



INTERIM FINANCIAL INFORMATION

NORAM DRILLING AS

FIRST QUARTER 2023

23 MAY 2023



NORAM DRILLING AS REPORTS RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2023

Oslo, Norway, May 23, 2023. NorAm Drilling AS (the “Company” or “NorAm”), today reported unaudited results for the three months ended March 31, 2023:

HIGHLIGHTS

- Revenue increased to MUSD 32.7, up 11% from the previous quarter
- Adjusted EBITDA ⁽¹⁾ increased to MUSD 15.0, up 25% from the previous quarter
- Fleet utilization was 99.3% ⁽²⁾ compared to 99.3% in the fourth quarter 2022
- Average base dayrate ⁽³⁾ increased to \$30,800, up 10% from the fourth quarter 2022
- Current revenue backlog of MUSD 25.1 as of May 23, 2023

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

(2) Excludes 10.9 days of downtime related to rig upgrades.

(3) 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:

“We continue to see a tight market balance for our high end “Super Spec” drilling rigs. In the first quarter of 2023, our clean dayrate increased 10% from the last quarter. Despite possible near-term pressure on dayrates as a result of WTI and natural gas volatility, while seeing some softness on recent contract renewals, we remain encouraged that market fundamentals are intact and will continue to improve later this year and into 2024. NorAm is debt free, and we paid MUSD 13.1 or NOK 3.15 per share in monthly dividends to our shareholders during the first quarter of 2023.”

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 \$67 and \$81, finishing near \$80 per barrel as of March 31, 2023. WTI is currently trading at approximately \$72 per barrel. During the first quarter, US land rigs decreased 23 and Permian land rigs were flat. During the quarter, oil inventories increased 13.0%, daily production in the Lower 48 increased 300,000 to 11.8 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 first quarter, primarily due to the lack of available rig supply, drilling contractor financial discipline and supply chain constraints for both labor and supplies.

Natural gas prices have declined in early 2023 and is currently trading at approximately \$2.35 per MMBtu down from \$4.5 per MMBtu at the end of 2022. Current natural gas price levels have resulted in some E&P operators reducing their near-term drilling plans which has resulted in some land rigs being released in gas plays such as the Haynesville and Eagle Ford basins. Some of these rig releases has ultimately led to increased supply of available “super spec” rigs in the Permian basin and could impact our near-term outlook.

As of May 19, 2023, the US land drilling active rig count and Permian rig count was 697 and 349, respectively. As of March 31, 2022, the US land drilling active rig count and Permian rig count was 739 and 353, respectively. As of December 31, 2022, the US land drilling active rig count and Permian rig count was 762 and 353, respectively.

OPERATIONS

During 1Q 2023, NorAm achieved a 99.3% utilization compared to 99.3% utilization in 4Q 2022. Our 1Q 2023 utilization excluded 11 days of downtime related to equipment upgrades on two of our rigs.

Rig operating costs were in line with expectations 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 32.7 during 1Q 2023 compared to MUSD 29.5 in 4Q 2022. We generated an operating profit of MUSD 10.0 in 1Q 2023 compared to an operating profit of MUSD 6.7 in 4Q 2022. The increase in revenue was the result of higher dayrates. Moreover, we generated Adjusted EBITDA of MUSD 15.0 in 1Q 2023 compared to MUSD 11.8 in 4Q 2022. The increase in Adjusted EBITDA was the result of higher dayrates and receipt of MUSD 1.4 in January 2023 related to the final remaining outstanding ERTC payroll credit mentioned below.

Capital expenditures were MUSD 2.1 in 2023 in the first quarter of 2023. We spent MUSD 2.0 on equipment upgrades and MUSD 0.1 on maintenance capital expenditures in the first quarter of 2023. Our equipment upgrades in the first quarter mainly related to completion of the remaining requirements that all our rigs meet our ultra “super spec” specifications. Additionally, we commenced construction of our first transformer to allow our rigs to connect to high line power. We anticipate that this transformer will be placed in service in 2Q 2023. We currently estimate that 2023 capital expenditures will be MUSD 3.5 – 4.0.

The Company is debt free, and we paid MUSD 13.2 or NOK 3.15 per share in monthly dividends to our shareholders during the first quarter of 2023. The dividend distributions were made from the Company’s contributed surplus account which consists of previously paid in share premium transferred to the Company’s share premium account. The Company intends to pay future dividends based upon maintaining a minimum liquidity of approximately MUSD 11.0.

The Company had available MUSD 4.5 under a Revolving Promissory Note (“Revolver”) with a U.S. based bank for working capital and general corporate purposes. There were no borrowings outstanding under the Revolver as of March 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 MUSD 4.0. The company received approximately MUSD 1.0 in 2Q 2022 and MUSD 1.6 in 3Q 2022. The Company received approximately MUSD 1.4 in January 2023 related to the final remaining outstanding ERTC payroll credit mentioned herein and the company does not expect to receive any further credit refunds.

OUTLOOK

Subject to key risks and uncertainties included in our 2022 Annual 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 \$2.35 per MMBtu. Current natural gas prices have resulted in some E&P operators reducing their near-term drilling plans which has resulted in some land rigs being released in gas plays such as the Haynesville and Eagle Ford basins. Some of these rig releases increased the available supply of “super spec” rigs in the Permian basin and could impact our near-term outlook.

As E&P operators remain focused on maintaining current production levels and with drilling but uncompleted (DUCs) wells continuing to decline in the Permian basin, we believe “super spec” rigs will remain in high demand in the Permian basin.

Condensed consolidated Income Statement

	Quarter Ended		Twelve Months Ended
	March 2023	March 2022	Dec 2022
<i>(All amounts in USD 1000s)</i>			
Revenue/Expense			
Sales	32,684	17,096	95,446
Other Income			
Total Operating Income	32,684	17,096	95,446
Payroll Expenses	6,897	7,108	29,449
Depreciation of Tangible and Intangible Assets	4,759	4,639	18,879
Rig Mobilization, Service and Supplies	6,972	5,824	26,096
Insurance Rigs and Employees	1,644	887	5,833
Other Operating Expenses	2,391	1,566	8,306
Total Operating Expenses	22,663	20,024	88,562
Operating Profit (+)/ Loss (-)	10,022	-2,927	6,884
Financial Income and Expenses			
Other Interest Income	110		402
Other Financial Income	12		2,069
Other Interest Expenses		1,809	6,158
Other Financial Expenses	171	5	186
Net Financial Items	-49	-1,803	-3,873
Profit (+)/Loss(-) before Income Tax	9,972	-4,730	3,011
Income Tax Expense	393	-425	34
Net Profit (+)/Loss (-)	9,579	-4,305	2,978

Condensed consolidated Balance Sheet

	Notes	March 2023	December 2022
<i>(All amounts in USD 1000s)</i>			
Assets			
<i>Tangible Assets</i>			
Rigs and Accessories	1	83,521	86,312
Vehicles and Office Equipment	1	434	258
Total Tangible Assets		83,955	86,569
Current Assets			
<i>Receivable</i>			
Accounts Receivable		14,402	14,802
Prepaid Expenses and Other Current Assets		855	1,336
Total Receivable and Other		15,257	16,138
<i>Cash and Cash Equivalents</i>			
Bank Deposits/Cash		12,696	13,098
Total Current Assets		27,953	29,236
Total Assets		111,908	115,806

Condensed consolidated Balance Sheet

	Notes	March 2023	December 2022
<i>(All amounts in USD 1000s)</i>			
Equity			
<i>Owners Equity</i>			
Issued Capital	2	12,547	12,547
Share Premium	2	136,705	136,573
Other Shareholder Contribution	2	369	369
Total Owners Equity		149,621	149,489
<i>Accumulated Profits</i>			
Other Equity	2	-57,877	-67,456
Total Accumulated Profits		-57,877	-67,456
Total Equity		91,744	82,033
Liabilities			
<i>Deferred Tax</i>			
Deferred Tax		2,139	1,746
Total deferred tax		2,139	1,746
<i>Current Liabilities</i>			
Accounts Payable		4,138	4,607
Tax Payable		224	250
Public Duties Payable		245	267
Other Current Liabilities		13,417	26,904
Total Current Liabilities		18,025	32,027
Total Liabilities		20,164	33,773
Total Equity & Liabilities		111,908	115,806

Condensed Consolidated Statement of Cash Flow

	YTD	
	March 2023	March 2022
<i>(All amounts in USD 1000s)</i>		
Net Profit (+)/Loss (-)	9,972	-4,730
Tax paid for the period	-26	
Depreciation of fixed assets	4,759	4,639
Change in accounts receivable	400	-1,342
Change in accounts payable	-469	-533
Change in other current balance sheet items	257	1,993
Net cash flow from operational activities	14,894	27
Purchase of tangible fixed assets	-2,144	-1,213
Net cash flow from investing activities	-2,144	-1,213
Repayment of long term debt		
Issued capital		
Dividends	-13,152	
Net cash flow from financing activities	-13,152	
Net change in cash and cash equivalent	-402	-1,186
Cash and cash equivalents opening balance	13,098	12,782
Cash and cash equivalents closing balance	12,696	11,596

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:

	Estimated Useful Life
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 01.01.23	12,547	136,573	369	-67,456	82,033
Profit/loss in the period				9,580	9,580
Stock option program		132			132
Equity March 2023	12,547	136,705	369	-57,877	91,744

The Company had MUSD 22.5 of dividends accrued as of December 31, 2022. The Company declared and paid dividends of MUSD 13.1 for the 3 months ended March 31, 2023. The company declared and paid dividends of MUSD 9.4 subsequent to March 31, 2023. The dividend distributions were 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 DISCLOSURE



Note 4 - Cares Act

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

Note 5 - Key figures and ratios

(USD mill)

	Q1	
	2023	2022
Revenue	32.7	17.1
Operating profit	10.0	-2.9
Net profit before tax	10.0	-4.7
EBITDA	14.8	1.7
ADJUSTED EBITDA	15.0	1.7

	Q1	
	2023	2022
Equity to asset ratio	82.0%	70.8%

	Q1	
	2023	2022
Total number of shares	43,140,993	23,392,317
EPS	0.22	-0.18
Diluted EPS (Including options)	0.22	-0.18

Definitions

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

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