



Interim Report for
NorAm Drilling Company AS
2nd Quarter 2022



**Interim Report for NorAm Drilling Company AS
2nd Quarter 2022**

QUARTERLY HIGHLIGHTS

- Revenue increased to \$22.3 million or 30.4% compared to the first quarter of 2022
- EBITDA increased to \$4.1 million, or 228% compared to the first quarter of 2022
- Fleet utilization increased to 95% compared to 79% in the first quarter 2022
- Average base dayrate increased 8.5% compared to the first quarter 2022
- Current revenue backlog of \$50 million

CONSOLIDATED FINANCIALS:

MUSD	<u>Q1 2022</u>	<u>1st half 2022</u>	<u>Q2 2021</u>	<u>1st half 2021</u>
Revenue	22.3	39.4	12.5	22.7
Operating Profit	(0.6)	(3.5)	(2.8)	(5.5)
Net Profit before tax	(2.4)	(7.2)	(4.6)	(9.1)
EBITDA	4.1	5.9	1.7	3.6

DRILLING CONTRACT STATUS:

	<u>3Q 2022</u>	<u>4Q 2022</u>	<u>1Q 2023</u>
# of contracted days	1,012	783	380
Average base contracted dayrate	\$24,880	\$27,284	\$30,167

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 Russian invasion of Ukraine, oil prices remain volatile. WTI began 2022 trading in the upper \$70 per barrel range and is currently trading above \$90 per barrel.

As of August 19, 2022, the US land drilling active rig count and Permian rig count was 741 and 345, respectively. As of December 31, 2021, the US land drilling active rig count and Permian rig count was 570 and 293, respectively.

OPERATIONS

During Q2 2022, NorAm achieved a 94.8% utilization compared to 79.3% utilization in Q1 2022. In comparison, we achieved a utilization rate of 50.7% in Q1 2021.

Rig operating costs were in line with expectations during the first six months of 2022 with strong focus on rig personnel staffing levels and management of other daily operating costs.

FINANCIALS

NorAm had revenue of MUSD 22.3 during 2Q 2022 compared to MUSD 12.5 in 2Q 2021. We generated an operating loss of MUSD 0.6 compared to an operating loss of MUSD 2.8 in 2Q 2021. The increase in revenue was the result of higher utilization and dayrates. Moreover, we generated an EBITDA of MUSD 4.1 compared to MUSD 1.7 in 2Q 2021. The increase in operating profit and EBITDA is due to higher utilization and dayrates.

NorAm had revenue of MUSD 39.4 during the first half of 2022 compared to MUSD 22.7 during the first half of 2021. During the first half of 2022 we generated an operating loss of MUSD 3.5 compared to an operating loss of MUSD 5.5 in the first half of 2021. During the first half of 2022 we generated an EBITDA of MUSD 5.9 compared to MUSD 3.6 in the first half of 2021. The increase in operating profit and EBITDA is primarily due to higher utilization and dayrates.

Capital expenditures were MUS\$ 1.9 in the first half of 2022, including MUS\$ 0.7 in 2Q 2022. As of June 30, 2022, our cash position was MUS\$ 10.4, and we had MUS\$ 80.0 of outstanding bonds. The Company has a Revolving Credit Facility with a maturity date of June 2023 and allows for borrowings for financing capital expenditures. As of June 30, 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 MUS\$ 5.0 on December 3, 2022; (iii) amend the prepayment structure to allow for partial prepayments at par value at a minimum of MUS\$ 5.0; and (iv) pay an amendment fee of USD 400,000.

CARES ACT

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 MUS\$ 4.0. The company received approximately MUS\$ 1.0 in 2Q 2022. The Company has not received confirmation that the remaining applications for MUS\$ 3.0 have been 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 for the MUS\$ 3.0 to date.

CAPITAL EXPENDITURES AND FIXED ASSETS

Management has continued monitor the carrying values for our assets through the date of this report. The setback in dayrates and rig utilization during 2020 and early 2021 were considered temporary setbacks, not permanent changes. Due to the subsequent significant improvement in utilization and dayrates, management has not identified any impairment triggers as of the date of this report, hence no impairment test has been performed.

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.

Subject to key risks and uncertainties mentioned in this report, we currently expect continued demand for high end “super spec” drilling rigs. Subsequent to June 30, 2022, dayrates for high end “super spec” drilling rigs have continued 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. Subsequent to June 30, 2022, we have signed 5 contracts with an average dayrate that is 33.1% higher than the average rate earned during the second quarter. As a result, NorAm expects its revenue and EBITDA will continue to improve in the remaining six months of 2022 compared to the first half of 2022.

NORAM **DRILLING**



Interim Report **First half and Q2, 2022**

Group - Income Statement	Notes	First half		Quarters	
		2022	2021	Q2 2022	Q2 2021
<i>(All amounts in USD 1000s)</i>					
Revenue/Expense					
Sales		39 370	22 697	22 274	12 466
Other Income					
Total operating income		39 370	22 697	22 274	12 466
Payroll Expenses		13 946	8 251	6 838	4 579
Depreciation of tangible and intangible assets		9 340	9 124	4 700	4 564
Rig mobilization, service and supplies		12 615	6 658	6 791	3 916
Insurance rigs and employees		2 465	1 398	1 579	781
Other Operating Expenses		4 483	2 756	2 917	1 442
Total Operating Expenses		42 848	28 187	22 825	15 282
Operating profit (+)/ loss (-)		-3 478	-5 490	-551	-2 816
Financial Income and Expenses					
Other Interest Income		3		3	
Other Financial Income		11	3		2
Other Interest Expenses		3 600	3 608	1 791	1 805
Other Financial Expenses		72	9	67	3
Net Financial Items		-3 658	-3 614	-1 855	-1 806
Profit (+)/Loss(-) before Income Tax		-7 136	-9 104	-2 406	-4 622
Income Tax Expense		724	-859	1 148	-429
Net Profit (+)/Loss (-)		-7 860	-8 245	-3 554	-4 192
EBITDA		5 861	3 634	4 149	1 748

Group - Balance sheet		First half	
	Notes	2022	2021
<i>(All amounts in USD 1000s)</i>			
Assets			
<i>Tangible Assets</i>			
Rigs and accessories	6	94 375	108 748
Vehicles and Office Equipment	6	312	114
Total Tangible Assets		94 687	108 862
 <i>Current Assets</i>			
<i>Receivable</i>			
Accounts Receivable		9 395	4 627
Other Receivable		1 748	1 745
Total Receivable		11 144	6 372
 <i>Cash and cash equivalents</i>			
Bank Deposits/Cash	5	10 449	17 648
Total Current Assets		21 592	24 020
Total Assets		116 279	132 882

Group - Balance sheet	Notes	First half	
		2022	2021
<i>(All amounts in USD 1000s)</i>			
Equity			
<i>Owners Equity</i>			
Issued Capital	2	8 839	15 932
Share Premium	2	94 860	94 860
Other shareholder contribution	2	369	369
Total Owners Equity		104 068	111 162
<i>Accumulated Profits</i>			
Other Equity	2	-78 199	-68 844
Total Accumulated Profits		-78 199	-68 844
Total Equity		25 869	42 318
Liabilities			
Deferred tax		2 685	1 791
Total deferred tax		2 685	1 791
<i>Non-current liabilities</i>			
Liabilities to Financial Institutions			
Bond Loan	3		80 000
Other Long Term Liabilities			2 000
Total Non-Current Liabilities			82 000
<i>Current Liabilities</i>			
Boand loan	3	80 000	
Liabilities to Financial Institutions			
Accounts Payable		2 509	2 336
Tax payable			
Public Duties Payable		149	150
Other Current Liabilities		5 066	4 288
Total Current Liabilities		87 724	6 774
Total Liabilities		90 410	90 565
Total Equity & Liabilities		116 279	132 882

Group - Statement of Cash Flow	First half	
	2022	2021
<i>(All amounts in USD 1000s)</i>		
Pre-tax profit/loss	-7 136	-9 104
Tax paid for the period	-	-
Depreciation of fixed assets	9 340	9 124
Change in accounts receivable	-3 252	-204
Change in accounts payable	-487	1 006
Change in other current balance sheet items	1 141	-325
Net cash flow from operational activities	-394	497
Purchase of tangible fixed assets	-1 939	-967
Net cash flow from investing activities	-1 939	-967
Proceeds from issuance of long term debt	-	-3 718
Downpayments of long term debt	-	-
Net cash flow from financing activities	-	-3 718
Net change in cash and cash equivalent	-2 333	-4 189
Cash and cash equivalents opening balance	12 782	21 837
Cash and cash equivalents closing balance	10 449	17 648

NOTE DISCLOSURE



Note 1 - Accounting Principles

The interim report is based on management reporting, and is prepared in accordance with NRS 11.

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 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.

1-2 Audit of management reporting/interim reporting

The interim financials are unaudited.

Definitions

EBITDA - Earning Before Interest, Tax, Depreciation and Amortization

Note 2 - Equity and Shareholders Information

	Share capital	Share premium	Other paid in capital	Other equity	Total
Equity 01.01.22					
Profit/loss in the period				-7 860	-7 860
Equity 30.06.22				-7 861	-7 861

NOTE DISCLOSURE



Note 3 - Long term liabilities and covenants

Bond loan

The Group has a Bond loan as of 6 months ending 30.06.22

Outstanding as of 30.06.22	80 000 000
Maturity date on bond loan	03.06.2022
Payment during 2022 on bond loan as of 30.06.22	-

Due to the maturity date on the bond loan, it is classified as current liability as of 30.06.22.

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.

** In the definition of current ratio, the current part of the bond loan is excluded from the definition of current liability.*

As of Q2 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 to 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 June 2022.

Note 4 - Key figures and ratios

(USD mill)	Quarters		First half	
	2022	2021	2022	2021
Revenue	22,3	12,5	39,4	22,7
Operating profit	-0,6	-2,8	-3,5	-5,5
Net profit before tax	-2,4	-4,6	-7,1	-9,1
	First half			
	2022	2021		
Equity to asset ratio	22,2 %	31,8 %		
Total number of shares	23 392 317	23 392 317		
Earning per share	-0,34	-0,35		

NOTE DISCLOSURE



Note 5 - Bank

As of 30.06.22 USD 759k of bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

Note 6 - Impairment

As a result of the COVID-19 pandemic, changes in global oil supplies and demand, and the Russian invasion of Ukraine, oil prices remain volatile. This has throughout 2022 been assessed as impairment indicators. Due to the significant improvement in utilization and dayrates, management has not identified any impairment triggers as of the date of this report, hence no impairment test has been performed.

Management expect continued demand for high end "super spec" drilling rigs, and the company has improved dayrates significantly after June 30, 2022. NorAm expects its revenue and EBITDA to continue to improve in the remaining six months of 2022 compared to the first half of 2022.