

NORAM DRILLING

INTERIM FINANCIAL INFORMATION

NORAM DRILLING AS

THIRD QUARTER 2023

14 NOVEMBER 2023



NORAM DRILLING AS REPORTS RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2023

Oslo, Norway, November 14, 2023. NorAm Drilling AS (the “Company” or “NorAm”), today reported unaudited results for the three and nine months ended September 30, 2023:

HIGHLIGHTS

- Reported Revenues of MUSD 26.6, down 24% from the previous quarter
- Adjusted EBITDA⁽¹⁾ of MUSD 6.9, down 52% from the previous quarter
- Fleet utilization was 77.3% compared to 98.9% ⁽²⁾ in the previous quarter
- Average base dayrate⁽³⁾ of \$30,300, down 4% from the previous quarter
- Current revenue backlog of MUSD 17.4 as of November 14, 2023

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

As a result of the third quarter declines in Permian rig counts, we achieved utilization of 77% in the quarter and had 3 rigs hot stacked as of September 30, 2023. The market was impacted by reduced drilling after consolidation activity among private operators and disciplined production plans demonstrated by most of the E&Ps. Subsequently, we have reactivated one rig and currently have two rigs hot stacked as of today.

With our industry-low cost base and zero debt, the current market demonstrates the strength of our unique full-payout dividend model. Despite market headwinds, we paid MUSD 9.8 or NOK 2.37 per share in monthly dividends in the quarter, and have declared two additional dividends after quarter end. Our rigs are among the top performers measured in feet drilled per rig day in the U.S market, and NorAm should be well positioned in a market recovery.

(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.

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, nine of our eleven rigs are under contract in the Permian Basin and the remaining two rigs are hot 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 third quarter trading around \$90 and is currently trading at \$78. During the third quarter, US and Permian land rigs decreased 53 and 29, respectively. During the quarter, oil inventories decreased 8.4%, daily production in the Lower 48 increased 4% to 12.5 million barrels per day and the number of drilled but uncompleted wells in the Permian Basin were down slightly.

Dayrates for high end “super spec” drilling rigs in Permian 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 November 10, 2023, the US land drilling active rig count and Permian rig count was 595 and 310, respectively. As of September 29, 2023, the US land drilling active rig count and Permian rig count was 600 and 312, respectively. As of December 31, 2022, the US land drilling active rig count and Permian rig count was 762 and 353, respectively.

OPERATIONS

During 3Q 2023, NorAm achieved a 77.3% utilization compared to 98.9% utilization in 2Q 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. We also have low general and administrative costs, and believe this provides us with the lowest cost base per operating day in the industry.

FINANCIALS

NorAm had revenue of MUSD 26.6 during 3Q 2023 compared to MUSD 35.0 during 2Q 2023. We generated an operating profit of MUSD 2.0 in 3Q 2023 compared to an operating profit of MUSD 9.6 in 2Q 2023. The decrease in revenue was the primarily the result of lower utilization

in addition to dayrates starting to soften. We generated Adjusted EBITDA of MUSD 6.9 in 3Q 2023 compared to 14.4 in 2Q 2023.

Capital expenditures were MUSD 1.5 and MUSD 4.3 during the third quarter and year to date, respectively. We spent MUSD 1.1 on upgrades and MUSD 0.4 on maintenance capital expenditures in the third quarter of 2023. During the nine months ended September 30, 2023, we spent MUSD 3.6 on upgrades and MUSD 0.7 on maintenance capital expenditures. Our equipment upgrades mainly relate to completion of the remaining requirements for all our rigs to meet our ultra “super spec” specifications and construction of transformers to allow our rigs to connect to high line power. We currently estimate that 2023 capital expenditures will be approximately MUSD 4.6 - 5.0.

The Company is debt free, and we paid MUSD 9.8 or NOK 2.37 per share in monthly dividends to our shareholders in the third 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 has MUSD 4.5 available 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 September 30, 2022.

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 approximately \$70 at the beginning of the third quarter, finished trading at around \$90 in September and is currently trading at \$78. Natural gas prices were trading at approximately \$2.80 per MMBtu at the beginning of the third quarter, finished trading at around \$2.93 in September and is currently trading at \$3.20.

Based upon current commodity prices and discussions with operators who have been focused on budgets and production discipline, we expect that the recent decline in the Permian rig count has or is near a bottom and could start to increase in the near-term. As E&P operators remain focused on maintaining current production levels and with drilling but uncompleted (DUCs) wells at several year lows in the Permian basin, we believe “super spec” rigs will remain in high demand in the Permian basin.

Condensed consolidated Income Statement

	Quarter Ended		Nine Months Ended	
	Sept 2023	Sept 2022	Sept 2023	Sept 2022
<i>(All amounts in USD 1000s)</i>				
Revenue/Expense				
Sales	26,609	26,535	94,259	65,905
Other Income				
Total Operating Income	26,609	26,535	94,259	65,905
Payroll Expenses	8,039	7,007	23,359	20,952
Depreciation of Tangible and Intangible Assets	4,711	4,769	14,141	14,109
Rig Mobilization, Service and Supplies	7,678	7,205	21,967	19,820
Insurance Rigs and Employees	1,347	1,750	4,433	4,216
Other Operating Expenses	2,792	2,101	8,734	6,584
Total Operating Expenses	24,568	22,833	72,633	65,681
Operating Profit (+)/ Loss (-)	2,041	3,703	21,626	224
Financial Income and Expenses				
Other Interest Income	123	60	339	64
Other Financial Income	9	7	137	18
Other Interest Expenses	19	1,800	25	5,400
Other Financial Expenses	111	26	348	98
Net Financial Items	3	-1,759	102	-5,417
Profit (+)/Loss(-) before Income Tax	2,044	1,944	21,728	-5,192
Income Tax Expense		408	593	1,131
Net Profit (+)/Loss (-)	2,044	1,536	21,135	-6,323

Condensed consolidated Balance Sheet

	Notes	Sept 2023	Dec 2022
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(All amounts in USD 1000s)

Assets

Tangible Assets

Rigs and Accessories	1	76,089	86,312
Vehicles and Office Equipment	1	611	258
Total Tangible Assets		76,700	86,569

Current Assets

Receivable

Accounts Receivable		9,867	14,802
Prepaid Expenses and Other Current Assets		1,564	1,336
Total Receivable and Other		11,431	16,138

Cash and Cash Equivalents

Bank Deposits/Cash		15,321	13,098
Total Current Assets		26,752	29,236

Total Assets		103,452	115,806
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Condensed consolidated Balance Sheet

	Notes	Sept 2023	Dec 2022
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(All amounts in USD 1000s)

Equity

<i>Owners Equity</i>			
Issued Capital	2	12,547	12,547
Share Premium	2	118,818	136,573
Other Shareholder Contribution	2	369	369
Total Owners Equity		131,735	149,489

<i>Accumulated Profits</i>			
Other Equity	2	-46,321	-67,456
Total Accumulated Profits		-46,321	-67,456

Total Equity		85,414	82,033
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Liabilities

Deferred Tax		2,139	1,746
Total deferred tax		2,139	1,746

<i>Current Liabilities</i>			
Accounts Payable		6,293	4,607
Tax Payable		254	250
Public Duties Payable		266	267
Other Current Liabilities		9,087	26,904
Total Current Liabilities		15,900	32,027

Total Liabilities		18,039	33,773
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Total Equity & Liabilities		103,452	115,806
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Condensed Consolidated Statement of Cash Flow

	YTD	
	Sept 2023	Sept 2022
<i>(All amounts in USD 1000s)</i>		
Net Profit (+)/Loss (-)	21,528	-5,192
Tax paid for the period	4	
Depreciation of fixed assets	14,141	14,109
Change in accounts receivable	4,935	-4,493
Change in accounts payable	1,686	811
Change in other current balance sheet items	1,419	3,556
Net cash flow from operational activities	43,714	8,791
Purchase of tangible fixed assets	-4,271	-2,435
Net cash flow from investing activities	-4,271	-2,435
Repayment of long term debt		
Issued capital		
Dividends	-37,219	
Net cash flow from financing activities	-37,219	
Net change in cash and cash equivalent	2,223	6,356
Cash and cash equivalents opening balance	13,098	12,782
Cash and cash equivalents closing balance	15,321	19,138

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 December 2022	12,547	136,573	369	-67,456	82,033
Profit/loss in the period				21,136	21,136
Dividends		-18,111			-18,111
Stock option program		356			356
Equity September 2023	12,547	118,818	369	-46,321	85,414

The Company had MUSD 22.5 and MUSD 3.5 of dividends accrued as of December 31, 2022 and September 30, 2023, respectively. The Company declared and paid dividends of MUSD 37.2 for the 9 months ended September 30, 2023. The company declared and paid dividends of MUSD 3.5 subsequent to September 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 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").

Note 5 - Key figures and ratios

<i>(USD mill)</i>	Q3		YTD	
	2023	2022	2023	2022
Revenue	26.6	26.5	94.3	65.9
Operating profit	2.0	3.7	21.6	0.2
Net profit before tax	2.0	1.9	21.7	-5.2
EBITDA	6.8	8.5	35.8	14.3
ADJUSTED EBITDA	6.9	8.5	36.0	14.3
			September	
			2023	2022
Equity to asset ratio			82.6%	70.8%
	Q3		YTD	
	2023	2022	2023	2022
Total number of shares	43,140,993	23,392,317	43,140,993	23,392,317
EPS	0.05	-0.07	0.49	-0.27
Diluted EPS (Including options)	0.05	-0.07	0.48	-0.27

Definitions

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

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