NorAm Drilling Company

Annual Report 2016

NorAm Drilling Company AS and the Group

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General Information

This report contains forward looking statements that involve a number of risks and uncertainties. Such forward-looking statements may be identified by the use of forward-looking terminology such as “believes”, “expects”, “predicts”, “may”, “estimates”, “projects”, “are expected to“, ”will”, “will continue”, “should”, “would be”, ”seeks” or “anticipates” or similar expressions or comparable terminology, or by discussions of plans, intentions and strategy.

Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise. The Company or its officers assumes no obligation that such expectations will prove to be correct. These forward-looking statements are subject to risks and uncertainties that could cause actual results to vary materially from such forward-looking statements.

CHAIRMAN'S INTRODUCTION

The US contract drilling market continued to deteriorate during the first half of 2016 as a result of excess oil inventories and weak prices but has witnessed a significant improvement commencing in the third quarter of 2016 as oil prices stabilized.

Following a dramatic decline from 1350 active rigs at the beginning of 2015 the US land drilling rig count began 2016 at 672 active rigs and continued its decline to 408 active rigs as of June 2016 before starting a recovery in the 3rd quarter and continued to gain momentum through and beyond the end of 2016. The active rig count increased to 497 as of September 30, 2016 and 634 as of December 31, 2016. As of May 12, 2017, the active count was 860. A majority of the increase in rig activity has occurred in the Permian Basin where all of our rigs are located.

Despite the recent improvements in rig activity and modest improvements in dayrates we are encouraged that we are still only in the mid cycle of this market recovery. In order for the market to continue to improve, oil prices will need to continue to improve and maintain stability as a result of increased global oil demand.

Over the first half of 2016 we scaled down the organization, but retained key rig personnel to enable a rapid startup as idle rigs returned to work. Our workforce reductions during the first quarter of 2016 combined with our efforts to reduce our daily operating costs on idle rigs resulted in a 18.6% reduction from 2015 levels in our daily rig operating costs. As rig demand started to improve in the 3rd quarter, dayrates also started to improve, especially for high tech AC rigs capable of drilling longer horizontal wells and having the ability to efficiently serve multiple wells per location.

Consequently, the Group commenced an upgrade program of its fleet in the 4th quarter to meet these high tech rig specifications. All 9 of our rigs in the fleet are now equipped with 7500 psi fluid ends, 7 of the 9 are equipped with walking systems with one more scheduled to be upgraded with a walking system in July 2017. The final rig is equipped with a skidding system.

At the beginning of the 4th quarter, we still had 3 idle rigs. One idle rig returned to work in mid-October, another in late-November and the 3rd rig returned to work in early December resulting in all 9 of rigs being contracted as of yearend.

Important also, that even while experiencing a volatile activity level that resulted initially in staff reductions and needing to have all rigs crewed by yearend, the Group maintained its focus on safety and recorded its best year ever in terms of the TRIR safety measure by completing 2016 with a TRIR of 0.84, which is below the industry average of 1.30.

Henrik Tangen
Chairman,
NorAm Drilling Company AS


TOUCH

THIS IS NORAM DRILLING GROUP

NorAm drilling Company AS was established on February 19, 2007. The company owns and finances companies leasing and operating onshore oil and gas well drilling rigs.

The company is the parent of the NorAm Drilling Group. In 2016 the Group changed its name from Global Rig Company to NorAm Drilling Company.

At year-end 2016, the Group's fleet was 9 rigs. In 2007 and 2008 three Super Single rigs were delivered. These rigs were sold in 2011. One electric platform rig was delivered in January 2010 and sold in August 2010. Between May and September 2010 three SuperTech 1500 rigs were delivered, they are named Rig 21, Rig 22 and Rig 23.

Between June and August 2011, three Ideal 1800 rigs were delivered. They were named Rig 24, Rig 25 and Rig 26. In September 2014, Rig 24 was replaced with a delivery of a new Ideal 1800 and renamed as Rig 30. In November and December 2014 two more Ideal 1800 rigs, Rig 27 and Rig 28, were delivered. Rig 29 was delivered in early January 2015.

The Company structure

The parent company NorAm Drilling Company owns 100% of NorAm Drilling Company Inc., US-based drilling contractor, located in Houston, Texas.

Prior to October 2015, we had six Norwegian subsidiaries that owned and leased the rigs to NorAm Drilling Company Inc. at market terms. In October 2015, in an internal restructuring transaction, NorAm Drilling Company Inc. purchased all the rigs and rigs assets from the Norwegian rig owning companies.

NorAm Drilling Inc.is staffed with competent, local

Houston skyline. PHOTO: HEQUALS2HENRY/WIKIMEDIA COMMONS

personnel that perform all aspects of a contract drilling company.

In 2016 the Group decided to merge all Norwegian companies as a part of the restructuring of the Group, where the purpose is to simplify the corporate structure. This was done by October 2016.

NorAm Drilling Company AS funds NorAm Drilling Inc. with equity and intercompany loans at arm's length terms. NorAm Drilling Company AS assets is mainly shares in and loans to the US subsidiary.

A refinancing took place in 2014. In June, a new Bond Loan of MUSD 120 was issued to repay the remainder (MUSD 44) of the previous bond loan and to finance the acquisition of three new Ideal 1800 HP rigs. In October 2014, an equity raise of MUSD 20 was completed.

The new Bond Loan, with an interest rate of 9% per annum, replaced the bond loan of MUSD 60 issued in 2011, which had an interest rate of 13% per annum. The Group has repaid MUSD 23, and the outstanding amount as of the end of 2016 is MUSD 97

In order to upgrade more rigs with walking systems and improved mud pump systems the Group increased equity by approx. MUSD 9.4 in November 2016.

Our offices

NorAm Drilling Company AS head office is in Oslo, Norway. The office is located in Bankplassen 1A, 0151 Oslo.

NorAm Drilling Company Inc., the 100% owned operating subsidiary of NorAm Drilling Company AS, is headquartered in Houston, Texas. NorAm Drilling Company also has an operations office, warehouse and yard located in Humble, Texas and another warehouse/yard facility located in Midland, Texas. NorAm Drilling Company Inc. markets, contracts, mans, owns and operate the rigs.

Organization

Marty L. Jimmerson joined the Company in January 2017 as Chief Financial Officer and interim Chief Executive Officer.

Prior to NorAm Drilling, Mr. Jimmerson served as interim chief executive officer of RigNet, Inc. from January through June 2016, and senior vice president and chief financial officer from November 2006 until January 2016. RigNet is a U.S. listed and

Operations of NorAm Drilling

Marty L. Jimmerson:	Interim CEO & CFO
Thomas Taylor:	COO
Steve Scott:	Director of Business Development
Will M. Luker, Jr:	Safety Director
Jesse Hodge:	Operations Manager
Aaron Cannon:	Field Superintendent
Brannon Crager:	Field Superintendent
Rickey Raybon:	Field Superintendent

Ideal rigs	
4 shifts 12h/day 1w on - 1w off	2 shifts 24h/day 1w on - 1w off
Driller Derrickman Motorman Floormen (2)	Toolpusher Electrician

SuperTech rigs	
4 shifts 12h/day 1w on - 1w off	2 shifts 24h/day 1w on - 1w off
Driller Derrickman Motorman Floormen (2)	Toolpusher Electrician

publically traded company that provides remote telecommunication services to both offshore and onshore drilling contractors, operators and service providers serving the oil & gas industry.

Mr Jimmerson is educated at Baylor University and has taken an Emerging CFO: Strategic Financial Leadership Program at Stanford University Graduate School of Business.

Chief Operating Officer (COO) Thomas Taylor

Mr. Taylor was named Chief Operating Officer in November 2014. Previously he has served as NorAm Drilling Company's Drilling Operations Manager for the past six years, supervising new rig builds and managing all drilling operations.

Thomas Taylor is a Mechanical Engineer with over 20 years of experience in the oil field service industry. Prior to NorAm Drilling, Mr. Taylor served as a Drilling Superintendent for Bronco Drilling in Libya. He also served as a Driller and Tool Pusher both offshore and on land for Rowan Drilling Company.

NorAm Drilling Company

Mr. Jimmerson and Mr. Taylor fulfill their roles for both NorAm Drilling Company AS and NorAm Drilling Company Inc. with the support of the NorAm Drilling organization, as shown on page 7.

Crews

NorAm Drilling Company hires crews of 26 people (4–6 man crews) per rig, toolpushers, drillers, derrickmen, electrician, floormen and motormen, working in shifts performing the drilling. In addition the operating organization consists of mechanics and electricians.

During a difficult market in 2015, NorAm had to stack three of its idle rigs and layoff the crews assigned to the rigs, except for the Toolpushers who serve as the rig's manager in the field.

In 2016 some of the rigs were idle, but by year end all rigs were working, but at lower rates.

Financing

NorAm Drilling Company AS was established on February 19, 2007. On May 14, 2007, the Company raised NOK 115 mill in equity, and on June 28 2007, a loan agreement for NOK 120 mill bonds with warrants was signed. The total of NOK 235 mill was for financing the purchase of three onshore drilling rigs, and establishment and operations of a subsidiary drilling company in the US.

In July 2008 NorAm Drilling Company AS was funded with additional equity of NOK 331.2 mill and four new rigs were ordered, one electric 100 HP and three Global SuperTech 1500 HP. The placement triggered settlement of the bond loan and it was refinanced by a shareholder loan of MUSD 25 in October 2008, and a loan of MUSD 6 in July 2010. The two loans were refinanced, partly repaid and partly converted to shares.

A MUSD 60 Bond Loan with four years of maturity and an interest rate of 13% was issued in June 2011.

In June 2014, a new Bond Loan of MUSD 120 was issued, with an interest rate of 9 %, to repay the remainder (MUSD 44) of the previous bond loan and to finance the acquisition of three new Ideal 1800 HP rigs, delivered in November and December 2014.

In October 2014, an equity raise of MUSD 20 was completed to enable the company to acquire three more Ideal 1800 rigs. In November 2015, the Group cancelled the order to purchase three additional rigs, due to the prolonged downturn in the oil and gas industry.

In October 2016 the Group reduced the share capital by MNOK 197.3 by a reduction of nominal value by NOK 1.90 to NOK 0.10 per share. At the same time a Rights issue of MUSD 9.4 or 164 400 000 new shares at subscription value of NOK 0.50 increased the equity by MNOK 82.2

Market

The contract drilling market

US domestic production of crude oil has since October 2016 been increasing, after the peak in mid-June 2015.

Fig 1a: US Crude Oil Field Production Chart

Thousand barrels per day

SOURCE: WWW.EIA.GOV

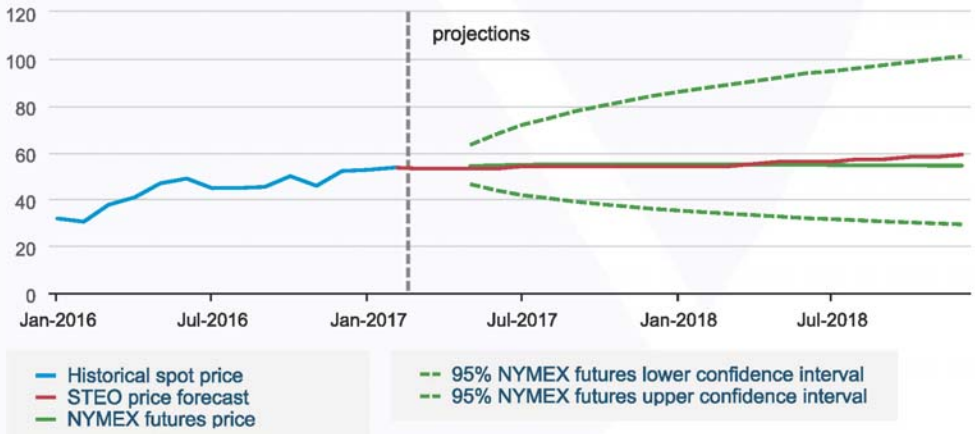
Fig 1b: U.S. field production of crude oil

Thousand barrels per day

SOURCE: WWW.EIA.GOV

Fig 1c: Short-Term Energy Outlook (STEO) for Western Texas intermediate (WTI) crude oil price

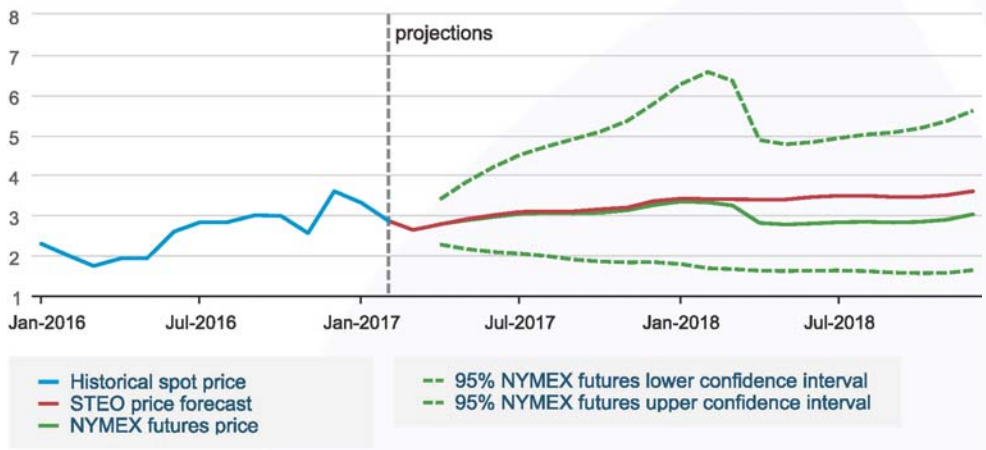
Dollars per barrel



SOURCE: WWW.EIA.GOV

Fig 1d: Short-Term Energy Outlook (STEO) for Henry Hub Natural Gas Price

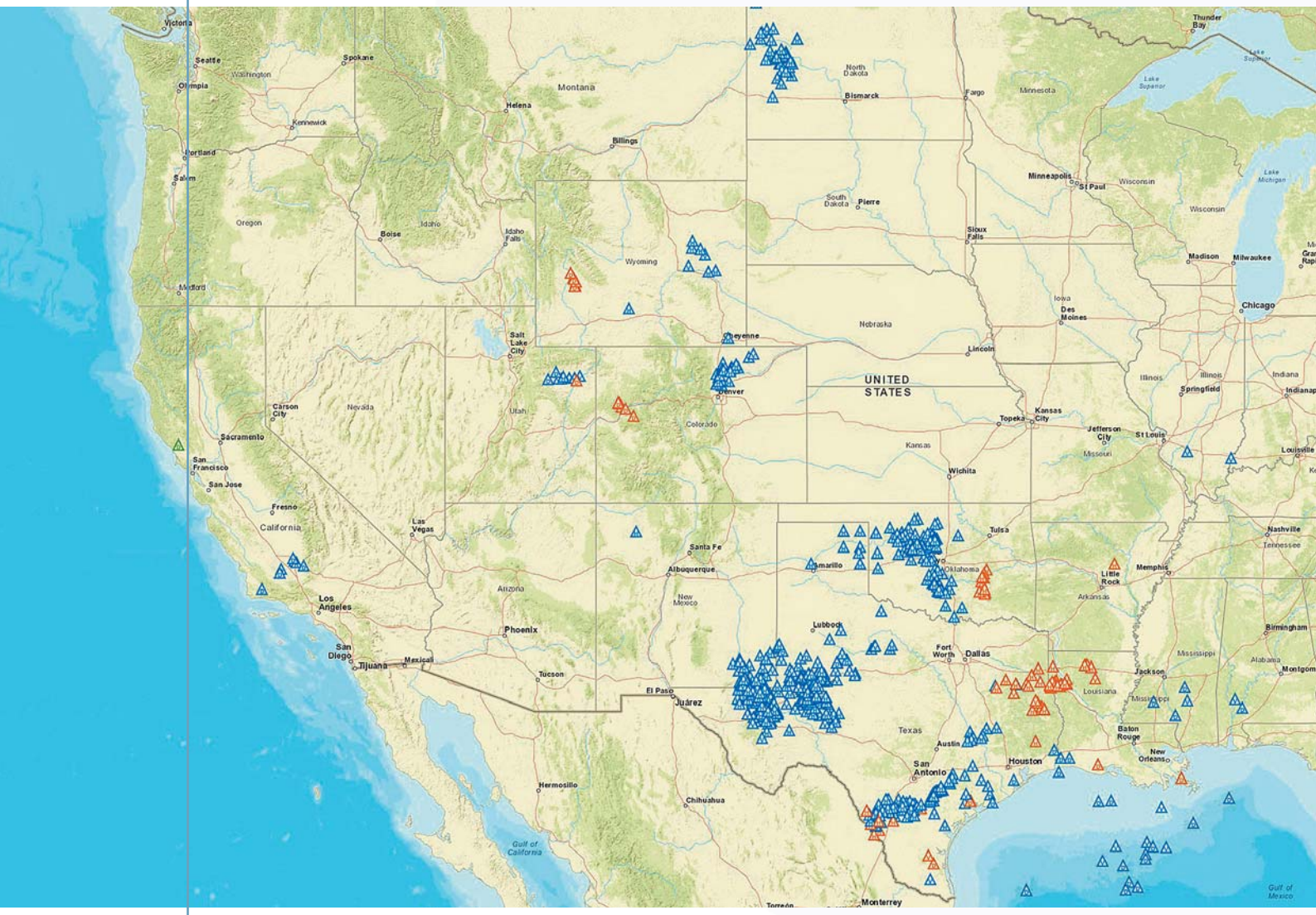
Dollars per million btu



SOURCE: WWW.EIA.GOV

Fig 2: Rig count as per march 30th 2017

SOURCE: BAKER-HUGHES



In February 2017 the daily production was again passing 9 million barrels a day, after falling below 9 million in April 2016 and stabilized on a production level between 8, 4 and 8, 6 million barrels a day in the period from July to October 2016.

Prior, the production had increased continuously and sharply from 2011 to a peak in mid-June 2015 with the production passing 9.6 million barrels a day.

All time high US domestic crude oil production is just over 10 million, from November 1970 (Fig 1b).

Western Texas intermediate (WTI) crude oil price ended at year end 2015 at $37 per barrel and continued to decline down to below $30/b in February 2016. Since then it increased steadily and was at year end 2016 at near $54/b. In its March Short-term Energy Outlook, EIA (US Energy Information Administration) forecast WTI prices to increase slowly to $54/b by the end of 2017, and to $59/b by the end of 2018. (Fig 1 d).

New natural gas export capabilities and growing domestic natural gas consumption contribute to the EIA forecast of the Henry Hub natural gas spot price rising from an average of $3.03/million British thermal units (MMBtu) in 2017 to $3.45/MMBtu in 2018. (Fig 1 d).

With less than 20 % and declining of the wells being drilled today being gas wells, US natural gas is still not a significant driver in the US land drilling market, and is not expected to be with this price levels.

Status Drilling Contracts

SuperTech 1500

- Rig 21 – on a well-to-well contract
- Rig 22 – on a contract through December 2017
- Rig 23 – on a well-to-well contract

Ideal 1800

- Rig 25 – on contract through June 2017
- Rig 26 – on a well-to-well contract
- Rig 27 – on a contract through June 2017
- Rig 28 – on a 2-year contract through December 2018
- Rig 29 – on a contract through June 2017
- Rig 30 – on a contract through December 2017

Accounting and auditing

NorAm Drilling Company AS is audited by KPMG, Norway. The accounting is outsourced to Amesto Business Partner, Norway.

NorAm Drilling Company Inc. does its own accounting.

DIRECTORS REPORT 2016

NorAm Drilling Company AS and the group

2016 – A year of survival

A weak market with depressed oil prices and low drilling activity continued from 2015 into the start of 2016.

In January 2016, WTI crude oil was trading below $30 per barrel and by March 2016, 5 of our 9 drilling rigs were idle. In response we continued our cost cutting efforts from 2015, which reduced our daily operating cost an additional 18.6% from 2015 levels, which followed a 24% cost savings in 2015.

These cost cutting efforts allowed us to weather the storm throughout 2016 and our marketing efforts combined with our historical performance and selected rig upgrades, we were able to get all 9 rigs contracted and back to work by December 2016.

The Group's rig utilization rate for 2016 was 62.5% compared to 71.4% in 2015. Prior to 2015, the Group had operated its drilling rig fleet at a 99% utilization rate for 2 ½ years. However, even with reduced utilization and efforts to reduce operating costs, the Group maintained its focus on safety and recorded its best TRIR safety measure for 2016 of 0.84, which followed the then best-ever TRIR of 1.09 in 2015.

Our business

NorAm Drilling Company AS (herein called "Company") and its subsidiaries (herein called "Group") were established on February 19, 2007.

The Group's Executive Management Team is based out of Houston, Texas with administrative functions located in both Houston and Oslo, Norway.

The Group consists of the Norwegian parent company NorAm Drilling Company AS and daughter company NorAm Drilling Company in Houston. The Group invests in, owns, and operates nine onshore oil and gas well drilling rigs currently operating in the Permian Basin in the United States. The Group has established a solid foothold in the lower US, with significant operating experience in Louisiana, New Mexico, Oklahoma and Texas, through its subsidiary NorAm Drilling Company.

In October 2015 we closed a transaction in which our Norwegian subsidiaries sold the drilling rig assets to our US operating subsidiary, and in October 2016 we merged the Norwegian companies and changed the name from Global Rig Company AS to NorAm Drilling Company AS.

The Group currently focuses solely on the US land drilling market. Despite the downturn, the Group is well positioned for the ongoing upgrade cycle of the US land rig fleet, which involves the phasing out older conventional rigs drilling vertical wells and the shift in focus towards more technologically advanced compact high end AC driven rigs drilling horizontal wells.

The Group has a rig portfolio of nine relatively new advanced high-end AC-driven rigs tailored for the drilling of horizontal wells. 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. A rig upgrade program started in 2016, has added all of the "super spec" requirements to meet the current market demands for longer lateral drilling. All 9 rigs in the fleet are now equipped with 7500psi fluid ends, 7 of the 9 rigs have 3rd mud pumps with the others slated to be added in 2017, and 7 of the 9 rigs are equipped with walking systems and one rig with a skidding system. The remaining rig will have a walking system installed in July 2017.

Market and Contracts

US West Texas Intermediate (WTI) crude oil prices started 2016 trading at around $37 per barrel. By mid-February 2016, WTI prices had declined to

below $30 per barrel which turned out to be the bottom for 2016. Thereafter, WTI oil prices trended upward, despite some expected volatility, finishing the 2016 at yearly high prices near $54 per barrel. Since December 31, 2016, WTI oil prices have mostly continued to trade in a range of $52 -54 per barrel with current prices around $50 per barrel.

Consistent with WTI crude prices, the active US land rig count continued to decline in early 2016, dropping 271 rigs from 672 active rigs as of December 2015 to 401 active rigs in 2Q 2016. As WTI prices stabilized and continued to increase throughout the remaining nine months of 2016, rig counts steadily rose as well, finishing 2016 at 634.

The active 2016 US rig count finished with 38 (or 5.7%) less working rigs compared to December 31, 2015. Rig demand has continued increasing during early-2017, with the current US land rig count at 860 active rigs. The Permian Basin, where all our rigs currently operate, has been the catalyst for the overall US rig activity market. The active rig count in the Permian Basin at year-end 2015 was 145 compared to 246 as of December 31, 2016. Since yearend, the Permian Basin has added 111 more rigs up to 357 (representing 42% of the total US rig count) active rigs currently working.

US natural gas also has excess supply. With current inventory storage levels just below 5-year average; US natural gas prices have remained weak and are currently trading just above $3.00per mcf. 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, even after prolonged depressed US crude oil prices.

Despite a current global over-supply of crude oil, historic levels of US crude oil inventory and excess US natural gas, US operators continued to add onshore drilling rigs in the first half of 2017 as a result of increases in operator capital expenditure budgets for 2017. The increases in operator capital budget are primarily the result of (i) stability in near-term oil prices along with expected increases continuing through 2018 and (ii) growing confidence that OPEC's agreement to cut production will hold together.

During 2016, the Group operated its rig fleet at a 62.5% utilization rate, working principally for US operators with extensive crude oil drilling programs. Today, all nine rigs are currently operating in the Permian Basin. Three rigs are on well-to-well contracts and the remaining rigs are on term contracts that expire at various stages from June 2017 through December 2018.

NorAm Drilling Company

As of December 31, 2016, NorAm Drilling Company had an operational organization of 241 people including six persons working at the administration office in Houston.

A restructuring of the Group was implemented partly in 2015 and partly in 2016 whereby the ownership of the rigs was transferred to its US daughter company NorAm Drilling Company Inc. in 2015 and merging the Norwegian companies to one company, NorAm Drilling Company AS, in 2016. The mergers are regulated by the Companies Act § 13-23, the regulations of the Tax Act regarding tax free mergers and the Accounting Act. From a fiscal point of view, the mergers become effective as of the date specified in the Tax Act. The mergers are completed with fiscal continuity regarding the Merging Companies and the shareholders. The effective date for accounting purpose is 01.01.2016. The mergers are implemented with continuity for accounting purposes.

Strategy

The Group will continue its focus on building a larger US presence by further developing our US subsidiary. The foundation has been laid over the years, building strong in-house drilling competences and safety records, a flat organization with focus on training and motivation of our drilling crews, effective corporate routines and strong client relationships.

By growing the Group's rig fleet from three rigs in 2009 to nine rigs by the start of 2015, the Group has taken important steps forward to become an important player in the US onshore drilling industry.

Additionally, the Group has walking systems installed on six of its rigs with upgrades in process on 2 additional rigs, that will improve their marketability.

Key targets for 2017:

- Ensure continued high safety standard in line with the 2016 performance
- Maintain and develop customer relationships in order to obtain higher dayrates contracts with reputable clients
- Complete the super spec upgrades to the remaining rigs in our fleet
- Restructure balance sheet/debt to more appropriately fit a cyclical drilling contractor

Financing

On the balance sheet, the Group has equity of MUSD 55.2 equivalent to an equity ratio of 34% at year-end 2016, compared to MUSD 67.2 of equity and a 36% equity ratio at year-end 2015.

The Company's balance sheet at year-end 2016 had equity of MUSD 102 and an equity ratio of 50%, compared to MUSD 90.0 of equity and a 45% equity ratio at year-end 2015.
In 2016, the Group delivered EBITDA of MUSD 3.2 compared to MUSD 13.9 in 2015. In October 2016 the Group reduced the nominal value of its shares from NOK 2.00 to NOK 0.10 and in conjunction offered a rights issue to increase the share amount with 164.4 million shares, each having a nominal value of NOK 0.10 and a subscription value of NOK 0.50 increasing the share capital by MUSD 9.4 (December 20, 2016).

Company development, results and going concern

The Group has an ongoing dialogue with its existing customers as well as potential new customers about rig performance and contracts. The Board emphasizes the importance of new, efficient rigs and trained personnel as a powerful combination for reaching our drilling, safety and utilization targets and winning new contracts with quality clients.

Profit before tax for the Group in 2016 was MUSD -21.3 and EBITDA was MUSD 3.2.

A key driver for financial results in 2017 will ultimately be the price development of crude oil and natural gas prices which impacts capital spending by the US energy producers.

The Company and Group is financed through a Bond loan, see note 9 to the Financial Statement. Due to continuing net losses in 2015 and 2016 reducing our equity as of December 31, 2016 and current market conditions, the bond holders agreed to waive the Equity Ratio covenant on September 16, 2016, for a period lasting until June 30, 2017 and also reduced the minimum cash requirement to MUSD 7.0 until June 30, 2017.

Although market conditions have improved, the Company determined that it would be unable to meet the repayment terms and various covenants of the Bond loan throughout 2017. Accordingly, on June 2, 2017 the bondholders agreed to eliminate scheduled principal repayments in 2017 of MUSD 12.0 and extend the waiver of both the Equity Ratio covenant and minimum cash requirement of MUSD 7.0 until January 1, 2018, in exchange for a one-time payment of MUSD 1.2. The Board of Directors confirm that it is expected that the Company and Group will be compliant with all other covenants set out in in the Bond Loan Agreement through 2017.

The Board considers the Financial Statements for 2016 to represent a true and fair view of the development and results of the Company's and Group's operations and accounts as of December 31, 2016. The Board confirms that going concern assumptions are satisfied as to the standards set by the Norwegian Accounting Act and which has formed the basis for the financial statements presented herein for the Company and the Group.

Key financial figures

USD mill	Group 2016
Operating Income	39.4
Operating Expenses (incl. depreciation)	50.3
EBITDA	3.2
Depreciation	14.0
Net Financial loss	10.4
Net Profit before Tax (Loss)	-21.3
Equity Ratio	34%

USD mill	Company 2016
Operating Income	0
Operating Expenses (incl. depreciation)	1.0
EBITDA	-1.0
Depreciation	0
Net Financials	4.4
Net Profit before Tax	3.4
Equity Ratio	50%

Research and development activities

Neither the Company nor the Group had research and development expenses in 2016.

Working environment

The Board considers the working environment in the Company and the Group to be good.

Management consists of the Acting Chief Executive Officer / Chief Financial Officer and a Chief Operating Officer. Apart from these individuals, the Company uses external advisors for accounting, legal affairs and other professional services.

NorAm Drilling Company AS has had minimal absenteeism and no incidents causing personal injury.

The Group had 241 employees at the end of 2016. The absenteeism rate was minimal and there were only 2 personal injury incidents. There were no property damage incidents in 2016.

Discrimination

The Group and the Company target to be an employer to promote equality for all employees' regardless of nationality, sex, skin color, language or religion. This is true for recruiting new people, for salary and bonus schemes, working relations, promotions and protection against harassment.

Corporate Social Responsibility

New reporting requirements impose large com-panies to prepare a yearly statement regarding corporate social responsibility, as a part of all annual reports dated after December 31, 2012.

The statement should include the company and groups work to include considerations regarding human rights, labor rights and social responsibility, the environment and the fight against corruptions in their overall business strategy, day to day business and in connection to their business relationships.

NorAm Drilling Company AS (herein "the Company") and NorAm Drilling Group (herein "the Group") has offices in Norway and in the United States, and have established routines and controls to ensure compliance with regulations within the different countries where the Company and Group is established.

The main business of the Group is carried out in the US subsidiary NorAm Drilling Company.

There are no employees in Norway, but consultants and advisors are hired to ensure compliance with regulations. It is established internal procedures to ensure compliance with regulations regarding human rights, labor rights and social responsibility, the environment, and the fight against corruption for the business in the US. Labor rights are regulated through federal-, state- and local laws and regulations.

One of the established routines is to "know your customer", and to conduct oneself to the regulations regarding for example Money Laundering Act ("Hvitvaskingsreglene"). These problems are addressed in every contract and every transaction done by the Company or Group. Established routines and internal control system ensures compliance to these regulations. Further, the Company and Group has established routines to ensure that all projects and contracts are done with partners with already established business relationship, or known and reputable parties in the industry. It is also important for the company to reduce the risk of influence on the environment (see separate section in the report). Internally there is direct communication between management and employees, and between the Board of Directors and management, where labor rights and social relationship is communicated continuously.

As a result of the Boards initiatives on these issues, the company has reviewed their internal control systems, and made changes to it as a result of the review. The Company and Group will continue to review their internal control system

and routines and procedures in connection to this, to ensure continuously improvement and adapt to the size and risk of its operations.

The Company and the Group values open communication and the Board takes hands on approach to NorAm Drilling Company's governance. With the small size of NorAm Drilling Company AS and Group's staff and the location and nature of its operations, the Board considers the risk of corruption as low although it has implemented formal procedures to address risks related to segregation of duties inherent in a company with so few employees. The board is not aware of any instances of corruption.

Equal opportunity

The Company had one employee during 2016. Women will be encouraged to apply for posted available positions in order to increase the representation of both sexes in the organization.

At the end of 2016, NorAm Drilling Company had two women employed. There will be no discrimination between men and women regarding recruitment, salaries in relation to position/competence, or promotion, or any other aspect of the Group's activities.

The NorAm Drilling Company AS Board consists of three men and a deputy female member. NorAm Drilling Company Inc. has the same board as NorAm Drilling Company AS.

External environment

NorAm Drilling Company AS does not pollute the external environment. Among the subsidiaries, NorAm Drilling Company undertakes activities that are potentially polluting. The oil and gas well drilling business, by its very nature, can, if proper procedures are not followed adversely impact the environment. This can range from blowouts of wells or pollution of the area surrounding the drilling activities.

NorAm Drilling Company takes all reasonable precautions by assuring proper equipment and maintenance and that the rig personnel are all properly trained. Also NorAm Drilling conducts standard procedures beyond regulations to ensure not to pollute. Other actions taken by NorAm Drilling is converting engine system into Dual Gas system allowing our engines to run on natural gas at a lower cost and generating less pollution.

NorAm Drilling has implemented Health, Environment and Safety services to support the company's activities and the rig crew is trained in Occupational Safety and Health Administration (OSHA) HSE regulations in the US. The focus is to train all site personnel in their daily routines to act safely and to prevent unwanted occurrences with the rigs.

NorAm Drilling complies with US state and federal regulations in its activities, including environmental protection regulation. The operator carries the main responsibility regarding the external environment when drilling a well under standard daywork drilling contracts.

Results, investments, liquidity and financing

The Group had a net loss before tax of MUSD 21.3, compared with a loss of MUSD 11.9 in 2015. The year-end net loss after tax was MUSD 21.5 compared with a net loss after tax of MUSD 22.4 in 2015.

During 2015 the company wrote down the value of investment in subsidiaries with MUSD 14.7, due to changes in organizational structure, since the subsidiaries had no activity after transferring all rigs and equipment to NorAm Drilling Company. The investment was written down to reflect the book value of equity in the subsidiaries.

The Company has decreased net loss before tax from MUSD 20.6 in 2015 to a gain of MUSD 3.4 in 2016. Net loss after tax was reduced from MUSD 19.6 in 2015 to a net gain after tax of MUSD 2 in 2016.

Cash Flow and liquidity

The cash position for the Group decreased from MUSD 36.3 as of December 31, 2015 to MUSD 18.3 as of December 31, 2016.

The Group invested MUSD 9.6 in Capital Expenditures in 2016, principally to upgrade the rig fleet with 7500psi fluid ends for the mud systems, adding a 3rd mud pump and adding walking systems for the rigs that did not have them.

Payments on debt were MUSD 21.5 in 2016, of which MUSD 12.0 was principal payments on the Bond Loan. The Bond Loan outstanding as of December 31, 2016 was MUSD 97.0.

Scheduled payments for the Bond Loan are MUSD 6.0 of principal and MUSD 4.4 of interest in June 2017 and principal of MUSD 6.0 and interest of MUSD 4.1 in December 2017.

When it comes to our Bond Loan requirements please see the Boards comments in the section "Company development, results and going concern".

Issued share capital for the Group was MUSD 13.6 at December 31, 2016 and owners' equity was MUSD 88.3 at December 31, 2016.

Total equity per December 31, 2016 is MUSD 102 for the Company and MUSD 55.2 for the Group. The Board considers the equity to be in compliance with the requirement for sufficient equity under the Norwegian Public Limited Liability Companies Act.

The Company's and the Group's key risks are comprised to a large extent of (i) oil and gas prices, (ii) number of rigs available for drilling in the US and the rig count (rigs employed), and (iii) risk related to suppliers and clients.

The client risk of the Group varies, and even though the Group targets blue-chip E&P clients with extensive operations, contracts may also be signed with smaller companies to increase utilization of the rigs. In such cases, a review of financial statements or payment references is performed to reduce risk of nonpayment.

The Group recorded operating income in 2016 of MUSD 39.4, compared to MUSD 56.2 in 2015; operational expenses of MUSD 50.3 compared to MUSD 56.3 in 2015, and net financial cost were MUSD 10.4, compared to MUSD 11.8 in 2015. The net finance cost is mostly due to interest on the Bond Loan. The net loss before tax for 2016 was MUSD 21.3 compared to a pretax loss of MUSD 11.9 in 2015, while the net loss after tax was MUSD 21.5 compared to a net loss after tax of MUSD 22.4 in 2015.

The Company recorded operating expenses of MUSD 1.0 in both 2016 and 2015, and net financial income was MUSD 4.4 in 2016, compared to net financial expense of MUSD 19.6 in 2015. Net gain before tax was MUSD 3.4 in 2016, compared to a pretax loss of MUSD 20.6 in 2015.

Risk Factors

The Group and the Company are exposed to a number of risk factors when performing its activities, such as market risk, operational risk, credit risk and liquidity risk.

The Group is financed mainly by equity and a Bond Loan of MUSD 97 at the end of 2016.

The Group is affected by the US dollar exchange rate versus the Norwegian krone ("NOK"). Currently, the only actual NOK expenses are administration expenses related to the Norwegian parent company.

The Group converted to USD as functional and reporting currency in 2011 and thereby reducing the currency exposure risk.

The risk in the US land drilling market is strongly related to energy prices. Day rates and utilization levels of the Group's rigs correlate with the price of oil and natural gas. An increase in oil price requires supply reductions or activity increase, essentially on a global level. For the gas price, the domestic activity in USA is the determining factor. Any forecast regarding the economic development for USA in particular, and the world in general, is very uncertain, making it difficult to offer estimations on price development.

The Group's income is the most result-sensitive factor, and a reduction either in utilization or day rates compared to budget has clear negative effects on the result. Conversely, higher rates and utilization have very positive effects on the result. The cost level will vary with constraints in the market for input factors.

Supplier and client risks are also present in the market in which the Group is operating. Even if the Group targets contracts with larger and financially solid partners, the contracts will be subject to uncertainty with regards to the suppliers' or the clients' ability to meet their commitments, as they, too, on a general basis also will be subject to market and financial risk. Idle rigs will lead to significant loss of income.

In addition, there will be some extra stacking expenses. Such expenses are modest in terms of influence on the result. The Group is also exposed to changes in the regulatory and fiscal frameworks in Norway and the USA.

Share Options

There were no share options granted in 2016. In 2014 a total of 300,000 new share options for one share per option were granted to key management of Global Rig Group. The exercise price was NOK 3.50. The grant was made according to a resolution in the General Meeting of June 2014. The options may require equity issues or the Company's purchase of its own shares to provide the shares, should the options be exercised. Authority to increase share capital was approved at the said General Meeting.

Subsequent events

January 20, 2017, CEO Dale Wilhelm was replaced by Mary L. Jimmerson, who accepted the role as Chief Financial Officer and Interim Chief Executive Officer at NorAm Drilling Company.

At the time for signing the Group Financial Statement, an agreement between the Group and Former CEO Dale Wilhelm was reached. The termination agreement is in accordance with the employee contract.

Future development

- Dayrates and Utilization Outlook

Today, all nine rigs are currently operating in the Permian Basin. Three rigs are on well-to-well contracts and the remaining rigs are on term contracts that expire at various stages from June 2017 through December 2018. It is anticipated that demand for US land rigs should continue to improve throughout 2017, especially in the Permian Basin, subject to any significant negative volatility on WTI oil prices. As a result we expect our rig utilization to improve significantly in 2017. Also, we expect that dayrates should continue to increase throughout

2017 which we project we will get a modest benefit at a minimum given our current contract backlog. Accordingly, we project that our revenue will be significantly higher in 2017

The Board expects to maintain the Group's strong safety record and low TRIR in line with the 0.84 experienced during 2016.

- Operating Expenses

As dayrates, rig utilization and revenue have declined throughout the last few years, the Group has taken efforts to reduce its operating costs accordingly. In 2015, we initiated cost cutting measures which reduced our daily rig operating cost by almost 24% from 2014 levels. In January 2016, we began implementing further cost cutting measures including workforce reductions to reduce the operating cost associated with our idle rigs. As we contracted and returned all of our rigs to work during 2016, we successfully hired skilled labor and did not experience any significant reactivation costs.

- Liquidity/Cash flow

The Company and Group is financed through a Bond loan, see note 9 to the Financial Statement. Due to continuing net losses in 2015 and 2016 reducing our equity, the bond holders agreed to waive the Equity Ratio covenant on 16 September 2016 for a period lasting until June 30, 2017 and also reduced the minimum cash requirement to MUSD 7.0 until June 30, 2017. The Group cash position was MUSD 18.3 as of December 31, 2016.

Although market conditions have improved, the Company determined that it would be unable to meet the repayment terms and various covenants of the Bond loan throughout 2017. Accordingly, on June 2, 2017, the bondholders agreed to eliminate scheduled principal repayments in 2017 of MUSD 12.0 and extend the waiver of both the Equity Ratio covenant and minimum cash requirement of MUSD 7.0 until January 1, 2018, in exchange for a one-time payment of MUSD 1.2.

In accordance with the terms of the Company's Bond Agreement and obtained waivers no principal is due in 2017. However, interest on the bonds will also be paid in June (MUSD 4.3) and December (MUSD 4.1).

The Bond Agreement waivers will ensure that we have the capital necessary through 2017 to maintain the market position we have achieved.

Signature of the Board, June 2nd 2017

Henrik Tangen	Ole B. Hjertaker	Henrik Krefting
Chairman	Board member	Board member

Financial Statements 2016 - The Group

INCOME STATEMENT per Dec 31, 2016 (Amounts in USD 1,000)

NorAm Drilling Company AS					Group	
2016	**2015**	**Note**		**Note**	**2016**	**2015**
0	0	13	Sales	13	39 444	56 213
0	0		Other income		0	0
0	**0**		**Total operating income**		**39 444**	**56 213**
213	222	2	Payroll expenses	2	17 119	20 330
0	0		Depreciation of tangible and intangible assets	8	14 034	13 949
0	0		Write-down tangible assets	8	0	0
0	0		Rig mobilization, service and supplies		9 632	10 665
0	0		Insurance rigs and employees	10	3 691	4 297
0	0		Internal operating expenses		5	0
807	756	2, 10	Other operating expenses	2,10	5 816	7 056
1 020	**978**		**Total operating expenses**		**50 298**	**56 297**
-1 020	**-978**		**Operating profit (+) / loss (-)**		**-10 854**	**-83**
			Financial income and Expenses			
14 758	6 847	6, 12	Interest income from group companies		0	0
4	3	12	Other interest income	12	4	3
260	19	12	Other financial income		260	23
9 452	10 493	9, 12	Other interest expenses	9,12	9 497	10 552
1 166	15 989	12	Other financial expenses	12	1 180	1 256
4 405	**-19 613**		**Net financial items**		**-10 412**	**-11 783**
3 385	**-20 590**		**Profit (+)/Loss (-) before income tax**		**-21 266**	**-11 866**
1 365	**-953**	**3**	**Income Tax Expense**	**3**	**193**	**10 544**
2 021	**-19 638**		**Net profit (+)/Loss (-)**		**-21 459**	**-22 410**
2 021	**-19 638**	**5**	**Transferred to other equity**	**5**	**-21 459**	**-22 410**

Balance Sheet per Dec 31, 2016 (Amounts in USD 1,000)

NorAm Drilling Company AS					Group	
2016	2015	Note		Note	2016	2015
			ASSETS			
			Non-current assets			
			Intangible assets			
0	5 352	3	Deferred tax assets	3	0	0
0	**5 352**		**Total intangible assets**		**0**	**0**
			Tangible assets			
0	0	8	Rigs and accessories	8	134 572	138 934
0	0		Other tangible assets		615	634
0	**0**		**Total tangible assets**		**135 188**	**139 568**
			Financial assets			
9 579	102 067	7	Investments in subsidiaries		0	0
171 898	62 247	6	Loan to group companies		0	0
181 476	164 314		Total financial assets		0	0
181 476	**169 666**		**Total Non-current Assets**		**135 188**	**139 568**
			Current assets			
			Receivable			
9 832	0		Accounts receivable		6 280	4 280
2 255	4 804		Other receivable		3 027	4 428
12 087	4 804		Total receivable		9 307	8 709
			Cash and cash equivalent			
8 337	27 016	4	Bank Deposits/Cash	4	18 320	36 292
8 337	27 016		Total Bank Deposits/Cash		18 320	36 292
20 424	**31 820**		**Total current assets**		**27 627**	**45 001**
201 901	**201 485**		**TOTAL ASSETS**		**162 815**	**184 569**

BALANCE SHEET per Dec 31, 2016 (Amounts in USD 1,000)

Global Rig Company AS					Group	
2016	2015	Note		Note	2016	2015
			EQUITY & LIABILITIES			
			Equity			
			Owners' equity			
13 590	35 822	5	Share capital	5	13 590	35 822
74 327	66 821	5	Share premium	5	74 327	66 821
439	406	2,5	Other paid in capital	2,5	369	336
88 356	**103 048**		**Total owners' equity**		**88 286**	**102 978**
			Accumulated profits			
13 651	-13 080		Other Equity	5	-33 066	-35 743
13 651	**-13 080**		**Total accumulated profits**		**-33 066**	**-35 743**
102 007	**89 968**		**Total Equity**		**55 220**	**67 236**
			Liabilities			
1 860	0	3	Deferred tax	3	1 860	1 667
1 860	**0**	**3**	**Total deferred tax**	**3**	**1 860**	**1 667**
			Non-current liabilities			
97 000	109 000	9	Bond issue	9	97 000	109 000
0	0		Other long term liabilities	9	444	556
97 000	109 000		Total non-current liabilities		97 444	109 566
			Current liabilities			
67	1		Accounts payable		4 440	1 506
0	0	3	Tax payable	3	0	437
160	22		Public duties payable		160	165
807	2 494	9	Other current liabilities	9	3 691	3 991
1 034	2 517		Total current liabilities		8 291	6 100
99 894	**111 517**		**Total liabilities**		**107 595**	**117 333**
201 901	**201 485**		**TOTAL EQUITY & LIABILITIES**		**162 815**	**184 569**

Henrik Tangen,
Chairman

Ole Bjarte Hjertaker
Board member

Johan Henrik Krefting
Board member

Marty Jimmerson
Chief Executive Officer

CASH FLOW STATEMENT per Dec 31, 2016 (Amounts in USD 1,000)

Global Rig Company AS			Group	
2016	**2015**		**2016**	**2015**
3 385	-20 590	Pre-tax profit/loss	-21 266	-11 866
-439	0	Tax paid for the period	-439	0
0	0	Profit/loss on sale of fixed assets	0	0
0	0	Depreciation of fixed assets	14 034	13 949
0	0	Write-down tangible assets	0	0
0	0	Change in accounts receivable	-1 999	3 767
-23 234	163	Change in accounts payable	2 934	-431
0	14 742	Write-down investments in shares	0	0
0	2 027	Net change in long-term intercompany balances	0	0
11 655	832	Change in other current balance sheet items	1 055	3 335
-8 633	**-2 826**	**Net cash flow from operational activities**	**-5 682**	**8 754**
0	0	Proceeds from the sale of tangible fixed assets	0	106
0	0	Purchase of tangible fixed assets	-9 551	-18 461
0	**0**	**Net cash flow from investing activities**	**-9 551**	**-18 354**
0	0	Proceeds from issuance of short term debt	0	0
0	0	Proceeds from issuance of long term debt	0	0
-12 000	-11 000	Downpayments of long term debt	-12 122	-12 180
9 383	0	Issue of share capital	9 383	0
-7 428	0	Effect merger		
-10 045	**-11 000**	**Net cash flow from financing activities**	**-2 739**	**-12 180**
-18 678	**-13 826**	**Net change in cash and cash equivalent**	**-17 972**	**-21 780**
27 016	**40 842**	**Cash and cash equivalents Jan. 01**	**36 292**	**58 073**
8 337	**27 016**	**Cash and cash equivalents Dec.31**	**18 320**	**36 292**

NOTE DISCLOSURES

Note 1 – Accounting Principles

The Financial Statements include Profit and Loss statement, Balance Sheet, Cash Flow Statement and Note Disclosures. The Financial Statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

The Financial Statements are based on the basic principles, and the classification of Assets and Liabilities is according to the definitions of the Norwegian Accounting Act. In application of the accounting principles and presentation of transactions and other information, emphasis has been put not only on legal form, but on economic reality. Conditional losses that are probable and quantifiable are expensed. There have been no changes in the accounting principles used.

During 2016 the group has changed their legal structure and the parent company Global Rig Company AS has changed name to NorAm Drilling Company AS. As a consequence of the sale of rigs from the Global Rig Active-companies late 2015, all Global Rig Active-companies has been merged into NorAm Drilling Company AS.

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 Use of estimates

Management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with Norwegian generally accepted accounting principles.

1-3 Foreign currency translation

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.

1-4 Revenue recognition and operational costs

Income from sale of goods and services are recognized at fair value of the consideration, net after deduction of VAT, returns, discounts and reductions. Sales are taken to income when the company has delivered its products to the customer and there are no unsatisfied commitments which may influence the customer's acceptance of the product. Delivery is not completed until the products have been sent to the agreed place, and risks relating to loss and obsolescence have been transferred to the customer.

NorAm Drilling Company Group revenue relates to rental of rig capacity and sale of drilling services from the US based subsidiary NorAm Drilling Company. Sales regarding rental of rig is invoiced and booked in line with actual contract and the period of delivering the services, while drilling services are invoiced and booked in the same period as the services has been provided.

Expenses are recognized with the income to which the expenses relate. Expenses that may not be related to income are recognized when accrued.

1-5 Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 24 percent of temporary differences and losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognized directly in equity to the extent that they relate to equity transactions.

1-6 Balance sheet classification

Current assets and short term liabilities consist of receivables and payables due within one year, and items connected to the flow of goods. Other balance sheet items are classified as fixed assets / long-term liabilities. Current assets are valued at the lower of cost and fair value. Short-term liabilities are recognized at nominal value at the time they incur. Fixed assets are valued at cost, less depreciation and impairment losses. Long-term liabilities are recognized at nominal value.

1-7 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 cost 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 and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are used. Operational leasing is expensed as ordinary rental expense and classified as an ordinary operating expense. Equipment leased on terms that transfer practically all economic rights and obligations to the company (financial leasing) is depreciated as a capital asset, and is included as a liability under interest bearing debt at the present value of minimum rental expense.

1-8 Subsidiaries

Subsidiaries are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognized if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Dividends, group contributions and other distributions are recognized in the same year as they are recognized in the subsidiary financial statement. If dividends /group contribution exceed withheld profits after acquisition, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the investment in the balance sheet for the parent company.

1-9 Accounts receivable and other receivables

Accounts receivable and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables. For the remaining receivables, a general provision is estimated based on expected loss.

1-11 Pension obligations and expenses

NorAm Drilling Company AS has a deposit-based pension plan. Yearly payments to the insurance company are expensed as pension costs.

1-12 Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

Note 2 – Payroll expenses/Number of Employees/Remuneration/Auditor's Fee (USD)

	2016		2015	
	GRC AS	Group	GRC AS	Group
Salaries	174 895	15 625 441	184 002	18 636 913
Payroll tax/Social Security	25 966	1 209 922	27 412	1 384 001
Pension costs	9 472	281 318	10 405	334 141
Other benefits	2 715	2 715	-	-
Payroll expenses etc.	**213 048**	**17 119 396**	**221 819**	**20 355 055**
Number of man-labour years	1	241	0	200

Management Remuneration - Global Rig Company AS (USD) 2016

Company officers	**Period**	**Salaries**	**Pensions**	**Other benefits**	**Total**
Dale Wilhelm (CEO)*	01.01-31.12	315 000		12 000	327 000
Board	**Period**	**Salaries**	**Pensions**	**Other benefits**	**Total**
Henrik Tangen (Chairman)	01.01 – 31.12	107 159			107 159
Ole Bjarte Hjertaker (Board member)	01.01 – 21.12	35 720	-	-	35 720
Henrik Krefting (Board member)	01.01 – 31.12	35 720			35 720
Synne Syrist (Board member)	01.01 – 31.12	-	-	-	-
Total Officers		**315 000**	**-**	**12 000**	**327 000**
Total Board		**178 599**	**-**	**-**	**178 599**
Total Remuneration Board and Management		**493 599**	**-**	**12 000**	**505 599**

* Dale Wilhelm received salary from NorAm Drilling Comp.

CEO Dale Wilhelm has a 1 year rolling basis - for his employment agreement. In addition to a base salary he is also entitled to a bonus dependent on the company's operations. The CEO is also included in the company's share based payment program, see below.

Mr. Wilhelm is entitled to one-year base salary plus annual cash bonus, up to 33% of annual salary in the event of the employment contract being terminated for anything other than cause. The CEO is also entitled to a 3-month notice period prior to termination.

It has not been given loan or security for the CEO, directors or shareholders

Henrik Krefting owns 1 072 300 shares in NorAm Drilling Company AS through his investment company Eikekrattet AS.

Management Remuneration - Group (USD) 2016

Company officers	**Salary**	**Pensions**	**Other benefits**	**Total**
NorAm Drilling Company AS	-	-	-	-
Subsidiaries	315 000	-	12 000	327 000
Board	**Salary**	**Pensions**	**Other benefits**	**Total**
NorAm Drilling Company AS	178 599	-	-	178 599
Subsidiaries	-	-	-	-
Total Officers	**315 000**	**-**	**12 000**	**327 000**
Total Board	**178 599**	**-**	**-**	**178 599**
Remuneration Board and Management (excl. Share based)	**493 599**	**-**	**12 000**	**505 599**

The Company established in 2007 an OTP-plan (Mandatory Occupational Pension) according to the Norwegian Mandatory Occupational Pension Act. The group has established a 501K plan for US subsidiary employees.

Global Rig Company AS Share-Based Payment

During the period ended 31 December 2016, the Company had two a share-based payment arrangement, which is described below.

Option Plan 2014 - 2016 for Dale Wilhelm, CEO and Thomas Taylor, COO

Type of arrangement:		Equity Based
Options granted as of 25.09.14:	Wilhelm: 150 000	Taylor: 150 000
Vesting conditions, Wilhelm:	50% of the options vest 15.02.2016 and 50% of the options vest 15.02.2017	
Vesting conditions, Taylor:	50% of the options vest 15.02.2016 and 50% of the options vest 15.02.2017	

Fair value of granted options is calculated using the Black-Scholes-Merton option pricing model.

The inputs to the model are listed below:

Option Plan 2014-2016	Tranche 1	Tranche 2
Grant date	25.09.2014	25.09.2014
Vesting date	15.02.2016	15.02.2017
Expiry date	15.03.2018	15.03.2018
Expected Exercise date	15.03.2017	15.03.2018
Quantity	150 000	150 000
Exercise price	3.50	3.50
Spot Price	3.50	3.50
Expected lifetime	2.4 years	3.4 years
Volatility	36 %	42 %
Risk free interest rate	1.48 %	1.63 %
Dividends	-	-
Fair Value per option (in NOK)	0.8125	1.1195

The Company is not listed, and guidelines in IFRS 2 are used to estimate expected volatility. Expected volatility is based on historical volatilities of similar entities listed on NYSE. As similar entities the following have been used: Unit Corporation, Parker Drilling Company, Helmerich & Payne and Rowan Companies Inc. Because NorAm Drilling Company is a smaller company than the similar entities, a 20 % premium has been added to the average volatility of the similar entities.

The total expensed amount in 2016 arising from the share-based payment plan is USD 32 913, and the total unrecognized expense per 31 December 2016 is USD 0.

Historical details for the option plans are as follows:

	01.01.2016 - 31.12.2016		01.01.2015 - 31.12.2015		01.01.2014 - 31.12.2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at the beginning of period	300 000	3.50	300 000	3.50	300 000	4.50
Granted	-	-	-	-	300 000	-
Exercised	-	-	-	-	-	-
Terminated	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	300 000	4.50
Outstanding at the end of period	300 000	3.50	300 000	3.50	300 000	3.67
Vested options	-	-	-	-	-	-

Details concerning outstanding options as of 31 December 2016 are given in the table below.

Outstanding options			Vested options	
Outstanding options per 31.12.	Weighted average remaining Contractual Life	Weighted average Exercise Price	Vested options 31.12.2016	Weighted average Exercise Price
300 000	0.25	3.50	150 000	3.50

Remuneration of corporate management and Board of Directors 2016 is given in the table below.

Member of Management or Board	Number of options granted during 2016	Number of options outstanding as of December 31 2016	Exercise price of options	Expiry date of options	Amount expensed in 2016
Dale Wilhelm	-	150 000	3.50	15.03.2018	16 457
Thomas Taylor	-	150 000	3.50	15.03.2018	16 457

At the Extraordinary General Meeting of October 14, 2008 the Board was authorized to increase the share capital by a maximum of 2.928 million by issuing up to 1.464 million shares in relation to a share option program. The shares can be issued to employees and board members in the Company and the Group. As of Dec 31, 2016 share option agreements including up to 300 000 shares had been granted.

In September 2014 these options was granted to CEO/CFO Dale Wilhelm and C00 Thomas Taylor by 150 000 options each.

The Company signed in 2009 a consultancy services with Henrik Tangen who is chairman of the company. The agreement includes services like IR, strategy, organizational development assistance, analytical support and communication support.

Auditors remuneration (USD, excl. MVA (VAT)

	2016		2015	
	NDC AS	Group	NDC AS	Group
Ordinary audit	71 620	71 620	38 801	57 182
Other confirmation services	39 927	39 927	5 760	5 760
Tax advisory services	15 206	15 206	5 485	13 799
Other non-audit services	41 181	41 181	22 336	29 243
Total	**167 934**	**167 934**	**72 382**	**105 983**

The ordinary audit expense includes fees for auditing the US subsidiary for the Group consolidated accounts.

Note 3 – Tax (USD)

	Jan 01 - Dec 31, 2016		Jan 01 - Dec 31, 2015	
	NDC AS	Group	NDC AS	Group
Tax base calculation:				
Profit (+)/ Loss (-) before income tax	3 385 318	-21 266 383	-20 590 459	-11 866 244
Permanent differences	-1 977 707	22 673 993	12 437 196	16 788 778
Temporary differences	-40 303 315	-40 303 315	-42 574	-22 806 292
Temporary differences as a result of mergers	51 949 666	51 949 666	-	-
Losses carried forward	13 832 297	13 832 297	5 962 846	-22 569 605
Losses carried forward as a result of merges	-26 941 579	-26 941 579	-	-
Limited deduction on interests	1 655 473	1 665 473	-	1 619 954
Limited deduction on interests as a result of merges	-1 619 954	- 1 619 954	-	-
Foreign exchange differences	19 802	19 802	2 232 991	40 453 363
Tax base	**-**	**-**	**-**	**1 619 954**
Tax 25 %			-	434 971
Income Tax Payable this year	**-**	**-**	**-**	**434 971**
Income Tax Expense:				
Income Tax Payable this year	0	0	-	434 971
Changes in deferred tax	-7 211 736	-8 383 861	-952 756	10 108 774
Effect merger	8 576 439	8 576 439	-	-
Total Income Tax Expense	**1 364 703**	**192 578**	**-952 756**	**10 543 744**
Income Tax Payable:	**-**	**-**	**-**	**-**
Income Tax Payable this year	-	.	-	437 388
Prepaid Tax	-	-	-	-
Total Income Tax Payable	**-**	**-**	**-**	**437 388**
Specification of Basis for Deferred Tax Asset:				
Differences to be balanced				
Fixed assets	-72 209	-13 707 971	-88 325	2 766 038
Current assets	-	4 100	-	-165 542
Long-term receivables and liabilities in foreign currency	-	-	-	3 104 812
Profit and loss account	40 287 199	40 287 199	-	49 311 520
Limited deduction on interests	-1 655 473	4 351 142	-	-591 641
Deferred loss	-30 809 822	-30 809 822	-16 977 525	-43 919 104
Net operating loss carry forwards USA	-	26 258 232	-	6 061 996
Shares in US subsidiary	-	-	-4 341 387	-
Other differences	-	184 657	-	184 657
Total temporary differences	**7 749 695**	**26 657 537**	**-21 407 237**	**16 752 737**
Valuation allowance		-18 817 842		-10 430 454
Basis for determining deferred tax/tax advantage	**7 749 695**	**7 749 695**	**-21 407 237**	**6 322 283**
Deferred tax/tax advantage (24% /25%)	**1 859 927**	**1 859 927**	**-5 351 809**	**1 667 401**
Deferred tax/tax advantage (25%) not rec. in balance	-	-	-	-

Deferred tax/ deferred tax asset

Estimated deferred tax asset in subsidiary NorAm Drilling Company is not recorded in the balance sheet due to uncertainty related to valuation of this asset.

Note 4 – Restricted bank accounts (USD)

	2016		2015	
	NDC AS	Group	NDC AS	Group
Employees tax deduction, deposited in a separate bank account	13 374	13 374	14 267	14 267
Secure deposit office leasing and credit cards	42 723	68 578	44 303	67 986
Total	**56 097**	**81 952**	**58 570**	**82 253**

Note 5 - Equity and Shareholder Information (USD)

Share Capital NorAm Drilling Company AS & Group

	2016			2015		
	No. of shares	Face value (NOK)	Book value (NOK)	No. of shares	Face value (NOK)	Book value (NOK)
Ordinary shares	267 846 340	0,10	26 784 634	103 846 340	2	207 692 680
Total	**267 846 340**		**26 784 634**	**103 846 340**		**207 692 680**

Equity Noraam Drilling Company AS	**Share capital**	**Share premium**	**Other paid in capital**	**Other Equity**	**Total**
Equity Dec 31, 2015	35 821 676	66 820 509	405 994	-13 079 781	89 968 398
Compensation free Parent-Subsidary mergers				601 874	601 874
Capital reduction	-24 108 705			24 108 705	-
Rights issue	1 876 645	7 506 580			9 383 225
Stock option agreement			32 913		32 913
Profit (+)/Loss (-)				2 020 615	2 020 615
Equity Dec 31, 2016	**13 589 616**	**74 327 089**	**438 907**	**13 651 413**	**102 007 024**

Equity Group	**Share capital**	**Share premium**	**Other equity contributed**	**Other Equity**	**Total**
Equity Dec 31, 2015	35 821 676	66 820 509	336 140	-35 742 650	67 235 674
Rights issue	1 876 645	7 506 580			9 383 225
Capital reduction	-24 108 705			24 108 705	-
Profit (+)/Loss (-)				-21 458 961	-21 458 961
Stock option agreement			32 913		32 913
Currency effect etc				27 062	27 062
Equity Dec 31, 2016	**13 589 616**	**74 327 089**	**369 053**	**-33 065 844**	**55 219 915**

10 Largest Shareholders as per December 31, 2016, NorAm Drilling Company AS and Group

Name	Number of shares	Share
Geveran Trading Co Ltd	155 526 139	58 %
Pactum AS	53 460 699	20 %
Ship Finance International	12 020 466	4 %
Camaca AS	8 581 170	3 %
Robert Wood Johnsen The Bank of New York	4 707 698	2 %
AØ Invest AS	3 204 840	1 %
Justnes Rederi AS	2 312 343	1 %
NHO – P665AK JP Morgan Chase Bank	2 281 006	1 %
Damima Invest AS	2 010 837	1 %
Cubera IV AS	1 754 620	1 %
Total	**267 846 340**	**92 %**

Note 6 – Intercompany Balances (USD)

NorAm Drilling Company AS	Per Dec 31, 2016	Per Dec 31, 2015
Loan to Global Rig Active AS		3 498 825
Loan to Global Rig Active 2 AS		980 730
Loan to Global Rig Active 3 AS		564 189
Loan to Global Rig Active 4 AS		584 635
Loan to Global Rig Active 5 AS		578 282
Loan to Global Rig Active 6 AS		17 517
Loan to NorAm Drilling Company	171 897 702	56 022 889
Loan from NorAm Drilling Company	79 132	1 676 311
NorAm Drilling Company AS receivables from Global Rig Active 3		702 000
NorAm Drilling Company AS receivables from NorAm Drilling Company	9 831 634	

Group	Per Dec 31, 2016	Per Dec 31, 2015
Noram Drilling Company AS loan to Global Rig Active AS		3 498 825
NorAm Drilling Company AS loan to Global Rig Active 2 AS		980 730
NorAm Drilling Company AS loan to Global Rig Active 3 AS		564 189
NorAm Drilling Company AS loan to Global Rig Active 4 AS		584 635
NorAm Drilling Company AS loan to Global Rig Active 5 AS		578 282
NorAm Drilling Company AS loan to Global Rig Active 6 AS		17 517
NorAm Drilling Company AS loan to NorAm Drilling Company	171 897 702	56 022 889
NorAm Drilling Company loan to NorAm Drilling Company	79 132	1 676 311
Global Rig Company AS receivables from Global Rig Active 3		702 000
Global Rig Active AS loan to Global Rig Active 2 AS		12 225
Global Rig Active AS receivables from NorAm Drilling Company		82 577 139
Global Rig Active 2 AS receivables from Global Rig Active AS		761
Global Rig Active 3 AS loan to Global Rig Active AS		825 000
Global Rig Active 3 AS loan to Global Rig Active 4 AS		245 039
Global Rig Active 3 AS receivables from NorAm Drilling Company		13 887 768
Global Rig Active 4 AS loan to Global Rig Active AS		825 000
Global Rig Active 4 AS receivables from NorAm Drilling Company		13 511 251
Global Rig Active 5 AS loan to Global Rig Active AS		825 000
Global Rig Active 5 AS receivables from NorAm Drilling Company		14 382 022
NorAm Drilling Company receivables from Global Rig Active AS		10 486 125
NorAm Drilling Company receivables from NorAm Drilling Company	9 798 721	

Note 7 – Shares in Subsidiaries (USD)

Company	Balance value	Shares	Share of voting rights	Equity 2016	Result 2016	Main Office
NorAm Drilling Company	9 578 793	100 %	100 %	-37 208 312	-24 664 499	Houston

Note 8 – Tangible Assets (USD)

Property, plant and equipment	Rigs & accessories	Construction in-progress	Vehicles & Office Equipment	Land	Total
Acqu. cost at 01.01.16	186 308 840	-	1 774 802	50 142	188 133 784
Additions	8 825 972	656 754	143 648	-	9 626 374
Disposals	-	-	- 119 816	-	-119 816
Acqu. cost at 31.12.16	195 134 812	656 754	1 798 634	50 142	197 640 342
Acc. depreciation 31.12.2016	61 218 907	-	1 233 623	-	62 452 530
Acc. imp. loss 31.12.16	-	-	-	-	-
Rev. imp. loss 31.12.16	-	-	-	-	-
Net carr. value at 31.12.16	133 915 905	656 754	565 011	50 142	135 187 814
Depreciation for the year	13 7871 771	-	162 211	-	14 033 981
Impairment loss for the year	-	-	-	-	-

Both the parent company and the group use linear depreciation for all tangible assets

The useful economic life is estimated to be:	Years
* Buildings and other real estate	20-50
* Machinery and equipment	3-15
* Land	0

Note 9 – Short-term and long-term liabilities

	2016		2015	
	NDC AS	Group	NDC AS	Group
Short term liabilities (USD)				
Other short term liabilities	727 500	3 690 962	817 500	3 991 413
Long term liabilities (USD)				
Bond issue	97 000 000	97 000 000	109 000 000	109 000 000
Other long term liabilities	-	443 632	-	565 661
Total	97 727 500	101 134 594	109 817 500	113 557 074

Bond: June 3rd, 2014, the Group issued a new Bond loan of USD 120 000 000 with 5 years maturity. This agreement has been amended at several occasions, latest on 30. October 2015

Covenants

The Bond Loan includes several financial covenants, including;

- Equity Ratio > 30%
- Liquidity – The Group's liquidity should be held at MUSD 6 for the first 12 months, thereafter MUSD 10 for the reminding period
- Current Ratio – Minimum 1:1
- Asset Coverage Ratio > 130%

At year-end 2015, an agreement with the majority bondholder, owing at least 90% of the outstanding bonds, agreed to amend the equity ratio covenants requirement as necessary for a period lasting until at least January 1, 2017. In a Bond Holder meeting held 16 September 2016, a formal waiver on the Equity Ratio and the Liquidity covenants was agreed. The waiver states that that the Equity Ratio covenant is waived and that the minimum liquidity is reduced from MUSD 10 to MUSD 7 for a period lasting until 30 June 2017. Based on this, the Group complied with the financial covenants as of year-end 31.12.16.

Waiver on Financial Covenants

Due to continuing net losses in 2015 and 2016 reducing our equity as of December 31, 2016 and current market conditions, the bond holders agreed 16 September 2016 to waive the Equity Ratio covenant for a period lasting until June 30, 2017 and also reduced the minimum cash requirement to MUSD 7.0 until June 30, 2017. Although market conditions have improved, the Company determined that it would be unable to meet the repayment terms and various covenants of the Bond loan throughout 2017. Accordingly, on June 2, 2017, the bondholders agreed to depart from scheduled principal repayments in 2017 of MUSD 12.0 and extend the waiver of both the Equity Ratio covenant and minimum cash requirement of MUSD 7.0 until January 1, 2018, in exchange for a one-time payment of MUSD 1.2. The Company and Group expects to comply with all the other covenants set out in the Bond Loan Agreement for the reminding duration of the Bond Loan.

Preservation of equity and financial covenants related to the Bond issue:

Asset Coverage Ratio	> 130 %
Equity Ratio	> 30% for 12 months after the bond agreement, thereafter 35%
Liquidity	The groups liquidity should be held at MUSD 6 for the first 12 months, thereafter MUSD 10
Current ratio	Minimum at 1:1

Other long-term liabilities: Other long-term debt is related to NorAm Drilling Company's purchase of vehicles, yard and warehouse including offices. The debt has security in the assets.

	2016		2015	
	NDC AS	Group	NDC AS	Group
Secured debt:	97 000 000	97 443 632	109 000 000	109 565 661
Pledged assets:				
Assets in subsidiaries	-	134 572 457	-	138 934 444
Yard and vehicles	-	615 355	-	633 716
Total	-	135 187 812	-	139 568 160

Note 10 – Related Parties

The Company signed in 2009 a consultancy services with Henrik Tangen who is chairman of the company. The agreement includes services like IR, strategy, organizational development assistance, analytical support and communication support. The agreement on a 20% engagement basis and the fee is NOK 50,000 per month. Payroll tax is paid on the amount, but no other social taxes or benefits.

Note 11 – Earnings per share (USD)

	2016		2015	
	NDC AS	Group	NDC AS	Group
Result after income tax	2 020 615	-21 458 961	-19 637 703	-22 409 988
Shares	267 846 340	267 846 340	103 846 340	103 846 340
Warrants	200 000	200 000	200 000	200 000
EPS	0,01	-0,08	-0.19	-0.22
EPS (incl. Warrants)	0,01	-0,08	-0.19	-0.22

Note 12 – Net Financial Items

	2016		2015	
	NDC AS	Group	NDC AS	Group
Financial income				
Interest income from group companies	14 757 903	0	6 846 795	-
Other Interest Income				
Interest income bank	4 349	4 349	2 721	2 752
Other Financial Income				
Currency gains	260 280	260 280	18 990	22 526
Total financial income	**15 022 532**	**264 629**	**6 868 506**	**25 278**
Financial expenses				
Other interest expenses				
Interest expense bond loan	9 451 680	9 451 680	10 492 500	10 492 500
Other interest expenses		45 091	-	59 648
Other financial expenses				
Other financial expense	902 568	916 924	902 440	903 119
Write-down investments in subsidiaries			14 741 525	-
Currency losses	263 007	263 007	344 669	353 126
Total Financial expenses	10 617 255	10 676 702	26 481 134	11 808 393
Net financial items	**4 405 278**	**-10 412 072**	**-19 612 628**	**-11 783 115**

Note 13 – Segment and Geographic Information

The Company does not operate in different market segments.

The Group owns and operates land-based oil & gas drilling rigs. All drilling operations in 2016 were in the US. In 2015 the US subsidiary bought all of the rigs from the Norwegian subsidiaries.

2016 (USD)	NorAm Drilling Company AS	Drilling service NorAm	Group
Sales income from third parties	-	39 443 703	39 44 703
Sales income from other segments	-	-	-
Depreciation	-	14 033 982	14 033 982
Other operating expenses	1 010 960	36 264 032	36 264 032
Operating profit	**-1 019 960**	**-10 854 311**	**-10 854 311**
Financial expenses	10 617 255	10 676 702	10 676 702
Financial expenses other segments	-	-	-
Financial income	15 022 532	264 629	264 630
Financial income other segments	-	-	-
Net financial items	**4 405 277**	**-10 412 072**	**-10 412 072**
Taxes	**1 364 703**	**-**	**192 578**
Assets	-	152 222 061	162 814 860
Interest bearing debt third parties	97 000 000	443 632	97 443 632
Interest bearing debt other segments		171 818 570	-

2015 USD	NorAm Drilling Company AS	Rig lease GRA* AS - GRA*- 6 AS	Drilling service NorAm	Group
Sales income from third parties	-	-	56 213 376	56 213 376
Sales income from other segments	-	13 010 610	-	-
Depreciation	0	11 447 890	2 501 372	13 949 262
Other operating expenses	977 831	3 048 122	60 286 793	56 296 506
Operating profit	**-977 831**	**-1 485 402**	**-6 574 789**	**-14 032 392**
Financial expenses	26 481 134	5 521 980	2 723 970	11 808 393
Financial expenses other segments	-	-	-	-
Financial income	6 868 506	1 334 017	-	25 278
Financial income other segments	-	-	-	-
Net financial items	**-19 612 628**	**-4 187 963**	**-2 723 970**	**-11 783 115**
Taxes	**-952 756**	**11 716 490**	**-2 417**	**10 543 774**
Assets	201 485 160	133 486 332	152 319 196	184 569 049
Interest bearing debt third parties	109 000 000	-	565 661	109 565 661
Interest bearing debt other segments		6 224 178	56 022 889	-

* GRA means "Global Rig Active": The group has the following rig leasing companies: GRA AS, GRA 2 AS GRA 3 AS, GRA 4 AS, GRA 5 AS and GRA 6 AS

Note 14 – Merger

During 2016 NorAm Drilling Company AS and the Norwegian subsidiaries was merged. The mergers where carried out as part of a restructuring of the Group in Norway. The following mergers to place:

The Transferor Company	The Transferee Company
Global Rig Active AS	NorAm Drilling Company AS
Global Rig Active 2 AS	NorAm Drilling Company AS
Global Rig Active 3 AS	NorAm Drilling Company AS
Global Rig Active 4 AS	NorAm Drilling Company AS
Global Rig Active 5 AS	NorAm Drilling Company AS
Global Rig Active 6 AS	NorAm Drilling Company AS

The mergers are regulated by the Companies Act § 13-23, The regulations of the Tax Act regarding tax free mergers, and the Accounting Act. The mergers were effective as the Transferee Company takes over the ongoing operations consisting of all the assets, rights and liabilities of the Transferor Companies. The Transferor Companies was dissolved when the mergers came into force. The Transferee Company continues as a company after the mergers with unchanged business name, articles of association and business municipality. In respect of Company Law, the mergers were solely approved through decision by the boards of the Transferor Companies and the Transferee Company. This means that the merger was not addressed in the Companies' general meetings.

Merger Compensation
The mergers were carried out in accordance with the Limited Liability Companies Act section 13-23, and no compensation was issued in connection with the mergers, neither in the form of shares nor in the form of cash.

Fiscal Consequence
From a fiscal point of view, the mergers become effective as of the date specified in the Tax Act. The mergers are completed with fiscal continuity regarding the Merging Companies and the shareholders. The Transferee Company takes over the tax positions related to the transferred assets, rights and liabilities of the Transferor Companies. The mergers will not cause any immediate fiscal consequences.

Effective date for accounting purpose
The effective date for accounting purpose is 01.01.2016. From this date, all transactions, income and cost regarding the assets, rights and liabilities that with these Mergers will be assigned to the Transferee Company is allocated to the Transferee Company. The mergers are implemented with continuity for accounting purposes. The Transferee Company thus continues the previously booked values of the assets, rights and obligations that with these mergers are transferred from the Transferor Companies.

Comparable figures
Comparable figures for 2015 for the parent company NorAm Drilling Company AS is not changed from the Financial Statement for 2015.

Note 15 – Subsequent events

January 20, 2017, CEO Dale Wilhelm was replaced by Mary L. Jimmerson, who accepted the role as Chief Financial Officer and Interim Chief Executive Officer at NorAm Drilling Company.

At the time for signing the Group Financial Statement, an agreement between the Group and Former CEO Dale Wilhelm was reached. The termination agreement is in accordance with the employee contract.
For further information, see note 2.

KPMG AS
Kanalveien 11
Postboks 4 Kristianborg
5822 Bergen

Telephone +47 04063
Fax +47 55 32 11 66
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of NorAm Drilling Company AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NorAm Drilling Company AS showing a profit of USD 2 021 000 in the financial statements of the parent company and loss of USD 21 459 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Bergen, 2 June 2017
KPMG

Ståle Christensen
State Authorized Public Accountant

NORAM DRILLING COMPANY AS

Bankplassen 1a
N-0151 Oslo, Norway

Phone: +47 23 00 39 70
Fax: +47 21 55 76 07

post@noramdrilling.com
www.noramdrilling.com

NorAm Drilling Company