<b>7 203</b>
<i>Cash and cash equivalents</i>				
Bank Deposits/Cash	5	11 596	18 406	12 782
<b>Total Current Assets</b>		<b>19 776</b>	<b>24 706</b>	<b>19 985</b>
<b>Total Assets</b>		<b>118 436</b>	<b>137 591</b>	<b>122 073</b>



Group - Balance sheet USD	Notes	Q1 2022	Q1 2021	31.12.21
<i>(All amounts in USD 1000s)</i>				
<b>Equity</b>				
<i>Owners Equity</i>				
Issued Capital	2	8 839	15 932	8 839
Share Premium	2	94 860	94 860	94 860
Other shareholder contribution	2	369	369	369
<b>Total Owners Equity</b>		<b>104 068</b>	<b>111 162</b>	<b>104 068</b>
<i>Accumulated Profits</i>				
Other Equity	2, 6	-74 647	-70 148	-70 342
<b>Total Accumulated Profits</b>		<b>-74 647</b>	<b>-70 148</b>	<b>-70 342</b>
<b>Total Equity</b>		<b>29 421</b>	<b>41 014</b>	<b>33 727</b>
<b>Liabilities</b>				
Deferred tax		1 539	2 220	1 964
<b>Total deferred tax</b>		<b>1 539</b>	<b>2 220</b>	<b>1 964</b>
<i>Non-current liabilities</i>				
Liabilities to Financial Institutions				0
Bond Loan	3	80 000	80 000	80 000
Other Long Term Liabilities	6		7 500	
<b>Total Non-Current Liabilities</b>		<b>80 000</b>	<b>87 500</b>	<b>80 000</b>
<i>Current Liabilities</i>				
Liabilities to Financial Institutions				
Accounts Payable		2 463	1 647	2 996
Tax payable				
Public Duties Payable		146	146	151
Other Current Liabilities		4 867	5 064	3 236
<b>Total Current Liabilities</b>		<b>7 476</b>	<b>6 857</b>	<b>6 382</b>
<b>Total Liabilities</b>		<b>89 015</b>	<b>96 577</b>	<b>88 346</b>
<b>Total Equity &amp; Liabilities</b>		<b>118 436</b>	<b>137 591</b>	<b>122 073</b>



## 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 DISCLOSURE



### Note 2 - Equity and Shareholders Information

	Share capital	Share premium	Other paid in capital	Other equity	Total
Equity 01.01.22	8 839	94 860	369	-70 342	33 727
Profit/loss in the period				-4 305	-4 305
<b>Equity Q1 2022</b>	<b>8 839</b>	<b>94 860</b>	<b>369</b>	<b>-74 647</b>	<b>29 421</b>

#### 10 largest Shareholders as of Q1 2022 in NorAm Drilling Company AS

Name	# Shares	Share
Geveran Trading Ltd	15 842 707	67,7 %
Pactum AS	2 673 034	11,4 %
Ship Finance International Limited	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 %
Jahrman AS	264 590	1,1 %
The Bank of New York Mellon	235 385	1,0 %
Naeringslivets Hovedorganisasjon	197 301	0,8 %
MMP Invest AS	150 000	0,6 %
Total	21 937 947	93,8 %
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 2022

Outstanding as of Q1 2022	80 000 000
Maturity date on bond loan	03.06.2022
Repayment during 2022	-

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 2022 the Group is compliant with existing covenants.

#### Status on refinancing of bond loan

On 16.05.22, the Company and holders of the Bond loan agreed to the following amendments;

- 1 Extend the maturity date from 03.06.22 og 03.06.23;
- 2 Schedule a principal installment of MUSD 5 on 03.12.22;
- 3 Amend the prepayment structure to allow for partial prepayments at par value at a minimum MUSD 5; and
- 4 Pay an amendment fee of USD 400 000.

#### Revolving Credit Facility

The company has an Revolving Credit Facility, with a maturity of June 2023 of MUSD 6 available for CAPEX upgrade purposes. There were no borrowings outstanding under this facility as of March 2022.

### Note 4 - Key figures and ratios

<i>(USD mill)</i>	Q1 2022	YTD 2022	Q1 2021	YTD 2021
Revenue	17,1	17,1	10,2	10,2
Operating profit	-2,9	-2,9	-2,7	-2,7
Net profit before tax	-4,7	-4,7	-4,5	-4,5

	Q1 2022	Q1 2021
Equity to asset ratio	24,8 %	29,8 %
Total number of shares	23 392 317	23 392 317
Earning per share	-0,18	-0,17

## NOTE DISCLOSURE



### Note 5 - Cash Flow overview

Year to date	Q1 2022	Q1 2021	31.12.2021
Cash from operation	27	712	-1 961
Cash from investments	-1 213	-426	-3 376
Cash from financing		1 782	1 782
Change in cash	-1 186	2 068	-3 555
Cash position opening balance	12 782	16 337	16 337
Cash position closing balance	11 596	18 406	12 782

As of Q1 2022 USD of 759k bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

### Note 6 - Impairment

Global outlooks and a volatile oil price as a result of the COVID-19 pandemics, changes in global oil supplies and demand, and the recent Russian invasion of Ukraine, are assessed as potential impairment indicators. As a result, management has continued to monitor the impairment situation on the Groups assets. In the model used, the long term effects of these incidents is reflected as temporary set-backs on day-rates and utilization. Both are expected to gradual recover over the next 2-3 years back to the levels from impairment models used for Q4 2019, showing no impairment.

Management has continued to monitor the development in inputs to the impairment model through Q1 2022. For Q1 2022, as for the previous reviews, inputs has improve slightly quicker than expected, hence no impairment trigger identified as of March 2022. The basis for this assessment is increased demand for services in the market, recovery of rig utilization at an earlier stage than expected, and dayrates at a higher rate than previously expected.

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

### Note 7 - Investment in subsidiaries

On December 23, 2022, the parent company NorAm Drilling Company AS converted part of its debt against its US Subsidiary NorAm Drilling Comp. The capital increase is done by issuance of 218.000 shares, converted to an amount of USD 51 413 737. This conversion has no effect on the consolidated accounts.