



NorAm Drilling Company

Interim Report for

NorAm Drilling Company AS

2nd Quarter 2019



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CONSOLIDATED FINANCIALS:

MUSD	<u>Q2 2019</u>	<u>1st half 2019</u>	<u>Q2 2018</u>	<u>1st half 2018</u>
Revenue	21.4	41.5	19.5	37.7
Operating Profit	2.6	5.5	1.8	3.0
Net Profit before tax	0.6	1.5	-0.9	-2.1
EBITDA	6.9	13.7	5.5	10.4

DRILLING CONTRACT STATUS:

- Rig 21 – undergoing upgrades and available December 2019
- Rig 22 – on contract through January 2020
- Rig 23 – on contract through February 2020
- Rig 25 – on contract through July 2020
- Rig 26 – on contract through December 2019
- Rig 27 – on contract through January 2020
- Rig 28 – on contract through December 2019
- Rig 29 – on contract through November 2019
- Rig 30 – on a contract through December 2019
- Rig 32 – available
- Rig 34 – on contract through March 2020

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, nine of our eleven rigs, all located in the Permian Basin, are under contract. 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.

On December 6, 2018, the NorAm acquired two (2) land-based AC-driven drilling rigs increasing its fleet to eleven drilling rigs. One rig was placed into service in April 2019 and upgrades on the second rig were completed July 31, 2019 and is being actively marketed for service.

MARKET & ACTIVITIES

US West Texas Intermediate (WTI) crude oil prices started 2019 trading at around \$45.00 per barrel. During 2019, WTI has recovered, reaching a high of \$66.00 in April, subsequent low of \$51.09 in early August and is trading near \$54.00 as of August 23, 2019.

As of August 23, 2019, the US land drilling active rig count has declined 16.0% from December 31, 2018 to 887 active rigs. Rig counts in the Permian Basin, where all of our rigs are currently located, continued to represent the highest share of activity in the US. As of August 23, 2019, the Permian Basin rig count has declined 10.7% from December 31, 2018 to 434 (48.9% of the active US rig count).

Customer sentiment has improved since late December 2018 with the firming of WTI, however, the significant volatility has impacted customers planning in 2019. The total US and Permian Basin rig land counts have declined by 169 and 52 respectively, as of August 23, 2019. The rate of decline in rig counts has been fairly consistent during 2019 as customers are demonstrating a commitment to operate within their budgets and free cash flows. We believe the majority of the decline early in the year related to legacy rigs that do not have the operational efficiencies of the “super spec” high end rigs. More recently, we have observed that “super spec” rig utilization has started to be impacted. Rig demand for “super spec” high end rigs continues at a high rate which we believe that “super spec” utilization is currently between 85-90%.

US crude inventory storage levels and US production continues to remain high. Crude storage and production levels are up by approximately 7.2% and 13.2% respectively, from 1 year ago. US natural gas also has excess supply. With less than 20% of the wells drilled today being gas wells, US natural gas is still not a significant driver in the US land drilling market.

As a result of the year to date declines in US and Permian rig counts, our average base dayrate declined by approximately 9.0% in 2Q 2019 but we continued to achieve full utilization. In the near term, we anticipate dayrates could continue to experience pressure upon contract renewals and marketing available rigs which we currently have 2 as of today.

During 2Q 2019, NorAm achieved a 99.2% utilization on an average fleet of 9.2 rigs compared to a 99.3% utilization rate on an average fleet of 9.0 rigs in 1Q. The utilization rate for 2Q 2019 excluded 67 days for Rig 23 which was undergoing upgrades. We are working principally for US operators with extensive crude oil drilling programs.

OPERATIONS

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 Q2 2019 and in line with our historical performance.

FINANCIALS

NorAm had revenue of MUS\$ 21.4 during 2Q 2019 compared to MUS\$ 19.5 in 2Q 2018. During 2Q 2019 we generated an operating profit of MUS\$ 2.6 compared to an operating profit of MUS\$ 1.8 in 2Q 2018. The improvement in operating profit was primarily the result of the higher average day rates. During 2Q 2019 we generated an EBITDA of MUS\$ 6.9 compared to MUS\$ 5.5 in 2Q 2018. Increased EBITDA in 2019 was a result of higher dayrates.

During the first six months of 2019, NorAm had revenue and EBITDA of MUS\$ 41.5 and 13.7, respectively, compared to \$37.7 and 10.4 during the first six months of 2018.

Capital expenditures were MUS\$ 3.5 in 2Q 2019 and 10.0 in the first six months of 2019, primarily attributable to upgrades of rigs purchased in late 2018. As of June 30, 2019, our cash position was MUS\$ 8.1. As of June 30, 2019, we had MUS\$ 85.0 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. To date, the Company has not made any requests for borrowings in connection with this facility.

OUTLOOK

Currently, nine of our eleven rigs are contracted, one rig is undergoing upgrades and will be available in December 2019 and one rig is currently available for service. All eleven rigs are located in the Permian Basin. Despite the recent volatility in oil prices, we expect that demand for “super spec” land rigs to remain relatively stable throughout 2019, especially in the Permian Basin. However, any further significant volatility in WTI oil prices, could have an adverse effect on the demand.



Group - Income Statement	YTD	YTD	YTD	Q2	Q2
	30.06.19	30.06.18	31.12.18	2019	2018
<i>(All amounts in USD 1000s)</i>					
Revenue/Expense					
Sales	41,496	37,693	79,789	21,422	19,450
Other Income					
Total operating income	41,496	37,693	79,789	21,422	19,450
Payroll Expenses	13,581	13,509	27,565	6,957	7,234
Depreciation/Amortization	8,153	7,419	15,041	4,278	3,731
Rig mobilization, service and supplies	8,105	7,343	15,875	4,188	3,803
Insurance rigs and employees	1,735	2,307	4,296	938	1,236
Other Operating Expenses	4,404	4,127	8,753	2,465	1,661
Total Operating Expenses	35,978	34,705	71,529	18,826	17,665
Operating profit (+)/ loss (-)	5,518	2,988	8,260	2,596	1,785
Financial Income and Expenses					
Other Interest Income	1		1	1	
Other Financial Income	225	8	395	19	1
Other Interest Expenses	4,075	4,380	8,640	2,034	2,190
Other Financial Expenses	211	733	2,622	15	472
Net Financial Items	-4,059	-5,104	-10,865	-2,029	-2,660
Profit (+)/Loss(-) before Income Tax	1,459	-2,116	-2,605	567	-875
Income Tax Expense	581	377	1,692	271	150
Net Profit (+)/Loss (-)	877	-2,493	-4,297	297	-1,025
EBITDA	13,671	10,407	23,302	6,875	5,516



Group - Balance Sheet	30.06.19	30.06.18	31.12.18
<i>(All amounts in USD 1000s)</i>			
Assets			
<i>Tangible Assets</i>			
Rigs and accessories	137,657	123,991	135,802
Vehicles and Office Equipment	542	472	539
Total Tangible Assets	138,199	124,462	136,340
Current Assets			
<i>Receivable</i>			
Accounts Receivable	11,952	10,396	11,365
Other Receivable	2,288	2,412	1,489
Total Receivable	14,240	12,808	12,854
<i>Cash and cash equivalents</i>			
Bank Deposits/Cash	8,066	9,785	13,473
Total Current Assets	22,306	22,593	26,326
Total Assets	160,505	147,055	162,667
Equity			
<i>Owners Equity</i>			
Issued Capital	15,932	13,590	15,932
Share Premium	94,837	74,327	94,860
Other shareholder contribution	369	369	369
Total Owners Equity	111,138	88,286	111,162
<i>Accumulated Profits</i>			
Other Equity	-49,313	-48,395	-50,199
Total Accumulated Profits	-49,313	-48,395	-50,199
Total Equity	61,825	39,890	60,962
Liabilities			
Deferred tax	4,163	2,174	3,581
Total deferred tax	4,163	2,174	3,581
<i>Non-Current Liabilities</i>			
Liabilities to Financial Institutions	85,000	97,000	90,000
Other Long Term Liabilities	1,575	1,368	812
Total Non-Current Liabilities	86,575	98,368	90,812
<i>Current Liabilities</i>			
Accounts Payable	2,299	803	1,964
Public Duties Payable	131	134	151
Other Current Liabilities	5,513	5,686	5,196
Total Current Liabilities	7,943	6,623	7,311
Total Liabilities	98,680	107,165	101,704
Total Equity & Liabilities	160,505	147,055	162,667

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 01.01.19	15,932,262	94,860,376	369,053	-50,199,249	60,962,442
Profit/loss in the period	-	-	-	877,137	877,137
Adjustment prior periods	-	-23,729	-	9,005	-14,724
Stock option	-	-	-	-	-
Issued Capital	-	-	-	-	-
Equity as of Q2 2019	15,932,262	94,836,647	369,053	-49,313,106	61,824,856

10 largest Shareholders as of 30.06.19 in NorAm Drilling Company AS

Name	# Shares	Share
Geveran Trading Co Ltg	15,842,707	67.7 %
Pactum AS	2,673,034	11.4 %
Ship Finance International	1,266,225	5.4 %
Camaca AS	537,112	2.3 %
Thabo Energy AS	450,000	1.9 %
Øgelend Eiendom AS	321,593	1.4 %
Jahrman AS	264,590	1.1 %
Robert Wood Johnsen The bank og New York	235,385	1.0 %
NHO - P665AK JP Morgan Chase Bank	197,301	0.8 %
Damima Invest AS	163,142	0.7 %
Total	21,951,089	
Total number of shares	23,392,317	

Note 3 - Long term liabilities and covenants

The Group has a Bond loan as of 30.06.19

Outstanding as of 30.06.19	85,000,000
Maturity date on bond loan	6/3/21
Repayment during 2019	10,000,000

The Bond Loan includes several financial covenants, including

- Equity Ratio > 30% for period up to 31.12.19 and > 35% for remaining period
- Liquidity – The Group's liquidity should be held at MUSD 5 for period up to 31.12.19 and thereafter MUSD 10 for the reminding period
- Current Ratio – Minimum 1:1
- Asset Coverage Ratio - The Issuer shall ensure that the sum of the Account Amount and the Market Value of the Rigs at any time is minimum 130% of the total par value of the Outstanding Bonds.

Note 4 - Key Ratios

	YTD		
	30.06.19	30.06.18	31/12/18
Equity to asset ratio	39%	27%	37%
Total number of shares	23,392,317	23,392,317	23,392,317
Earning per share*	0.04	-0.01	-0.02

* Total number of shares was changed during 2018 due to the following;

- Share consolidation 01.11.18, reducing number of shares in a ratio of 20:1
- Capital increase 29.11.18, increasing number of shares with 9 750 000
- Capital increase 06.12.18 increasing number of shares with 250 000

Note 5 - Cash Flow overview

	YTD		
	30.06.19	30.06.18	31/12/18
Cash from operation	8,842,763	3,097,014	11,134,323
Cash from investments	-10,011,726	-1,684,445	-21,184,328
Cash from financing	-4,237,357	604,405	15,754,972
Change in cash	-5,406,320	2,016,974	5,704,968
Cash position opening balance	13,472,573	7,767,605	7,767,605
Cash position closing balance	8,066,253	9,784,578	13,472,572

As of 30.06.19, USD 825 467 of bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.