



NorAm Drilling Company



Interim Report for 1st Quarter 2019

Report for NorAm Drilling Company AS and the Group



Interim Report for NorAm Drilling Company AS

1st Quarter 2019

CONSOLIDATED FINANCIALS:

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
MUSD		
Revenue	20.1	18.2
Operating Profit	2.9	1.2
Net Profit before tax	0.9	-1.2
EBITDA	6.8	4.9

DRILLING CONTRACT STATUS:

- Rig 21 – on contract through July 2019
- Rig 22 – on contract through January 2020
- Rig 23 – undergoing 10-year certification and available from 3Q 2019
- Rig 25 – on contract through June 2019
- Rig 26 – on contract through June 2019
- Rig 27 – on contract through July 2019
- Rig 28 – on contract through December 2019
- Rig 29 – on contract through July 2019
- Rig 30 – on a contract through December 2019
- Rig 32 – available and expected to be operational in 2Q 2019
- Rig 34 – on contract through March 2020

SUMMARY

NorAm Drilling Company AS (“the Group”, “NorAm” or “the Company”) 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 operating in the Permian Basin. A tenth rig is undergoing a 10-year certification and an eleventh rig is being upgraded. 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.

On December 6, 2018, the Company acquired two (2) additional land-based AC-driven drilling rigs increasing its fleet to eleven (11) drilling rigs. One rig was placed into service in April 2019 and the 2nd rig is scheduled to be operational before the end of 2Q 2019.

MARKET & ACTIVITIES

US West Texas Intermediate (WTI) crude oil prices started 2018 trading at around \$60.00 per barrel, increased steadily to a high near \$76.00 in October 2018 and then incurred a significant decline closing at a low for the year of \$45.53 on December 24, 2018. WTI recovered slightly closing at \$45.41 on December 31, 2018. WTI has recovered from the late 2018 decline and is currently trading near \$59.00 as of May 24, 2019.

During 2018, the active US land drilling rig count increased from 911 active rigs at December 31, 2017 to 1,056 active rigs at December 31, 2018. As of May 24, 2019, the US land drilling active rig count has declined to 957 active rigs.

Rig counts in the Permian Basin, where all of our rigs are currently located, continued to represent the highest share of activity in the US. During 2018, the Permian Basin rig count increased from 398 (43.5% of the active rig count) rigs at December 31, 2017 to 486 (46.0% of the active rig count) rigs as of December 31, 2018. As of May 24, 2019, the Permian Basin rig count was 451 (47.1% of the active rig count).

Customer sentiment has improved since late December 2018 with the firming of WTI, however, the significant volatility has impacted customers planning in 2019. The total US and Permian rig land counts have declined by 99 and 35, respectively, since December 31, 2018. We believe the majority of the decline relates to legacy rigs that do not have the operational efficiencies of the “super spec” high end rigs.

Rig demand for “super spec” high end rigs continues at a high rate which we believe their utilization is currently at or above 90%. Despite the recent volatility, we expect this trend to continue and believe that the 2H of 2019 could result in improved conditions for contract drillers.

US crude inventory storage levels and US production continues to remain high. Crude storage and production levels are up by approximately 8.8% and 14.2% respectively, from 1 year ago. US natural gas also has excess supply. With less than 20% of the wells drilled today being gas wells, US natural gas is still not a significant driver in the US land drilling market. Despite a current global oversupply of crude oil, historic levels of US crude oil inventory and excess US natural gas, US operators continued to add onshore drilling rigs in 2018 as a result of stable and higher oil prices and increases in their capital expenditure budgets for 2018.

During 1Q 2019, the Group operated its rig fleet at a 99.3% utilization rate compared to our 2018 YTD utilization rate of 99.6%. We are working principally for US operators with extensive crude oil drilling programs.

OPERATIONS

Combined with focus on our rig personnel staffing levels and effectively managing our other daily operating costs we were able to maintain rig operating costs during Q1 2019 and in line with our historical performance. Assuming dayrates remain stable, near 100 % utilization and effective management of our operating and supporting rig costs we expect our rig margin contributions compared to prior periods to be in line or slightly better.

FINANCIALS

NorAm had revenue of MUS\$ 20.1 during 1Q 2019 compared to MUS\$ 18.2 in 1Q 2018. During 1Q 2019 we generated an operating profit of MUS\$ 2.9 compared to an operating profit of MUS\$ 1.2 in 1Q 2018. The improvement in operating profit was the result of the higher average day rates earned as market conditions continued to improve. During 1Q 2019 we generated an EBITDA of MUS\$ 6.8 compared to MUS\$ 4.9 in 1Q 2018. Increased EBITDA in 2019 was a result of higher dayrates.

Capital expenditures were MUS\$ 6.5 in 1Q 2019, primarily attributable to upgrades of rigs purchased in late 2018. As of March 31, 2019, our cash position was MUS\$ 13.6 compared to MUS\$ 11.5 as of March 31, 2018. As of March 31, 2019 and 2018, we had MUS\$ 90.0 and 97.0, respectively, of outstanding bonds payable to 3rd parties.

In October, NorAm entered into a conditional purchase and sale agreement to acquire two land rigs from a third party. The transaction closed in December 2018 and expanded our “super spec” fleet from 9 to 11 rigs after required upgrades and modifications. We completed the upgrades to one of these two acquired rigs and commenced a one-year contract on April 1, 2019. We anticipate the second rig will be available for service before the end of 2Q 2019.

In connection with the acquisition and upgrade of these 2 additional rigs, NorAm completed an equity raise of NOK 200mm, or approximately MUS\$ 22.9 (net of expenses) from its existing shareholders, certain employees and directors in November 2018. Prior to the completion of the equity raise, NorAm completed a share consolidation in the ratio of 20:1, and NorAm issued an additional 10,000,000 shares at a price of NOK 20 per share in connection with the equity raise. After the rights issue, NorAm had 23,392,317 issued and outstanding shares, each with a nominal value of NOK 2.

Additionally, the Company agreed with its bond holders in November to the following changes: (i) an extension of the maturity date by two years (to June 2021), (ii) adjust the semi-annual installments in June and December to USD \$5,000,000, (iii) certain call options for the Company, (iv) change the equity ratio covenant to 30% through 2019 and 35% thereafter, (v) change the liquidity covenant to USD 5.0 million through 2019 and USD 10.0 million thereafter and (vi) certain adjustments to permit the acquisitions of the two new rigs and to incur additional debt against the security over the new rigs. The bond holders received an amendment fee of USD 1.0 million in connection with the changes to the terms of the bond issue.

OUTLOOK

Currently, nine of our eleven rigs are operating in the Permian Basin. A tenth rig is undergoing a 10-year certification and an eleventh rig is being upgraded. Despite the recent volatility in oil prices, we expect that demand for “super spec” land rigs to remain stable throughout 2019, 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
(All amounts in USD 1000s)

	Q1 2019	Q1 2018
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Revenue/Expense

Sales	20,073	18,243
Other Income		
Total operating income	20,073	18,243

Payroll Expenses	6,624	6,275
Depreciation/Amortization	3,875	3,689
Rig mobilization, service and supplies	3,917	3,539
Insurance rigs and employees	797	1,071
Other Operating Expenses	1,939	2,466
Total Operating Expenses	17,152	17,040

Operating profit (+)/ loss (-)	2,921	1,203
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Financial Income and Expenses

Other Financial Income	207	7
Other Interest Expenses	2,041	2,190
Other Financial Expenses	196	261
Net Financial Items	-2,030	-2,443

Profit (+)/ Loss(-) before Income Tax	891	-1,241
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Income Tax Expense	311	227
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Net Profit (+)/ Loss (-)	580	-1,468
EBITDA	6,796	4,891



Group - Balance sheet USD	YTD 31.03.19	YTD 31.03.18	YTD 31.12.18
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(All amounts in USD 1000s)

Assets*Tangible Assets*

Rigs and accessories	138,326	126,392	135,802
Vehicles and Office Equipment	626	556	539
Total Tangible Assets	138,952	126,947	136,340

Current Assets*Receivable*

Accounts Receivable	12,660	9,426	11,365
Other Receivable	1,063	1,645	1,397
Total Receivable	13,723	11,071	12,762

Cash and cash equivalents

Bank Deposits/Cash	13,643	11,458	13,473
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Total Current Assets

27,365	22,529	26,234
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Total Assets

166,317	149,476	162,574
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Group - Balance sheet USD		YTD 31.03.19	YTD 31.03.18	YTD 31.12.18
(All amounts in USD 1000s)				

Equity*Owners Equity*

Issued Capital	15,932	13,590	15,932
Share Premium	94,860	74,327	94,860
Other shareholder contribution	369	369	369
Total Owners Equity	111,162	88,286	111,162

Accumulated Profits

Other Equity	-49,384	-48,094	-49,965
Total Accumulated Profits	-49,384	-48,094	-49,965

Total Equity

61,777 40,192 61,197

Liabilities*Deferred tax*

	3,658	2,727	3,254
Total deferred tax	3,658	2,727	3,254

Non-Current Liabilities

Liabilities to Financial Institutions	90,000	97,000	90,000
Other Long Term Liabilities	333	322	812
Total Non-Current Liabilities	90,333	97,322	90,812

Current Liabilities

Accounts Payable	2,371	2,311	1,964
Public Duties Payable	119	140	151
Other Current Liabilities	8,059	6,783	5,196
Total Current Liabilities	10,549	9,235	7,311

Total Liabilities

104,539 109,284 101,377

Total Equity & Liabilities

166,317 149,476 162,574

Unaudited

KEY RATIOS	YTD 31.03.19	YTD 31.12.18	YTD 31.03.18
Equity to assets ratio	37%	38%	27%
Earnings per share	0.02	-0.02	-0.01

Cash flow (USD)	YTD 31.03.19	YTD 31.12.18	YTD 31.03.18
Cash from operation	7,127,209	11,134,323	4,570,618
Cash from investments	-6,478,108	-21,184,328	-438,931
Cash from financing	-479,114	15,754,972	-441,295
Change in cash	169,987	5,704,968	3,690,392
Cash position OB	13,472,573	7,767,605	7,767,605
Cash position CB	13,642,560	13,472,572	11,457,997

EQUITY (USD)	YTD 31.03.19	YTD 31.12.18	YTD 31.03.18
Equity OB	61,197,097	42,383,593	42,383,593
Own shares	-	-	-
Share issue	-	22,875,933	-
Net profit/loss for the period	580,208	-4,062,428	-1,467,916
Other changes	-	-	-723,437
Shareholder's dividend	-	0	0
Equity CB	61,777,306	61,197,098	40,192,240

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	-49,964,593	61,197,097
Profit/loss in the period	-	-	-	580,208	580,208
Stock option	-	-	-	-	-
Issued Capital	-	-	-	-	-
Equity as of Q1 2019	15,932,262	94,860,376	369,053	-49,384,385	61,777,306

10 largest Shareholders as of 31.03.19 in NorAm Drilling Company AS

Name	# Shares	Share
Geveran Trading Co Ltd	15,842,707	67.7 %
Pactum AS	2,673,034	11.4 %
Ship Finance International	1,266,225	5.4 %
Cameca AS	537,112	2.3 %
Thabo Energy AS	450,000	1.9 %
Øgelend Eiendom AS	321,593	1.4 %
Jahrman AS	264,590	1.1 %
Robert Wood Johnson The bank og New York	235,385	1.0 %
NHO - P665AK JP Morgan Chase Bank	197,301	0.8 %
Damima Invest AS	163,142	0.7 %
Total	21,951,089	
Total number of shares	23,392,317	

Note 3 - Long term liabilities and covenants

The Group has a Bond loan as of 31.03.19

Outstanding as of 31.03.19	90,000,000
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% for period up to 31.12.19 and > 35% for remaining period
- Liquidity – The Group's liquidity should be held at MUSD 5 for period up to 31.12.19 and thereafter MUSD 10 for the reminding period
- 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.

Note 4 - Key Ratios

	YTD 31.03.19	YTD 31.03.18	YTD 31.12.18
Equity to asset ratio	37%	27%	38%
Total number of shares	23,392,317	23,392,317	23,392,317
Earning per share*	0.02	-0.01	-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

	YTD 31.03.19	YTD 31.03.18	YTD 31.12.18
Cash from operation	7,127,209	4,570,618	11,134,323
Cash from investments	-6,478,108	-438,931	-21,184,328
Cash from financing	-479,114	-441,295	15,754,972
Change in cash	169,987	3,690,392	5,704,968
Cash position opening balance	13,472,573	7,767,605	7,767,605
Cash position closing balance	13,642,560	11,457,997	13,472,572

As of 31.03.19, USD 4 874 965 of bank deposits/cash on hand was restricted for debt service obligations related to The Group's outstanding bond loan.