

# **NORAM DRILLING**

## **INTERIM FINANCIAL INFORMATION**

**NORAM DRILLING AS**

**FOURTH QUARTER 2022**

**20 February 2023**



## NORAM DRILLING AS REPORTS RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2022

Oslo, Norway, February 20, 2023. NorAm Drilling AS (the “Company” or “NorAm”), today reported unaudited results for the three months and twelve months ended December 31, 2022:

### HIGHLIGHTS

- Revenue increased to MUSD 29.5, up 11% from the previous quarter
- Adjusted EBITDA <sup>(1)</sup> increased to MUSD 11.8, up 39% from the previous quarter
- Fleet utilization increased to 99.3% compared to 98.9% in the third quarter 2022
- Average base dayrate <sup>(2)</sup> increased to \$28,100, up 11% from the third quarter 2022
- Current revenue backlog of MUSD 31.2 as of February 20, 2023

*(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization plus non-cash stock option expense.*

*(2) Base dayrate includes contracted revenue while on operating time divided by the total operating days and excludes (a) move operating rates which currently range from 85-100% of base operating day rates and (b) add-ons for equipment rentals, additional crew and overtime.*

**Marty L. Jimmerson, Chief Executive Officer & Chief Financial Officer of NorAm Drilling AS** commented:

“NorAm is a leading and reliable operator of the US industry’s most advanced onshore drilling rigs. Our focus remains on the Permian Basin where approximately 60% of reserves in the U.S are located, and we have industry leading operating margins after maintenance capital expenditures.

We continue to see a tight market balance for our high end “Super Spec” drilling rigs. In the fourth quarter, our clean dayrate increased by 11% from the last quarter. We have already renewed one contract in the first quarter of 2023 and anticipate additional ongoing contract renewal discussions will reflect higher dayrates compared to the fourth quarter. After prepaying our MUSD 80.0 bond loan in November, NorAm is debt free, and we have already distributed MUSD 13.1 or NOK 3.05 per share in monthly dividends to our shareholders.”

## SUMMARY

NorAm Drilling AS owns 100% of NorAm Drilling Company, a Texas corporation, collectively referred to as NorAm or the Company 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 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

Demand for drilling rigs in the US and Permian Basin continued at a strong level with WTI oil trading between \$71 and \$93, finishing near \$80 per barrel as of December 31, 2022. WTI is currently trading at approximately \$77 per barrel. During the fourth quarter, US and Permian land rigs increased 17 and 9, respectively. During the quarter, oil inventories decreased 2.7%, daily production in the Lower 48 decreased 200,000 to 11.5 million barrels per day and the number of drilled but uncompleted wells in the Permian Basin continued to decline.

Dayrates for high end “super spec” drilling rigs continued to improve during the fourth quarter, primarily due to the lack of available rig supply, drilling contractor financial discipline and supply chain constraints for both labor and supplies.

As of February 17, 2023, the US land drilling active rig count and Permian rig count was 741 and 352, respectively. As of December 31, 2022, the US land drilling active rig count and Permian rig count was 762 and 353, respectively.

## OPERATIONS

During 4Q 2022, NorAm achieved a 99.3% utilization compared to 98.9% utilization in 3Q 2022.

Rig operating costs were in line with expectations during 2022 with strong focus on rig personnel staffing levels, management of other daily operating costs and controlling our maintenance capital expenditures.

## FINANCIALS

NorAm had revenue of MUSD 29.5 during 4Q 2022 compared to MUSD 26.5 in 3Q 2022. We generated an operating profit of MUSD 6.7 in 4Q 2022 compared to an operating profit of MUSD 3.7 in 3Q 2022. The increase in revenue was the result of higher utilization and dayrates. Moreover, we generated and Adjusted EBITDA <sup>(1)</sup> of MUSD 11.8 in 4Q 2022 compared to MUSD 8.5 in 3Q 2022.

Capital expenditures were MUSD 3.3 in 2022, including MUSD 0.9 in 4Q 2022.



On October 7, 2022, the Company's shares commenced trading on the Euronext Growth Oslo exchange under the ticker "NORAM" following the successful raise of approximately MUS\$ 75 of gross proceeds. The Company issued 19,748,676 new shares in connection with the listing. The proceeds from the listing in combination with cash on hand was used to repay an outstanding bond of MUS\$ 80.0 and accrued interest of MUS\$ 3.2 on November 14, 2022. The Company is debt free and paid its initial monthly dividend in December 2022 of NOK 1 per share. The Company intends to pay future dividends based upon maintaining a minimum liquidity of approximately MUS\$ 11.

On November 21, 2022, the Company's subsidiary entered into a loan agreement with a U.S. based bank for a Revolving Promissory Note ("Revolver") of MUS\$ 4.5. Use of proceeds for any borrowings under this Revolver are available for working capital and general corporate purposes. The Revolver is secured by accounts receivable and is expected to be utilized to reduce the Company's need for liquidity on the balance sheet. There were no borrowings outstanding under the Revolver as of December 31, 2022.

## CARES ACT

NorAm Drilling applied for support relating to the Employee Retention Tax Credit (ERTC), part of the CARES Act, 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 and MUS\$ 1.6 in 3Q 2022. The Company received approximately \$1.4mm in 1Q January 2023 related to the final remaining outstanding ERTC payroll credit mentioned herein.

## OUTLOOK

Dayrates for land rigs in the US improved significantly during the 2022 and have continued to strengthen into early 2023. 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) China reopening, (iii) Russian invasion of Ukraine, (iv) OPEC+ maintaining and complying with appropriate supply targets, (v) operating discipline demonstrated by US E&P operators, (vi) supply and demand activity for US and Permian land rigs, (vii) availability and costs of labor, equipment and rig supplies and (viii) any possible regulatory changes issued by the US government.

Subject to key risks and uncertainties mentioned in this report, we currently expect continued strong demand for our high end "super spec" drilling rigs. Natural gas prices have declined from \$7.0 per MMBtu as of November 2022 to \$4.5 per MMBtu as of December 31, 2022. Natural gas prices have declined further in early 2023 and is currently trading at approximately \$2.2 per MMBtu. Current natural gas prices could lead to E&P operators reducing their near-term drilling plans which would likely result in land rigs being released in gas plays such as the Haynesville and Eagle Ford basins. Any releases of current working land rigs would increase the available supply of "super spec" rigs and could our impact the near-term outlook.

Condensed consolidated Income Statement	Three Months Ended			Twelve Months Ended	
	Dec 2022	Sept 2022	Dec 2021	Dec 2022	Dec 2021
<i>(All amounts in USD 1000s)</i>					
<b>Revenue/Expense</b>					
Sales	29,541	26,535	14,564	95,446	45,478
Other Income					
<b>Total Operating Income</b>	<b>29,541</b>	<b>26,535</b>	<b>14,564</b>	<b>95,446</b>	<b>45,478</b>
Payroll Expenses	8,496	7,007	6,170	29,449	17,297
Depreciation of Tangible and Intangible Assets	4,771	4,769	4,614	18,879	16,769
Rig Mobilization, Service and Supplies	6,276	7,205	4,953	26,096	14,893
Insurance Rigs and Employees	1,617	1,750	1,431	5,833	3,417
Other Operating Expenses	1,721	2,101	444	8,306	4,384
<b>Total Operating Expenses</b>	<b>22,881</b>	<b>22,833</b>	<b>17,612</b>	<b>88,562</b>	<b>56,760</b>
<b>Operating Profit (+)/ Loss (-)</b>	<b>6,660</b>	<b>3,703</b>	<b>-3,048</b>	<b>6,884</b>	<b>-11,281</b>
<b>Financial Income and Expenses</b>					
Other Interest Income	338	60		402	
Other Financial Income	2,051	7	-44	2,069	34
Other Interest Expenses	758	1,800	1,846	6,158	6,666
Other Financial Expenses	87	26	2	186	11
<b>Net Financial Items</b>	<b>1,544</b>	<b>-1,759</b>	<b>-1,803</b>	<b>-3,873</b>	<b>-6,643</b>
<b>Profit (+)/Loss(-) before Income Tax</b>	<b>8,204</b>	<b>1,944</b>	<b>-4,852</b>	<b>3,011</b>	<b>-17,925</b>
Income Tax Expense	-1,097	408	598	34	-1,585
<b>Net Profit (+)/Loss (-)</b>	<b>9,301</b>	<b>1,536</b>	<b>-5,450</b>	<b>2,978</b>	<b>-16,340</b>

Condensed consolidated Balance Sheet

	Notes	Dec 2022	Dec 2021
<i>(All amounts in USD 1000s)</i>			
<b>Assets</b>			
<i>Tangible Assets</i>			
Rigs and Accessories	1	86,312	101,918
Vehicles and Office Equipment	1	258	170
<b>Total Tangible Assets</b>		<b>86,569</b>	<b>102,087</b>
<b>Current Assets</b>			
<i>Receivable</i>			
Accounts Receivable		14,802	6,143
Other Receivable		1,336	1,060
<b>Total Receivable</b>		<b>16,138</b>	<b>7,203</b>
<i>Cash and Cash Equivalents</i>			
Bank Deposits/Cash		13,098	12,782
<b>Total Current Assets</b>		<b>29,236</b>	<b>19,985</b>
<b>Total Assets</b>		<b>115,806</b>	<b>122,073</b>

Condensed consolidated Balance Sheet

	Notes	Dec 2022	Dec 2021
<i>(All amounts in USD 1000s)</i>			
<b>Equity</b>			
<i>Owners Equity</i>			
Issued Capital	2	12,547	8,839
Share Premium	2	159,115	94,860
Other Shareholder Contribution	2	369	369
<b>Total Owners Equity</b>		<b>172,032</b>	<b>104,068</b>
<i>Accumulated Profits</i>			
Other Equity	2	-67,456	-70,339
<b>Total Accumulated Profits</b>		<b>-67,456</b>	<b>-70,339</b>
<b>Total Equity</b>		<b>104,576</b>	<b>33,729</b>
<b>Liabilities</b>			
<i>Deferred Tax</i>			
Deferred Tax		1,746	1,962
<b>Total deferred tax</b>		<b>1,746</b>	<b>1,962</b>
<i>Non-Current Liabilities</i>			
Liabilities to Financial Institutions			
Bond Loan	3		80,000
Other Long Term Liabilities			
<b>Total Non-Current Liabilities</b>		<b>0</b>	<b>80,000</b>
<i>Current Liabilities</i>			
Bond Loan			
Bond Loan	3		
Liabilities to Financial Institutions			
Accounts Payable		4,607	2,996
Tax Payable		250	
Public Duties Payable		267	151
Other Current Liabilities		4,361	3,236
<b>Total Current Liabilities</b>		<b>9,484</b>	<b>6,382</b>
<b>Total Liabilities</b>		<b>11,230</b>	<b>88,344</b>
<b>Total Equity &amp; Liabilities</b>		<b>115,806</b>	<b>122,073</b>



Condensed Consolidated Statement of Cash Flow

	Year Ended	
	Dec 2022	Dec 2021
<i>(All amounts in USD 1000s)</i>		
Net Profit (+)/Loss (-)	3,011	-19,534
Tax paid for the period		425
Depreciation of fixed assets	18,879	18,307
Change in accounts receivable	-8,659	-1,720
Change in accounts payable	1,611	1,665
Change in other current balance sheet items	1,206	-1,104
<b>Net cash flow from operational activities</b>	<b>16,048</b>	<b>-1,961</b>
<b>Purchase of tangible fixed assets</b>	<b>-3,361</b>	<b>-3,376</b>
<b>Net cash flow from investing activities</b>	<b>-3,361</b>	<b>-3,376</b>
Repayment of long term debt	-80,000	1,782
Issued capital	72,004	
Dividends	-4,375	
<b>Net cash flow from financing activities</b>	<b>-12,371</b>	<b>1,782</b>
<b>Net change in cash and cash equivalent</b>	<b>316</b>	<b>-3,555</b>
<b>Cash and cash equivalents opening balance</b>	<b>12,782</b>	<b>16,337</b>
<b>Cash and cash equivalents closing balance</b>	<b>13,098</b>	<b>12,782</b>



## Note 1 - Accounting Principles

The condensed consolidated interim financial statement is prepared in accordance with the Norwegian accounting standard for interim financial statements, NRS 11.

Principles and policies are the same for the interim financial statements as in the last annual financial statements, that were prepared according to the Norwegian Accounting Act and generally accepted principles in Norway. For description of accounting principles we refer you the last issued Annual Financial Statement.

### 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.

### 1-3 Property, Plant and Equipment

Property, plant and equipment are capitalized and depreciated over the estimated useful life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property, plant and equipment are added to the acquisition costs and depreciated with the related asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realizable value in use. In assessing value in use, the discounted estimated cash flows from the asset are used.

Estimated useful life for accounting purposes is defined for different categories of fixed assets:

	<b>Estimated Useful Life</b>
Rig	10 - 15 years
Rig related accessories	2 - 15 years
Vehicles	3 - 5 years
Office equipment	3 - 5 years

### 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 01.01.22	8,839	94,860	369	-70,339	33,729
Profit/loss in the period				2,978	2,978
Dividend		-4,375			-4,375
Stock option		334		-94	240
Issued Capital	3,708	68,295			72,004
<b>Equity December 2022</b>	<b>12,547</b>	<b>159,115</b>	<b>369</b>	<b>-67,457</b>	<b>104,575</b>

On 5 October 2022, the company announced that an extraordinary general meeting was held on 3 October 2022 and among other things the following resolutions were approved:

- (1) the company's new share capital is NOK 86,124,634 divided by 43,062,317, each with a nominal value of NOK 2,
- (2) the share capital may be increased by a total of up to NOK 2,000,000 divided by 1,000,000 shares, each with a par value of NOK 2 no later than 30 June 2023, and
- (3) the issuance of 19,670,000 new shares at NOK 40.

On 7 October 2022, NorAm Drilling AS with ticker code "NORAM" announced the public trading on Euronext Growth Oslo exchange following a successful private placement and share issue.

On 19 October 2022, the Board of Directors approved the following:

- (1) the issuance of 78,676 new shares to certain members of management
- (2) the increase in share capital by NOK 157,352 to NOK 86,281,986 by issuance of 78,676 new shares, shares, each with a nominal value of NOK 2,
- (3) price of NOK 40 per share

On 5 December 2022, the Board of Directors approved its initial monthly dividend of NOK 1 per share. The dividend distribution was paid from the Company's contributed surplus account which consists of previously paid in share premium transferred to the Company's share premium account.

**Note 3 - Long term liabilities and covenants****Bond loan**

On 3 October 2022, the Company provided notice of exercise of its call option on the full bond loan. The Company paid off the bond loan of MUSD 80 and accrued interest of MUSD 3.2 on 30 November 2022.

On 21 November 2022, the Company's subsidiary ("Borrower") entered into a Loan agreement with a U.S. based bank that provides for a Revolving Promissory Note ("Revolver") of MUSD 4.5. Use of proceeds for any borrowings under this Revolver are available for working capital and general corporate purposes based upon a borrowing base calculation equal to 70% of eligible accounts. Financial covenants include (i) a debt service coverage ratio of not less than 1.2 to 1; (ii) Minimum liquidity requirement of MUSD 5.0 and (iii) a debt to EBITDA ratio of not more than 2.0 to 1.0. The Revolver is secured by accounts receivable and expected to be utilized to reduce the required level of liquidity on our balance sheet.

**Definitions:**

**Debt Service Coverage Ratio** - Borrower will maintain, as of the last day of each fiscal year, a ratio of (a) net income after taxes plus depreciation, amortization and other non-cash expenses, less any distributions during such fiscal year, to (b) current maturities of long-term debt and long-term leases of not less than 1.2 to 1.0.

**Minimum Liquidity** - maintain, as of the last day of each quarter, Liquidity of at least MUSD 5.0. Liquidity means total market value of Unencumbered Liquid Assets. Unencumbered Liquid Assets means assets owned by Borrower which are not subject to any lien (other than a lien in favor of Lender): (1) cash or cash equivalents held in the United States; and (ii) funds available to be advanced under the note.

**Debt to EBITDA Ratio** - Borrower will maintain, as of the last day of each fiscal year, a ratio of (a) Debt to (b) EBITDA of not more than 2.0 to 1.0. Notes Payable and other debt payable to NorAm Drilling AS will not be included as "Debt".

**Distributions** - mean all dividends and other distributions made by Borrower to its shareholder.

**EBITDA** - Borrower's combined earnings before interest expense, income taxes, depreciation and amortization.

#### Note 4 - Key figures and ratios

(USD mill)	Q4		Twelve Months Ended	
	2022	2021	2022	2021
Revenue	29.5	26.5	95.4	45.5
Operating profit	6.7	3.7	6.9	-11.3
Net profit before tax	8.2	1.9	3.0	-17.9
EBITDA	11.4	8.5	25.8	5.5
Adjusted EBITDA	11.8	8.5	26.1	5.5
			Twelve Months Ended	
			2022	2021
Equity to asset ratio			90.3%	27.6%
			Twelve Months Ended	
	2022	2021	2022	2021
Total number of shares	41,842,774	23,392,317	28,042,843	23,392,317
Earning per share	0.07	-0.70	0.33	0.07

#### Definitions

EBITDA - Earnings Before Interest, Tax, Depreciation and Amortization.

Adjusted EBITDA - Earnings Before Interest, Tax, Depreciation and Amortization plus non-cash stock option expenses.

#### Note 5 - Investment in subsidiaries

On December 23, 2021, the parent company NorAm Drilling Company AS converted part of its debt against its US Subsidiary NorAm Drilling Comp. The capital increase is done by issuance of 218,000 shares, converted to an amount of USD 51,413,737. This conversion has no effect on the consolidated accounts.

#### Note 6 - Subsequent events

The Company received approximately MUSD 1.4 in January 2023 related to its final outstanding payroll credit refund application associated with the Employee Retention Tax Credit ("ERTC").

On 9 January 2023 and 7 February 2023, the Board of Directors approved monthly dividends of NOK 1 and 1.05, respectively, per share. The dividends were paid from the Company's contributed surplus account which consists of previously paid in share premium transferred to the Company's share premium account.