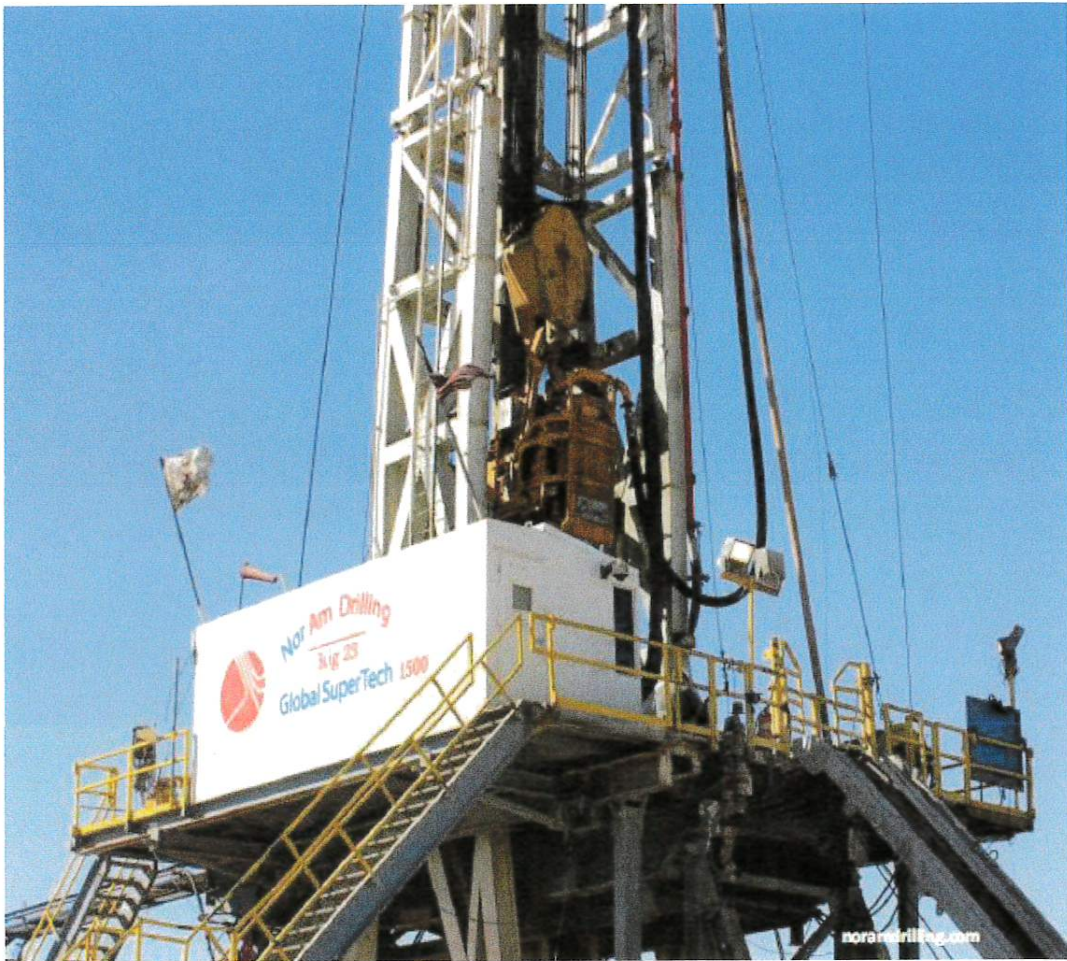




NorAm Drilling Company



Interim Report as of Dec 2019

Report for NorAm Drilling Group



Interim Report for NorAm Drilling Company AS

4th Quarter 2019

CONSOLIDATED FINANCIALS:

MUSD	<u>Q4 2019</u>	<u>YTD 2019</u>	<u>Q4 2018</u>	<u>YTD 2018</u>
Revenue	20.7	82.4	21.0	79.8
Operating Profit	0.0	6.9	2.6	8.3
Net Profit before tax	-1.8	-1.0	-0.6	-2.6
EBITDA	4.6	24.1	6.4	23.3

DRILLING CONTRACT STATUS:

- Rig 21 – on contract through November 2020
- Rig 22 – on contract through January 2021
- Rig 23 – on contract through February 2020
- Rig 25 – on contract through July 2020
- Rig 26 – on contract through April 2020
- Rig 27 – on contract through August 2020
- Rig 28 – on contract through January 2021
- Rig 29 – on contract through May 2020
- Rig 30 – on contract through January 2021
- Rig 32 – on contract through March 2020
- 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, all 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

US West Texas Intermediate (WTI) crude oil prices started 2019 trading at around \$45.00 per barrel. During 2019, WTI recovered, reaching a high of \$66.00 in April, achieving a subsequent low near \$51.00 in early August and finished 2019 trading around \$61.00. After trading up to \$63.00 in early

FINANCIALS

NorAm had revenue of MUSD 20.7 during 4Q 2019 compared to MUSD 21.0 in 4Q 2018. During 4Q 2019 we generated an operating profit of MUSD 0.0 compared to an operating profit of MUSD 2.6 in 4Q 2018. The decline in revenue and operating profit was primarily the result of the lower average day rates and Rig 21 undergoing upgrades. During 4Q 2019 we generated an EBITDA of MUSD 4.6 compared to MUSD 6.4 in 4Q 2018. Decreased EBITDA in 4Q 2019 was a result of lower dayrates and Rig 21 undergoing upgrades.

During the twelve months of 2019, NorAm had revenue and EBITDA of MUSD 82.4 and 24.1, respectively, compared to \$79.8 and 23.3 during the twelve months of 2018.

Capital expenditures were MUSD 1.9 in 4Q 2019 and 13.5 in 2019. As of December 31, 2019, our cash position was MUSD 7.9. As of December 31, 2019, we had MUSD 80.0 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 and operating 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.



Group - Income Statement	YTD	YTD	Q4	Q4
	31.12.19	31.12.18	2019	2018
<i>(All amounts in USD 1000s)</i>				
Revenue/Expense				
Sales	82,382	79,789	20,705	20,963
Other Income				
Total operating income	82,382	79,789	20,705	20,963
Payroll Expenses	27,298	27,565	6,927	6,761
Depreciation of tangible and intangible assets	17,214	15,041	4,533	3,866
Rig mobilization, service and supplies	18,898	15,875	6,118	4,705
Insurance rigs and employees	3,975	4,296	1,191	990
Other Operating Expenses	8,132	8,753	1,905	2,065
Total Operating Expenses	75,516	71,529	20,673	18,387
Operating profit (+)/ loss (-)	6,865	8,260	32	2,576
Financial Income and Expenses				
Other Interest Income	49	1	27	1
Other Financial Income	259	395	20	385
Other Interest Expenses	8,163	8,640	1,879	2,091
Other Financial Expenses	-2	2,622	-2	1,514
Net Financial Items	-7,852	-10,865	-1,830	-3,219
Profit (+)/Loss(-) before Income Tax	-987	-2,605	-1,798	-643
Income Tax Expense	1,209	1,692	316	1,091
Net Profit (+)/Loss (-)	-2,196	-4,297	-2,114	-1,734
EBITDA	24,079	23,302	4,565	6,442



Group - Balance sheet USD **31.12.19** **31.12.18**

(All amounts in USD 1000s)

Assets

Tangible Assets

Rigs and accessories	132,118	135,802
Vehicles and Office Equipment	482	539
Total Tangible Assets	132,600	136,340

Current Assets

Receivable

Accounts Receivable	14,009	11,365
Other Receivable	1,581	1,489
Total Receivable	15,590	12,854

Cash and cash equivalents

Bank Deposits/Cash	7,863	13,473
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Total Current Assets	23,454	26,326
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Total Assets	156,054	162,667
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**Group - Balance sheet USD** **31.12.19** **31.12.18***(All amounts in USD 1000s)***Equity***Owners Equity*

Issued Capital	15,932	15,932
Share Premium	94,860	94,860
Other shareholder contribution	369	369
Total Owners Equity	111,162	111,162

Accumulated Profits

Other Equity	-52,387	-50,199
Total Accumulated Profits	-52,387	-50,199

Total Equity**58,774** **60,962****Liabilities**

Deferred tax	4,784	3,581
Total deferred tax	4,784	3,581

Non-Current Liabilities

Liabilities to Financial Institutions	80,000	90,000
Other Long Term Liabilities	981	812
Total Non-Current Liabilities	80,981	90,812

Current Liabilities

Accounts Payable	6,703	1,964
Public Duties Payable	150	151
Other Current Liabilities	4,660	5,196
Total Current Liabilities	11,514	7,311

Total Liabilities**97,279** **101,704****Total Equity & Liabilities****156,054** **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	-	-	-	-2,195,787	-2,195,787
Adjustment prior periods	-	-	-	7,793	7,793
Stock option	-	-	-	-	-
Issued Capital	-	-	-	-	-
Equity as of Q2 2019	15,932,262	94,860,376	369,053	-52,387,243	58,774,448

10 largest Shareholders as of 31.12.19 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 %
Jahrmann 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

The Group has a Bond loan as of 31.12.19

Outstanding as of 31.12.19	80,000,000
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%
- Liquidity – The Group's liquidity should be held at minimum MUSD 5
- 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.

Some of the covenants were changed in January 2020.

As of 31.12.19 the Group is compliant with existing covenants.

Note 4 - Key figures and ratios

<i>(USD mill)</i>	Q4 2019	YTD 2019	Q4 2018	YTD 2018
Revenue	20.7	82.4	21.0	79.8
Operating profit	0.0	6.9	2.6	8.3
Net profit before tax	-1.8	-1.0	-0.6	-2.6
	31.12.19	31.12.18		
Equity to asset ratio	37.7 %	37.5 %		
Total number of shares	23,392,317	267,846,340		
Earning per share*	-0.09	-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

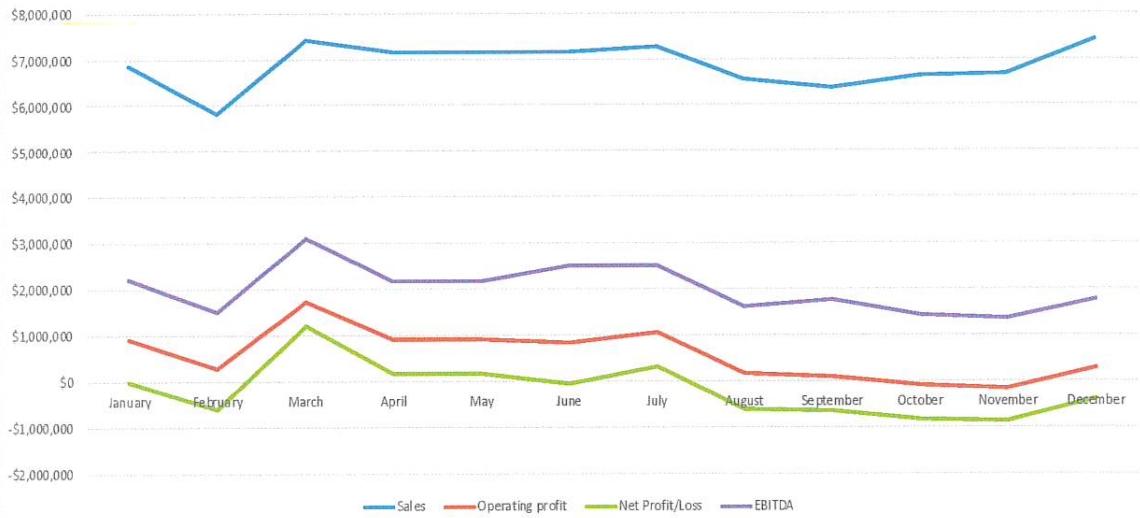
Note 5 - Cash Flow overview

	31.12.2019	31.12.2018
Cash from operation	17,695,227	11,134,323
Cash from investments	-13,473,782	-21,184,328
Cash from financing	-9,830,589	15,754,972
Change in cash	-5,609,144	5,704,968
Cash position opening balance	13,472,573	7,767,605
Cash position closing balance	7,863,429	13,472,572

As of 31.12.19, USD of 757 221 bank deposits/cash on hand was restricted for debt service obligations related to the Groups outstanding bond loan.

Note 6 - Trend Key Figures

Income Statement items



Balance Sheet items

