



NorAm Drilling Company

Interim Report for
NorAm Drilling Company AS
3rd Quarter 2020



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CONSOLIDATED FINANCIALS:

MUSD	<u>Q3 2020</u>	<u>YTD 2020</u>	<u>Q3 2019</u>	<u>YTD 2019</u>
Revenue	8.9	45.0	20.2	61.7
Operating Profit	(3.1)	(5.5)	1.3	6.8
Net Profit before tax	(5.6)	(12.4)	(1.0)	(0.1)
EBITDA	1.4	7.9	5.8	19.5

DRILLING CONTRACT STATUS:

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

Oil prices remain extremely volatile, as the closing price of US West Texas Intermediate (WTI) crude reached a first quarter 2020 high of \$63.27 per barrel on January 6, 2020 and a low of negative \$37.63 per barrel on April 20, 2020. WTI has increased steadily since late April and remained relatively stable near \$40 since early June 2020. WTI closed at \$42.15 on November 20, 2020.

As of November 20, 2020, the US land drilling active rig count has declined 62.1% since December 31, 2019 to 296 active rigs. Rig counts in the Permian Basin, where all of our rigs are currently located, have declined 61.5%% since December 31, 2019 to 156 active rigs as of November 20, 2020. As of November 20, 2020, the Permian Basin rig count represented 52.7% of the total US land drilling active rig count.

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. We currently have five rigs under contract including one that is on a pad-pad contract and another rig is scheduled to expire in January 2021.

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 3rd party partners. Among other initiated steps, we introduced (i) daily meetings for education and awareness of COVID – 19 symptoms, (ii) implemented extra cleaning measures of common areas, (iii) taking, monitoring and reporting temperatures and (iv) provide additional supplies for the practice of good hygiene. 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, 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 one of our stacked rigs in October 2020 in line with our expectations.

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 MUSD 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 MUSD 5.5 based upon the guidelines provided by the governing authorities. Our final application is subject to audit and currently under review.

BOND AMEDMENT

On November 24, 2020, a bondholders' meeting was held and the following was approved: (i) the principal installment scheduled for December 3, 2020 was waived; (ii) the maturity date was extended to June 3, 2022 and (iii) an amendment fee of \$400,000 will be paid to the bondholders' within 10 business days of the meeting. No principal payments are due and the outstanding balance of MUSD 80.0 is due on June 3, 2022.

OPERATIONS

During 3Q 2020, NorAm achieved a 36.2% utilization on an average available fleet of 11.0 rigs compared to a 64.7% utilization rate on an average available fleet of 11.0 rigs in 2Q 2020. In comparison, we achieved a utilization rate of 97.4% on an average available fleet of 10.2 rigs in 4Q 2019.

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 2Q and 3Q 2020.

FINANCIALS

NorAm had revenue of MUSD 8.9 during 3Q 2020 compared to MUSD 20.2 in 3Q 2019. During 3Q 2020 we generated an operating profit of MUSD (3.1) compared to an operating profit of MUSD 1.3 in 3Q 2019. The decline in revenue and operating profit was primarily the result of the lower utilization. During 3Q 2020 we generated an EBITDA of MUSD 1.4 compared to MUSD 5.8 in 3Q 2019.

NorAm had revenue of MUSD 45.0 during the first nine months of 2020 compared to MUSD 61.7 during the first nine months of 2019. During the first nine months of 2020 we generated an operating loss of MUSD 5.5 compared to an operating profit of MUSD 6.8 in the first nine months of 2019. During the first nine months of 2020 we generated an EBITDA of MUSD 7.9 compared to MUSD 19.5 in the first nine months of 2019.

Capital expenditures were MUSD 0.1 in 1Q 2020 and MUSD 2.3 in the first nine months of 2020. As of September 30, 2020, our cash position was MUSD 18.1 and we had MUSD 80.0 of outstanding bonds payable to 3rd 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. In the first quarter of 2020 we borrowed MUSD 6.0 in connection with this facility. In the third quarter of 2020 we have repaid the facility in full and currently have MUSD 6.0 available to us under this facility.

As mentioned above, 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.

On October 16, 2020, we filed our final application for forgiveness requesting forgiveness of the entire MUSD 5.5 based upon the guidelines provided by the governing authorities. Our final application is subject to audit and currently under review.

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 Q3 2020. 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

Given the recent significant volatility in oil prices and customers releasing most of the US onshore drilling rigs since late March 2020 we cannot reasonably predict when the market will bottom, when a recovery will commence and to what extent any recovery may occur. We expect that demand for “super spec” land rigs to continue for any required level of activity and such demand for “super spec” rigs should increase as any recovery of market conditions will benefit from the efficient and effective capabilities of the “super spec” rigs. However, any further significant volatility in WTI oil prices, could have an adverse effect on the demand for US drilling rigs.



NorAm Drilling Company



Interim Report as of Q3 2020

Report for NorAm Drilling Group



Group - Income Statement	YTD			YTD	
	Q3 2020	Q3 2019	31.12.2019	Q3 2020	Q3 2019
<i>(All amounts in USD 1000s)</i>					
Revenue/Expense					
Sales	45 012	61 677	82 382	8 927	20 181
Other Income					
Total operating income	45 012	61 677	82 382	8 927	20 181
Payroll Expenses	15 390	20 372	27 298	3 073	6 790
Depreciation of tangible and intangible assets	13 465	12 681	17 214	4 552	4 528
Rig mobilization, service and supplies	12 625	12 779	18 898	2 183	4 674
Insurance rigs and employees	2 773	2 785	3 975	945	1 050
Other Operating Expenses	6 287	6 227	8 132	1 280	1 823
Total Operating Expenses	50 540	54 843	75 516	12 032	18 865
Operating profit (+)/ loss (-)	-5 527	6 834	6 865	-3 105	1 316
Financial Income and Expenses					
Other Interest Income	6	22	49		22
Other Financial Income	25	239	259	12	14
Other Interest Expenses	5 604	6 284	8 163	1 870	2 209
Other Financial Expenses	379		-2	377	-211
Net Financial Items	-5 952	-6 022	-7 852	-2 235	-1 963
Profit (+)/Loss(-) before Income Tax	-11 480	811	-987	-5 340	-647
Income Tax Expense	884	893	1 209	295	312
Net Profit (+)/Loss (-)	-12 363	-82	-2 196	-5 635	-959
EBITDA	7 937	19 515	24 079	1 447	5 844



Group - Balance sheet USD				
	Notes	Q3 2020	Q3 2019	31.12.19
<i>(All amounts in USD 1000s)</i>				
Assets				
<i>Tangible Assets</i>				
Rigs and accessories	7	121 182	134 764	132 118
Vehicles and Office Equipment	7	278	523	482
Total Tangible Assets		121 460	135 287	132 600
Current Assets				
<i>Receivable</i>				
Accounts Receivable		4 388	10 666	14 007
Other Receivable		753	1 676	1 627
Total Receivable		5 141	12 342	15 634
<i>Cash and cash equivalents</i>				
Bank Deposits/Cash	5	18 135	13 350	7 917
Total Current Assets		23 276	25 692	23 551
Total Assets		144 735	160 980	156 151



Group - Balance sheet USD				
	Notes	Q3 2020	Q3 2019	31.12.19
<i>(All amounts in USD 1000s)</i>				
Equity				
<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
Total Owners Equity		111 162	111 162	111 162
<i>Accumulated Profits</i>				
Other Equity	2	-64 883	-50 272	-52 520
Total Accumulated Profits		-64 883	-50 272	-52 520
Total Equity		46 278	60 890	58 641
Liabilities				
Deferred tax		5 505	4 469	4 576
Total deferred tax		5 505	4 469	4 576
<i>Non-current liabilities</i>				
Liabilities to Financial Institutions				
Bond Loan	3	80 000	85 000	80 000
Other Long Term Liabilities	6	5 987	1 055	981
Total Non-Current Liabilities		85 987	86 055	80 981
<i>Current Liabilities</i>				
Liabilities to Financial Institutions				
Accounts Payable		942	1 797	6 703
Tax payable		415		415
Public Duties Payable		144	144	150
Other Current Liabilities		5 464	7 625	4 660
Total Current Liabilities		6 965	9 566	11 953
Total Liabilities		98 457	100 090	97 509
Total Equity & Liabilities		144 735	160 980	156 151

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 01.01.20	15 932	94 860	369	-52 520	58 642
Profit/loss in the period				-12 363	-12 363
Adjustment prior periods					
Stock option					
Issued Capital					
Equity Q3 2020	15 932	94 860	369	-64 883	46 278

10 largest Shareholders as of Q3 2020 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 %
Jahrman AS	264 590	1,1 %
Robert Wood Johnson Foundation	235 385	1,0 %
Naeringslivets Hovedorganisasjon	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

Bond loan

The Group has a Bond loan as of 31.09.20

Outstanding as of Q3 2020	80 000 000
Maturity date on bond loan	03.06.2021
Repayment during 2020	5 000 000

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.

A bondholder's meeting held on May 8th, 2020, waiving the June 2020 installment of MUSD 5, and the equity covenant through out the maturity date of the bond loan.

An amendment fee of \$ 250,000 was paid to the bondholders.

As of Q3 2020 the Group is compliant with existing covenants.

NOTE DISCLOSURE



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>	Q3 2020	YTD	Q3 2020	YTD
	2020	2020	2019	2019
Revenue	8,9	45,0	20,2	61,7
Operating profit	-3,1	-5,5	1,3	6,8
Net profit before tax	-5,3	-11,5	-0,6	0,8

	Q3 2020	Q3 2019
Equity to asset ratio	32,0 %	37,8 %

Total number of shares	23 392 317	23 392 317
Earning per share*	-0,53	-0,00

Note 5 - Cash Flow overview

	Q3 2020	Q3 2019	31.12.2019
Cash from operation	7 537	16 262	17 918
Cash from investments	-2 325	-11 628	-13 474
Cash from financing	5 005	-4 756	-10 000
Change in cash	10 218	-122	-5 555
Cash position opening balance	7 917	13 473	13 473
Cash position closing balance	18 135	13 350	7 917

As of Q3 2020 USD of 759k bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

NOTE DISCLOSURE



Note 6 - Cares act

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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 Q3 2020. The basis for this assessment is increased demand for services in the market and recovery of rig utilization at an earlier stage than expected, though at a lower day rate than expected.

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

Note 8 - Subsequent events

Changes to bond loan

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- (ii) the maturity date was extended to June 3, 2022 and
- (iii) an amendment fee of \$400,000 would be paid to the bondholders' within 10 business days of the meeting.

No principal payments are due and the outstanding balance of MUSD 80.0 is due on June 3, 2022.