



**INTERIM FINANCIAL INFORMATION**

**NORAM DRILLING AS**

**SECOND QUARTER 2023**

**22 AUGUST 2023**



## NORAM DRILLING AS REPORTS RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2023

Oslo, Norway, August 22, 2023. NorAm Drilling AS (the “Company” or “NorAm”), today reported unaudited results for the three and six months ended June 30, 2023:

### HIGHLIGHTS

- Revenue increased to MUSD 35.0, up 7% from the previous quarter
- Adjusted EBITDA<sup>(1)</sup> increased to MUSD 14.4<sup>(2)</sup>, up 6% from the previous quarter
- Fleet utilization was 98.9% compared to 99.3% <sup>(3)</sup> in the previous quarter
- Average base dayrate<sup>(4)</sup> increased to \$31,500, up 2% from the previous quarter
- Current revenue backlog of MUSD 18.0 as of August 22, 2023

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

(2) Excludes MUSD 1.4 ERTC Refund received in the previous quarter.

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

(4) 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 are pleased with our second quarter results, as both revenue and Adjusted EBITDA, increased 7% and 6%, respectively compared to the first quarter of 2023. We paid MUSD 14.2 or NOK 3.50 per share in monthly dividends to our shareholders in the second quarter of 2023. As a result of WTI and natural gas volatility, US rig counts have declined approximately 19% so far this year. Permian rig counts have held up better and only declined 7% year to date primarily due to less volatility in WTI. We remain encouraged that market fundamentals are intact and expected to improve later this year and into 2024.

## 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, eight of our eleven rigs are under contract in the Permian Basin and the remaining three rigs are stacked and actively being marketed. 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 outside of the Permian started to decline in the first quarter of 2023 as natural gas prices declined. Demand for drilling rigs in the Permian started to decline during the second quarter of 2023 as WTI declined from \$80 to \$67 by mid-June. WTI finished the second quarter trading around \$70 and is currently trading at \$80. During the second quarter, US and Permian land rigs decreased 83 and 11, respectively. During the quarter, oil inventories decreased 4.2%, daily production in the Lower 48 was flat at 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 started to soften during the second quarter as some rigs were mobilized from the Haynesville as a result of low natural gas prices and operators started to release rigs in the Permian as a result of lower WTI prices.

As of August 18, 2023, the US land drilling active rig count and Permian rig count was 621 and 327, respectively. As of June 30, 2022, the US land drilling active rig count and Permian rig count was 653 and 341, respectively. As of December 31, 2022, the US land drilling active rig count and Permian rig count was 762 and 353, respectively.

## OPERATIONS

During 2Q 2023, NorAm achieved a 98.9% utilization compared to 99.3% utilization in 1Q 2023.

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 35.0 during 2Q 2023 compared to MUSD 32.7 during 1Q 2023. We generated an operating profit of MUSD 9.6 in 2Q 2023 compared to an operating profit of MUSD 10.0 in 1Q 2023. The increase in revenue was the result of higher dayrates. Moreover, we generated Adjusted EBITDA of MUSD 14.4 in 2Q 2023 compared to 15.0 in 1Q 2023. 1Q 2023

operating profit and Adjusted EBITDA included the receipt of MUSD 1.4 in January 2023 related to the final remaining outstanding ERTC payroll credit mentioned below. Excluding the ERTC receipt, Adjusted EBITDA increased MUSD 0.8 as a result of higher dayrates.

Capital expenditures were MUSD 0.7 and MUSD 2.8 during the second quarter and year to date, respectively. We spent MUSD 0.5 on upgrades and MUSD 0.2 on maintenance capital expenditures in the second quarter of 2023. During the six months ended June 30, 2023, we spent MUSD 2.5 on upgrades and MUSD 0.3 on maintenance capital expenditures. Our equipment upgrades mainly relate to completion of the remaining requirements that all our rigs meet our ultra “super spec” specifications and construction of our first transformer to allow our rigs to connect to high line power. We currently estimate that 2023 capital expenditures will be approximately MUSD 4.0.

The Company is debt free, and we paid MUSD 14.2 or NOK 3.50 per share in monthly dividends to our shareholders in the second 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 continue paying future dividends based upon earned free cash flow and 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 June 30, 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, which has been applied as a reduction in payroll expenses. 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 and recent declines in rig counts, we continue to expect strong demand for our high end “super spec” drilling rigs.

WTI was trading at \$80 at the beginning of the second quarter and hit a low of \$67 in mid-June. WTI finished trading at \$70 in June and is currently trading at \$80. Natural gas prices 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 \$2.60 per MMBtu.

Based upon current commodity prices and discussions with operators who have been focused on budgets and production discipline, we expect the recent decline in the Permian rig count should reach a bottom during the third quarter and start to increase in the fourth quarter. 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 |               | Six Months Ended |               |
|--|---------------|---------------|------------------|---------------|
|  | June 2023     | Mar 2023      | June 2023        | June 2022     |
| <i>(All amounts in USD 1000s)</i>              |               |               |                  |               |
| <b>Revenue/Expense</b>                         |               |               |                  |               |
| Sales  | 34,966        | 32,684        | 67,650           | 39,370        |
| Other Income                                   |               |               |                  |               |
| <b>Total Operating Income</b>                  | <b>34,966</b> | <b>32,684</b> | <b>67,650</b>    | <b>39,370</b> |
| Payroll Expenses                               | 8,423         | 6,897         | 15,320           | 13,946        |
| Depreciation of Tangible and Intangible Assets | 4,671         | 4,759         | 9,430            | 9,340         |
| Rig Mobilization, Service and Supplies         | 7,317         | 6,972         | 14,288           | 12,615        |
| Insurance Rigs and Employees                   | 1,441         | 1,644         | 3,085            | 2,465         |
| Other Operating Expenses                       | 3,550         | 2,391         | 5,941            | 4,483         |
| <b>Total Operating Expenses</b>                | <b>25,402</b> | <b>22,663</b> | <b>48,065</b>    | <b>42,848</b> |
| <b>Operating Profit (+)/ Loss (-)</b>          | <b>9,564</b>  | <b>10,022</b> | <b>19,586</b>    | <b>-3,478</b> |
| <b>Financial Income and Expenses</b>           |               |               |                  |               |
| Other Interest Income                          | 106           | 110           | 216              | 3             |
| Other Financial Income                         | 116           | 12            | 128              | 11            |
| Other Interest Expenses                        | 6             |               | 6                | 3,600         |
| Other Financial Expenses                       | 67            | 171           | 238              | 72            |
| <b>Net Financial Items</b>                     | <b>148</b>    | <b>-49</b>    | <b>99</b>        | <b>-3,658</b> |
| <b>Profit (+)/Loss(-) before Income Tax</b>    | <b>9,712</b>  | <b>9,972</b>  | <b>19,685</b>    | <b>-7,136</b> |
| Income Tax Expense                             | 200           | 393           | 593              | 724           |
| <b>Net Profit (+)/Loss (-)</b>                 | <b>9,512</b>  | <b>9,579</b>  | <b>19,091</b>    | <b>-7,860</b> |

**Condensed consolidated Balance Sheet**

|   | Notes | June 2023      | Dec 2022       |
|---|-------|----------------|----------------|
| <i>(All amounts in USD 1000s)</i>         |       |                |                |
| <b>Assets</b>                             |       |                |                |
| <i>Tangible Assets</i>                    |       |                |                |
| Rigs and Accessories                      | 1     | 79,304         | 86,312         |
| Vehicles and Office Equipment             | 1     | 669            | 258            |
| <b>Total Tangible Assets</b>              |       | <b>79,973</b>  | <b>86,569</b>  |
| <b>Current Assets</b>                     |       |                |                |
| <i>Receivable</i>                         |       |                |                |
| Accounts Receivable                       |       | 17,260         | 14,802         |
| Prepaid Expenses and Other Current Assets |       | 2,185          | 1,336          |
| <b>Total Receivable and Other</b>         |       | <b>19,444</b>  | <b>16,138</b>  |
| <i>Cash and Cash Equivalents</i>          |       |                |                |
| Bank Deposits/Cash                        |       | 11,894         | 13,098         |
| <b>Total Current Assets</b>               |       | <b>31,338</b>  | <b>29,236</b>  |
| <b>Total Assets</b>                       |       | <b>111,311</b> | <b>115,806</b> |

**Condensed consolidated Balance Sheet**

|                                       | Notes | June 2023      | Dec 2022       |
|---------------------------------------|-------|----------------|----------------|
| <i>(All amounts in USD 1000s)</i>     |       |                |                |
| <b>Equity</b>                         |       |                |                |
| <i>Owners Equity</i>                  |       |                |                |
| Issued Capital                        | 2     | 12,547         | 12,547         |
| Share Premium                         | 2     | 124,314        | 136,573        |
| Other Shareholder Contribution        | 2     | 369            | 369            |
| <b>Total Owners Equity</b>            |       | <b>137,230</b> | <b>149,489</b> |
| <i>Accumulated Profits</i>            |       |                |                |
| Other Equity                          | 2     | -48,365        | -67,456        |
| <b>Total Accumulated Profits</b>      |       | <b>-48,365</b> | <b>-67,456</b> |
| <b>Total Equity</b>                   |       | <b>88,866</b>  | <b>82,033</b>  |
| <b>Liabilities</b>                    |       |                |                |
| Deferred Tax                          |       | 2,139          | 1,746          |
| <b>Total deferred tax</b>             |       | <b>2,139</b>   | <b>1,746</b>   |
| <i>Current Liabilities</i>            |       |                |                |
| Accounts Payable                      |       | 3,927          | 4,607          |
| Tax Payable                           |       | 254            | 250            |
| Public Duties Payable                 |       | 268            | 267            |
| Other Current Liabilities             |       | 15,857         | 26,904         |
| <b>Total Current Liabilities</b>      |       | <b>20,307</b>  | <b>32,027</b>  |
| <b>Total Liabilities</b>              |       | <b>22,446</b>  | <b>33,773</b>  |
| <b>Total Equity &amp; Liabilities</b> |       | <b>111,311</b> | <b>115,806</b> |



Condensed Consolidated Statement of Cash Flow

|   | YTD       |           |
|---|-----------|-----------|
|   | June 2023 | June 2022 |
| <i>(All amounts in USD 1000s)</i>           |           |           |
| Net Profit (+)/Loss (-)                     | 19,485    | -7,136    |
| Tax paid for the period                     | 4         |           |
| Depreciation of fixed assets                | 9,430     | 9,340     |
| Change in accounts receivable               | -2,458    | -3,252    |
| Change in accounts payable                  | -679      | -487      |
| Change in other current balance sheet items | 3,238     | 1,141     |
| Net cash flow from operational activities   | 29,021    | -394      |
| Purchase of tangible fixed assets           | -2,833    | -1,939    |
| Net cash flow from investing activities     | -2,833    | -1,939    |
| Repayment of long term debt                 |           |           |
| Issued capital                              |           |           |
| Dividends                                   | -27,391   |           |
| Net cash flow from financing activities     | -27,391   |           |
| Net change in cash and cash equivalent      | -1,204    | -2,333    |
| Cash and cash equivalents opening balance   | 13,098    | 12,782    |
| Cash and cash equivalents closing balance   | 11,894    | 10,449    |

## 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<br/>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 December 2022      | 12,547        | 136,573        | 369                   | -67,456        | 82,033        |
| Profit/loss in the period |               |                |                       | 19,092         | 19,092        |
| Dividends                 |               | -12,513        |                       |                | -12,513       |
| Stock option program      |               | 254            |                       |                | 254           |
| <b>Equity June 2023</b>   | <b>12,547</b> | <b>124,314</b> | <b>369</b>            | <b>-48,365</b> | <b>88,866</b> |

The Company had MUSD 22.5 and MUSD 7.7 of dividends accrued as of December 31, 2022 and June 30, 2023, respectively. The Company declared and paid dividends of MUSD 27.4 for the 6 months ended March 31, 2023. The company declared and paid dividends of MUSD 7.7 subsequent to June 30, 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

The Company paid off its outstanding 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. AS of 30 June 2023, there were no borrowings outstanding on the Revolver.

**NOTE DISCLOSURE****Note 4 - Cares Act**

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"), which has been applied as a reduction in payroll expenses.

**Note 5 - Key figures and ratios**

(USD mill)

|                       | Q2   |      | YTD  |      |
|-----------------------|------|------|------|------|
|                       | 2023 | 2022 | 2023 | 2022 |
| Revenue               | 35.0 | 22.3 | 67.7 | 39.4 |
| Operating profit      | 9.6  | -0.6 | 19.6 | -3.5 |
| Net profit before tax | 9.7  | -2.4 | 19.7 | -7.1 |
| EBITDA                | 14.2 | 4.1  | 29.0 | 5.9  |
| ADJUSTED EBITDA       | 14.4 | 4.1  | 29.3 | 5.9  |

|                       | June  |       |
|-----------------------|-------|-------|
|                       | 2023  | 2022  |
| Equity to asset ratio | 79.8% | 70.8% |

|                                 | Q2         |            | YTD        |            |
|---------------------------------|------------|------------|------------|------------|
|                                 | 2023       | 2022       | 2023       | 2022       |
| Total number of shares          | 43,140,993 | 23,392,317 | 43,140,993 | 23,392,317 |
| EPS                             | 0.22       | -0.15      | 0.44       | -0.34      |
| Diluted EPS (Including options) | 0.22       | -0.15      | 0.44       | -0.34      |

**Definitions**

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

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