NorAm Drilling Company

Interim Report for

NorAm Drilling Company AS

3rd Quarter 2019

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CONSOLIDATED FINANCIALS:

MUSD	Q3 2019	YTD 2019	Q3 2018	YTD 2018
Revenue	20.2	61.7	21.1	58.8
Operating Profit	1.3	6.8	2.7	5.7
Net Profit before tax	-0.6	0.8	0.1	-2.0
EBITDA	5.8	19.5	6.5	16.9

DRILLING CONTRACT STATUS:

- Rig 21 – scheduled to commence contract in December 2019 through November 2020
- 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 May 2020
- Rig 30 – on contract through December 2019
- Rig 32 – on contract through December 2019
- 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, ten of our eleven rigs, all located in the Permian Basin, are operating and under contract. The remaining rig is scheduled to commence operations in December 2019 under a term contract through November 2020. 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, 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 the second rig commenced operations in October 2019.

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 $58.00 as of November 22, 2019.

As of November 22, 2019, the US land drilling active rig count has declined 26.0% from December 31, 2018 to 781 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 November 22, 2019, the Permian Basin rig count has declined 16.7% from December 31, 2018 to 405 (51.9% 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 during the last six months of 2019. The total US and Permian Basin rig land counts have declined by 275 and 81 respectively, as of November 22, 2019. The rate of decline in US rig counts has been fairly consistent during 2019 as customers are demonstrating a commitment to operate within their budgets and free cash flows. Until mid-September 2019, the Permian rig counts have declined fairly consistently as well however not at the same pace of the US rig counts. We believe the majority of the rig 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 negatively impacted. Although "super spec" rig demand continues at a high rate we believe that "super spec" utilization has declined from above 90% at the beginning of the year and is currently between 80-85%.

US crude inventory storage levels and US production continues to remain high. Crude storage and production levels are up by approximately 0.8% and 9.8% 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 contracted base dayrate declined by approximately 2.2% in 3Q 2019. In the near term, we anticipate dayrates could continue to experience pressure upon contract renewals and marketing of any rigs that may become available after completion of current contracts.

During 3Q 2019, NorAm achieved a 93.0% utilization on an average fleet of 9.9 rigs compared to a 99.2% utilization rate on an average fleet of 9.2 rigs in 2Q. The utilization rate for 3Q 2019 excluded 102 days for Rig 21 and 23 upgrades. The utilization rate for 2Q 2019 excluded 67 days for Rig 32 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 Q3 2019 and in line with our historical performance.

FINANCIALS

NorAm had revenue of MUSD 20.2 during 3Q 2019 compared to MUSD 21.1 in 3Q 2018. During 3Q 2019 we generated an operating profit of MUSD 1.3 compared to an operating profit of MUSD 2.7 in 3Q 2018. The decline in operating profit was primarily the result of the lower average day rates. During 3Q 2019 we generated an EBITDA of MUSD 5.8 compared to MUSD 6.5 in 3Q 2018. Decreased EBITDA in 2019 was a result of lower dayrates.

During the first nine months of 2019, NorAm had revenue and EBITDA of MUSD 61.7 and 19.5, respectively, compared to $58.8 and 16.9 during the first nine months of 2018.

Capital expenditures were MUSD 1.6 in 3Q 2019 and 11.6 in the first nine months of 2019, primarily attributable to upgrades of rigs purchased in late 2018. As of September 30, 2019, our cash position was MUSD 13.4. As of September 30, 2019, we had MUSD 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, all of our eleven rigs are contracted, ten of the eleven rigs are currently operating. The remaining rig is scheduled to commence operations in December 2019 under a term contract through November 2020. 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 during the first half of 2020, especially in the Permian Basin. However, any further significant volatility in WTI oil prices, could have an adverse effect on the demand.

NorAm Drilling Company

Unaudited

Group - Income Statement	YTD 30.09.19	YTD 30.09.18	YTD 31.12.18	Q3 2019	Q3 2018
(All amounts in USD 1000s)					
Revenue/Expense					
Sales	61,677	58,826	79,789	20,181	21,133
Other Income					
Total operating income	**61,677**	**58,826**	**79,789**	**20,181**	**21,133**
Payroll Expenses	20,372	20,803	27,565	6,790	7,294
Depreciation/Amortization	12,681	11,175	15,041	4,528	3,756
Rig mobilization, service and supplies	12,779	11,170	15,875	4,674	3,827
Insurance rigs and employees	2,785	3,306	4,296	1,050	999
Other Operating Expenses	6,227	6,688	8,753	1,823	2,560
Total Operating Expenses	**54,843**	**53,142**	**71,529**	**18,865**	**18,437**
Operating profit (+)/ loss (-)	**6,834**	**5,685**	**8,260**	**1,316**	**2,697**
Financial Income and Expenses					
Other Interest Income	22		1	22	
Other Financial Income	239	10	395	14	2
Other Interest Expenses	6,284	6,549	8,640	2,209	2,170
Other Financial Expenses		1,108	2,622	-211	375
Net Financial Items	**-6,022**	**-7,647**	**-10,865**	**-1,963**	**-2,543**
Profit (+)/Loss(-) before Income Tax	**811**	**-1,962**	**-2,605**	**-647**	**154**
Income Tax Expense	893	601	1,692	312	223
Net Profit (+)/Loss (-)	**-82**	**-2,563**	**-4,297**	**-959**	**-70**

NorAm Drilling Company

Unaudited

Group - Balance sheet USD	30.09.19	30.09.18	31.12.18
(All amounts in USD 1000s)			
Assets			
Tangible Assets			
Rigs and accessories	134,764	120,432	135,802
Vehicles and Office Equipment	523	529	539
Total Tangible Assets	**135,287**	**120,961**	**136,340**
Current Assets			
Receivable			
Accounts Receivable	10,666	10,273	11,365
Other Receivable	1,676	1,747	1,489
Total Receivable	**12,342**	**12,020**	**12,854**
Cash and cash equivalents			
Bank Deposits/Cash	13,350	14,312	13,473
Total Current Assets	**25,692**	**26,332**	**26,326**
Total Assets	**160,980**	**147,293**	**162,667**
Equity			
Owners Equity			
Issued Capital	15,932	13,590	15,932
Share Premium	94,860	74,327	94,860
Other shareholder contribution	369	369	369
Total Owners Equity	**111,162**	**88,286**	**111,162**
Accumulated Profits			
Other Equity	-50,272	-48,465	-50,199
Total Accumulated Profits	**-50,272**	**-48,465**	**-50,199**
Total Equity	**60,890**	**39,821**	**60,962**
Liabilities			
Deferred tax	4,469	2,397	3,581
Total deferred tax	**4,469**	**2,397**	**3,581**
Non-Current Liabilities			
Liabilities to Financial Institutions	85,000	95,000	90,000
Other Long Term Liabilities	1,055	915	812
Total Non-Current Liabilities	**86,055**	**95,915**	**90,812**
Current Liabilities			
Accounts Payable	1,797	1,222	1,964
Public Duties Payable	144	138	151
Other Current Liabilities	7,625	7,799	5,196
Total Current Liabilities	**9,566**	**9,160**	**7,311**
Total Liabilities	**100,090**	**107,472**	**101,704**
Total Equity & Liabilities	**160,980**	**147,293**	**162,667**

NOTE DISCLOSURE

NorAm Drilling Company

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 comprehensiv description of accounting principles, we therefore refer to the last issed 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 simplyfied 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	-	-	-	-81,759	-81,759
Adjustment prior periods		-	-	9,005	9,005
Stock option	-	-	-	-	-
Issued Capital	-	-	-	-	-
Equity as of Q2 2019	**15,932,262**	**94,860,376**	**369,053**	**-50,272,003**	**60,889,688**

10 largest Shareholders as of 30.09.19 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 %
Cameca AS	537,112	2.3 %
Thabo Energy AS	450,000	1.9 %
Øgelend Eiendom AS	321,593	1.4 %
Jahrmann AS	264,590	1.1 %
Robert Wood Johnson Foundation	235,385	1.0 %
JP Morgan Chase Bank	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 30.09.19

Outstanding as of 30.09.19	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.

As of 30.09.19 the Group is compliant with existing covenants.

Note 4 - Key Ratios

	30.09.19	30.09.18	12/31/18
Equity to asset ratio	38%	27%	37%
Total number of shares	23,392,317	267,846,340	23,392,317
Earning per share*	-0.00	-0.01	-0.11

* 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

	30.09.19	30.09.18	31.12.2018
Cash from operation	16,261,996	10,331,538	11,134,323
Cash from investments	-11,627,951	-1,938,845	-21,184,328
Cash from financing	-4,756,489	-1,848,220	15,754,972
Change in cash	-122,444	6,544,473	5,704,968
Cash position opening balance	13,472,573	7,767,605	7,767,605
Cash position closing balance	13,350,129	14,312,079	13,472,572

As of 30.09.19, USD 5 847 029 of bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.