KCA Deutag Enterprises Limited
Annual report and financial statements
for the year ended 31 December 2019

Registered Number 06715023

KCA Deutag Enterprises Limited

Annual report and financial statements

for the year ended 31 December 2019

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KCA Deutag Enterprises Limited

Corporate information

Board of Directors

A Byrne
G Paver (resigned 2 March 2020)
S Branston (appointed 2 March 2020)

Registered office

1 Park Row
Leeds
LS1 5AB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Capitol
431 Union Street
Aberdeen
AB11 6DA

KCA Deutag Enterprises Limited

Strategic Report

The Directors present their Strategic Report of the Company for the year ended 31 December 2019.

Review of the Business

At the Balance Sheet date, the Company was a wholly owned subsidiary undertaking of Abbot Group Limited. The ultimate parent company is KCAD Holdings I Limited.

References to the Group are in relation to KCAD Holdings I Limited. Please refer to Note 19 for further information on group structure.

The principal activity of the Company is the provision of onshore drilling services to the energy industry. In the future we expect the Company to continue operations as described above.

Market Dynamics and Positioning

The Company operates three rigs in South Iraq; the T80, the T210 and the T601, which are owned by fellow group companies. All three rigs operated throughout the year.

On 23 December 2019 the Company acquired two land rigs along with associated inventory and customer contracts in South Iraq for $6,700k in cash. Immediately after acquisition on 23 December 2019, the two land rigs were sold to a fellow group company at net book value with no gain or loss arising.

As shown in the Company's Statement of Comprehensive Income on page 14 of the financial statements, the Company made a loss for the year of $591k (restated 2018: $2,906k) and turnover increased by $6,985k to $35,898k (restated 2018: $28,913k). This is mainly due to all three rigs being operational throughout the year, whereas in 2018 the T80 and the T210 both operated for only part of the year.

Principal risks and uncertainties

The undernoted principal risks and uncertainties are monitored at Group level and are not specific to KCA Deutag Enterprises Limited. During the year the Group continued to apply an enterprise risk management framework to allow for ongoing identification and monitoring of risks and to develop mitigation strategies to manage those risks The methodology used to identify key risks was both a bottom-up approach from our country and functional organisations as well as a top-down review of the key strategic risks.

Local market risk

All of the markets in which we operate continue to change and evolve as local political and economic influences impact the industry in which we operate. In certain markets, such as in West Africa, we have seen an increasing trend and pressure from governments to increase the local content of the services which we provide, both in terms of the provision of local skilled personnel as well as the focusing upon in country value through the use of local suppliers or supply chain for the provision of goods or services. Where this can be achieved in a planned and structured way this can have benefits both for the local economies in which we operate, as well as allowing us to provide a more efficient and effective service to our clients.

We have a good track record of training and developing local staff in many of the countries in which we operate and so far as possible sourcing equipment locally, where this is cost effective and quality can be assured. In Russia, for example, we have a very high rate of nationalisation and virtually all of our rig crews are Russian. We seek to replicate this process in other markets and have training and development programmes for local staff.

In some of our markets we have seen increasing influence from National Oil Companies where governments have sought to secure greater control and increased future participation in the economic benefits of their oil & gas assets. These companies have started to change the nature of the relationships with service companies and increasingly look to work through joint ventures or alliances which are also often closely aligned to local content. We will have to be prepared to work with these new models if we are to retain and grow our future business in these locations.

Local market risk (continued)
In the UK in 2017 we saw the decision by the UK government to trigger Article 50 of the Lisbon Treaty to start the exit process from the European Union following the referendum in 2016. This has introduced a number of additional risks and uncertainties around exchange rate volatility, uncertainty over the future free movement of goods, personnel and services as well as the overall political uncertainty around such a major change to future trading relationships. With the UK having formally left the European Union on 31 January 2020 there is now a period of transition until 31 December 2020, unless extended, during which detailed future trading relationships will be negotiated, the precise terms of which are as yet uncertain. The Group does not expect the impact to be significant given the wide geographical exposure we have with a strong presence in each of the local markets in which we operate.

Financial risk/leverage
Our operations and growth plans require access to capital to allow the Group to grow and manage the changes in business activity levels over time. The Group is financed through a combination of equity and debt. At the year end the Group had total net debt of $1,724.3 million which requires to be refinanced periodically.

Where possible the Group seeks to secure long term debt financing which provides access to funds for a number of years into the future. Current secured debt facilities, for example, have no significant capital repayments required until 2021. The Group has sought to diversify its access to debt markets away from wholly traditional bank debt towards institutional debt by way of the corporate bond markets. The Group will seek to refinance these debt facilities as repayment dates get closer and opportunities arise to take advantage of market conditions. The Group also seeks to secure debt facilities with a light covenant structure and monitors these closely. Periodic reviews of fixed and variable rate interest rate exposures are also made with the aim of maintaining a balance between the two.

The future capital structure of the business is a key area of ongoing focus and as we advised on our quarterly earnings calls we have appointed Houlihan Lokey as our advisor to assist us in reviewing the strategic options available to the Group. Our main emphasis has been to find a strategic long term solution to provide us with the appropriate balance sheet agility going forward as our business fundamentals remain strong. Given the difficulties faced by the Group caused by the Coronavirus pandemic and falling oil price in terms of our likely future trading performance, cash generation and liquidity position, we started discussions with our shareholders and lenders subsequent to the year end. Further details are provided in note 20 to the financial statements.

Our ability to service our debt and other financial obligations depends in large part on the levels of cash flows generated in our business together with our earnings before interest, tax, depreciation and amortisation (EBITDA). Our loan obligations require us to meet certain leverage and other covenant requirements based on EBITDA and the level of net debt.

From time to time we may need to access the capital markets to obtain long term and short term financing. Our ability to access these financial markets could be limited by, amongst other things, oil and gas prices, our capital structure, credit ratings issued on our debt by credit rating agencies, the overall health of the global oil & gas market or the global economy in general. Whilst we try to access markets when conditions are favourable there is no guarantee over our ability to access these capital markets in the future.

The Group also works closely with its principal shareholders to discuss potential future financing requirements. All significant growth capital expenditure is approved by the Board. In the past our shareholders have supported the Group through the injection of additional equity to support growth plans.

Currency related risks

We carry out our operations in a number of countries and are exposed to currency risk as those currencies become stronger or weaker against the US Dollar. Some of the countries in which we operate are heavily reliant on oil and gas and have historically seen significant exchange rate volatility as a result of commodity price variations. Our financial results are presented in US Dollars and these results are sensitive to either a relative strengthening or weakening against the US Dollar of the major currencies we are exposed to.

The Group employs a number of mechanisms to manage elements of exchange risk at a transaction, translation and economic level. Where possible we will seek to naturally hedge our exposures through matching currency revenue and expenditure, which we are able to do by contracting our revenues in either US Dollar or local currency. In some situations, we have been able to hedge our Balance Sheet exposure by matching local currency assets with local currency liabilities. Where this is not possible we may seek to hedge our currency exposures through the purchase of forward contracts. In terms of the overall economic risk we monitor our exposure to all of the key markets in which we operate. We aim to maintain a diversified geographical exposure without being overly reliant on any single country of operation.

Business continuity risk

Many of the key markets in which we operate are potentially at a higher risk of political upheaval. Over the past few years we have witnessed the impact of war and civil unrest in Libya, a terrorist incident in Algeria and the threat of terrorism in Kurdistan. In addition there is the potential threat of political and economic sanctions against certain sovereign states which by their very nature can be both unpredictable and potentially highly disruptive. Over the past few years, for example, we have seen certain sanctions imposed against specific types of business activities in Russia from the EU and US.

Certain markets in which we operate are also susceptible to governmental and political influence around contract award, local content requirements and bidding processes which may not always be transparent. We maintain robust processes to ensure that we always follow our own approved guidelines and ethical practices.

Before we enter a new country we carry out risk assessments and third party security reviews. To mitigate risks once operating in each country we have a robust emergency response system to ensure that we are able to move our personnel rapidly and safely in the event of an unplanned incident. We work with specialist third parties to maintain a good understanding of the security risks and how to react in each set of circumstances. Where possible we seek to limit our exposure to higher risk regions such that an emergency in one location does not have a material impact on the ability of the Group to continue operating. In the past we have been able to rapidly redeploy personnel when required and reduce costs in impacted countries to a minimum.

We have access as required to specific legal and advisory expertise to support regulatory compliance in all our operations across disciplines such as export control and adherence to sanctions. We work with the various governmental authorities to assist with ensuring compliance and the appropriate awareness of rules and regulations.

The outbreak of the Coronavirus (COVID-19), which began in China and rapidly spread through the population there and now into over 100 countries, has resulted in a substantial number of deaths and limited normal movements of people with a consequential impact on economic output. Whilst the Group has developed procedures to seek to protect our own personnel during such an outbreak the broader implications have impacted virtually all our operations, causing varying levels of disruption ranging from the cancellation of drilling contracts to logistical issues in ensuring crews are able to travel in and out of rig sites.

Cybersecurity risks
Our operations are dependent upon various IT systems. Threats to IT systems associated with cybersecurity risks continue to grow and evolve including targeted attacks through viruses, malware, phishing as well as potentially by employees within our network. The risks associated with these include the potential loss or misappropriation of funds, loss of data and intellectual property and damage to our reputation and potential for litigation.

Although we utilise various procedures and controls to mitigate our exposure to such risk, cybersecurity risks are evolving with new threats emerging. These could have a material adverse effect on our business.

Ethics and violation of applicable anti-corruption laws
We are an international business with operations in developing countries and in countries which are high on the Corruption Perceptions Index published by Transparency International. Violation of anti-corruption laws may result in criminal and civil sanctions and could subject us to other liabilities in the UK, the US and elsewhere. Legislation in the areas of ethics, bribery and tax evasion continue to evolve and place increasing responsibility on businesses to behave to a very high standard supported by the appropriate processes, controls and other safeguards.

We have developed an ethics & compliance program which is supported by policies and procedures designed to assist our compliance with applicable laws and regulations and have trained our employees to comply with such laws and regulations. We have enshrined business integrity as one of our six Core Values and foster a compliance culture within our operations. We have put in place appropriate assurance processes to monitor compliance and seek to continuously improve our systems of internal controls and to remedy any weaknesses.

Asset integrity & compliance regime
We are subject to increasingly stringent laws and regulations relating to environmental protection as well as being exposed to potentially substantial liability claims due to the hazardous nature of our business and the businesses that we provide services for. An accident or a service failure can cause personal injury, loss of life, damage to property, equipment or the environment, consequential losses or the suspension of operations or possibly the termination of a contract. Furthermore we may be liable for damages resulting from pollution both on land and in offshore waters. With the fall in commodity prices and increased competition in the market we have also seen many of our customers seek to pass on risk to their suppliers which may have historically been borne by the operator.

We have put in place robust processes and procedures to support each of the principal activities which we undertake. We seek to employ personnel with the relevant experience, qualifications and competencies and have the appropriate tracking mechanisms to ensure that our staff have demonstrable competencies for each of the tasks that they perform. We have a governance structure which ensures that our compliance with processes is validated periodically and that a culture of continuous improvement is reinforced. We have robust reporting mechanisms to report safety and environmental data at each operating unit and escalation processes to investigate incidents. We have a pre-defined contracting strategy with our clients setting out what exposures are acceptable and escalation mechanisms where we are asked to agree to contractual positions which fall out with these set parameters. We have a comprehensive package of insurance coverage to further protect us from potential claims or incidents.

As well as our personnel, the provision of assets such as drilling rigs is a key component of our product and service offering. We offer a range of drilling rigs from new state of the art rigs designed for specific climates or for speed of movement, through to older assets which have been in operation for a number of years. These assets need to be regularly maintained and key components replaced over time in order to maintain the asset integrity of our equipment. We maintain a team of personnel specialised in maintaining these assets to ensure that they provide our clients with safe, effective and trouble free operations with low levels of non-productive time. In order to remain competitive in the long term we must continue to invest in our assets and refresh our rig fleet on a periodic basis.

Asset integrity & compliance regime (continued)

The level of new compliance requirements continues to increase across the broad range of territories in which we operate with this year alone seeing the implementation of new legislation around Modern Slavery and Tax Evasion. During the past few years we have seen new data privacy and data protection rules with large potential fines and other sanctions for non compliance. We seek to address these new requirements proactively using both our own internal resources as well as external advice.

Credit related risk

Although many of our customers have historically been blue chip international oil companies we also work for national oil companies, as well as independent operators. Because of the significant capital expenditure requirements for our clients to develop oil and gas assets, and the cyclical nature of commodity prices, some of our clients can become financially distressed, particularly in a sustained downturn which we have experienced over the past two years. We have also seen some sovereign states heavily dependent upon oil and gas struggling to balance their budgets and consequently being unable to access sufficient foreign currencies such as US Dollars to settle liabilities. In some cases local currencies have become illiquid and very difficult to convert to other currencies. During the course of the past few years we have experienced difficulty in Angola in particular from the build-up of local currency cash balances which we have been unable to convert to US Dollars and delays in collection of amounts receivable in US Dollars. In prior years this has resulted in an increased level of trapped cash and aged receivables at year end.

In some markets, particularly those where we may have a low level of activity or only a single rig operating, it can be difficult to consistently make acceptable levels of return. We also experience in some markets that tax and other local laws and rules may be inconsistently applied which can result in additional and unexpected costs of doing business. In each of the countries in which we operate we are potentially subject to changes in tax laws, treaties or regulations which could have a material impact on our business.

We seek to mitigate these risks through continuous monitoring of exposures to individual clients as well as overall exposure to particular geographies. Where possible we will seek payments in advance of services and protection via bank guarantee and similar mechanisms. We have robust escalation processes to chase overdue accounts with regular reviews with our senior management team. In some cases we are able to leverage our position to push for the release of payments but where this is not possible early and robust legal processes are used to accelerate a conclusion to the process. We also structure contracts to be paid in US Dollars where possible. We seek appropriate professional advice before entering new markets and have internal review and approval mechanisms to challenge the returns we expect on new contracts. In some cases we have decided to exit markets where we have been unable to make a consistent level of acceptable return.

Human capital risk

All of the services and operations which we perform require a highly skilled and well trained work force to provide the front line services, as well as to support the fundamental business processes and control mechanisms. Across the oil & gas industry generally there has been an aging of the workforce which has been compounded in the past four years by the industry downturn and a large reduction in the number of new recruits entering the sector. Continued access to a pipeline of talent to be able to provide skilled staff and future management resources for the Group are critical.

Over the past few years the Group has invested significantly in enhancing our processes and systems around human resources whilst maintaining valuing all people as one of our key Core Values. We seek to provide our staff with a dynamic and supportive work environment and to remunerate them fairly in each of the markets in which we operate. Where the employees have the appropriate skills, ability and desire to progress we have put in place the necessary management tools to help them pursue their career ambitions with the Group. We have succession planning tools to assist in identifying and developing future talent and to help to ensure that we have the appropriate future management resources to lead the Group in the future.

KCA Deutag Enterprises Limited

Strategic Report (continued)

Oil & gas market risk

The Group operates in the oil and gas sector which is a market driven, cyclical industry where activity is closely correlated with the market prices for oil and gas. Changes in these prices may lead to an increase or decrease in our activity levels. From mid-2014 and continuing through 2016 we saw a rapid and sustained reduction in market prices for oil and gas which has reduced activity throughout the industry as new projects were cancelled or delayed. Up until the impact of the Coronavirus pandemic and breakdown of the OPEC+ agreement, oil prices had recovered somewhat over the last couple of years but confidence levels remain relatively low and will require a sustained period of energy price stability before many of our customers will invest in longer term projects. Often in these circumstances we also see an increase in litigation and customer claims as clients attempt to minimise their costs and manage budgets.

We mitigate the impact of this risk through endeavouring to secure longer term contracts with our clients where possible together with contractual protection for early termination. Many of our clients own oil and gas assets where the lifting costs are at the lower end of the spectrum and hence are still able to make positive returns even at lower energy prices. Most of our activity is in the eastern hemisphere where the economic cycles have historically been less volatile than in the western hemisphere. Where possible we employ a flexible resourcing model so that we are able to change manning levels as activity changes. Each of our business units has different exposure and sensitivity to changes in energy prices with RDS and Bentec being the most susceptible to reduced activity as their work is generally linked to new capex spend by our clients.

We operate a governance structure which aims to ensure that potential risks on contracts and projects are identified through review and challenge prior to execution. Our internal commercial and legal processes ensure that deviations to standard contracting principles must have the appropriate review and approval prior to commitment. This, together with robust contract assurance programs and effective record retention, provides us with the ability to rigorously defend commercial claims as and when they arise.

Changes in the market for drilling & engineering services

Our core operations continue to be focussed on delivering drilling and well engineering services to the oil & gas industry. We believe we provide a high quality service to our clients supported by a skilled workforce and high quality assets. However the technology, commercial models and ways of delivering services continues to evolve.

In North America in particular there has been an increasing commoditisation of drilling services with consequent reductions in pricing and increased competition from providers offering very similar services. Although the position in North America is different to the rest of the world given the relative ease of access to oil & gas reserves through good transport infrastructure, certain markets may move in a similar direction in the future. In the eastern hemisphere we have seen increasing competition from lower cost providers such as Chinese companies who are able to offer low cost services and over time have provided improving quality of assets and personnel.

In a number of markets we are also seeing the way in which our customers are procuring services change. Increasingly the integrated service companies, who are able to provide a full spectrum of service offerings, are securing contracts as a one stop shop for their clients. Other service companies are broadening the scope of their offerings potentially threatening work which the Group may have traditionally provided in the past.

In response to these threats we have to ensure that we offer a compelling reason for our customers to procure our products and services through providing excellent service quality, which is cost competitive and industry leading. We have to be a company that is easy to do business with, which has a flexible commercial model and is able to form new alliances which can be mutually beneficial. We also have to continually challenge ourselves to look at new ways of working, new service offerings and to look at new sourcing models as markets continue to mature and evolve. During 2018 we formed a new joint venture company in Azerbaijan, Turan Drilling & Engineering Company LLC, in part due to the evolution of the local market requirements.

KCA Deutag Enterprises Limited

Strategic Report (continued)

Key performance indicators

The Directors of KCAD Holdings I Limited manage the group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of KCA Deutag Enterprises Limited. See note 19 for details of where copies of the Group's financial statements can be obtained.

On behalf of the Board

S Branston
Director
22 December 2020

KCA Deutag Enterprises Limited

Directors' Report for the year ended 31 December 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Further information regarding the Company, including important events and its progress during the year, events since the year end and likely future development is contained in the Strategic Report on pages 2 to 8. The information that fulfils the requirements of the Strategic Report (as required the Companies Act 2006), which is incorporated in this Directors' Report by reference, can be found on the following pages of this Annual Report:

Information	Location	Pages
Development and performance during the financial year	Strategic Report	2 - 8
Position at the year end including analysis and key performance indicators	Strategic Report	2 - 8
Other performance including environmental and employee matters	Strategic Report	2 - 8
Principal risks and uncertainties facing the business	Strategic Report	2 - 8
Financial risk management	Strategic Report	2 - 8
Explanation of amounts included in the financial statements	Notes to the Financial Statements	17 - 32

Results and dividends

The loss for the year from continuing operations transferred to reserves was $591k (restated 2018: loss of $2,906k). The Directors do not propose the payment of a final dividend (2018: $nil).

Principal risks and uncertainties

The principal risks and uncertainties are discussed within the Strategic Report on page 2. The Company's operational risks are aligned with those faced by the rest of the Group and are disclosed in the Strategic Report.

Environment

The Company provides drilling and related well and facilities engineering services both onshore and offshore. In the execution of these services they undertake environmental risk assessments and site appraisals as standard. These assessments are discussed with the clients to improve the environmental performance of the operation as a whole, through the preparation and implementation of site specific environmental plans.

Substantial shareholdings

Prior to the restructuring of the KCA Deutag Alpha Group's secured debt in November 2020, the Company's ultimate controlling Company was PHM Holdco 14 S.a.r.l., which is registered in Luxembourg. PHM Holdco 14 S.a.r.l. is in turn controlled by Pamplona Capital Partners II L.P.

Subsequent to the restructuring of the Group's secured debt, the Company's ultimate controlling company is Kelly Topco Limited, which is registered in Jersey. The shares in Kelly Topco Limited are held by those institutions who previously held secured debt in the KCA Deutag Alpha Group prior to completion of the restructuring. Kelly Topco Limited is not under the control of any single individual or corporate entity.

At 31 December 2019, the Company's ordinary shares were wholly owned by Abbot Group Limited.

Employees

The Company is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through internal newsletters, briefings and well-established formal consultation procedures.

Employees (continued)

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant. If employees become disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Details of the number of employees and related costs can be found in note 6 to the financial statements on page 26.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

A Byrne
G Paver
S Branston

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Going concern

The Company has net liabilities of $7,740,133 (restated 2018: $7,148,973), and its funding is dependent upon the overall funding position of the KCA Deutag Alpha Group.

The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

At the year end the Group had sufficient liquidity and was in compliance with all of the financial covenants in its loan documents. However, the Group continues to experience a very challenging trading environment and market uncertainty which puts additional pressure on prospective pricing and margins. The recent COVID-19 pandemic and significant reduction in the oil price, due to concerns about future demand for oil, is having an additional material downside impact on the Group's trading results, cash generation and forecast liquidity. This ongoing uncertainty caused increased pressure on the ability of the Group to meet loan covenants, maintain sufficient liquidity and be able to refinance the $375 million Senior Secured Notes which were due for payment in May 2021.

Taking into account updated financial projections, the Group decided to utilise the grace period available under its lending documents in relation to interest payments due from the start of April 2020. During this grace period, the Group initiated discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet and, on 2 May 2020, entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt. During the standstill period, the Group also had certain obligations to comply with, including the provision of an updated 5 year business plan and restructuring proposal for consideration by the lenders. On 31 July 2020, the Group entered into a binding lock-up agreement with the majority of its secured creditors in connection with a financial restructuring which would result in a significant reduction in Group debt from c. $1.9 billion to $505 million. Post restructuring, the Group's annual interest cost is expected to be c. $50 million (pre-restructuring net interest payable was c. $170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of $1.9 billion was accordingly reduced on the same day.

Subsequent to the successful completion of the Group's financial restructuring, and based on the most recent projections and forecasts for the next 12 months, the Directors believe that the Group will have sufficient liquidity headroom. As a result the Directors are confident that the Group has sufficient resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

Further details are provided in Note 2 to the financial statements.

On behalf of the Board

S Branston
Director
22 December 2020

Independent auditors' report to the members of KCA Deutag Enterprises Limited

Report on the audit of the financial statements

Opinion

In our opinion, KCA Deutag Enterprises Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Julie Watson

Julie Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
22 December 2020

KCA Deutag Enterprises Limited

Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 $	Restated 2018 $
Turnover		**35,897,913**	28,913,473
Cost of Sales		**(33,111,540)**	(26,443,096)
Gross profit		**2,786,373**	2,470,377
Administrative expenses		**(431,032)**	(2,680,295)
Operating profit/(loss)	7	**2,355,341**	(209,918)
Interest payable and similar expenses	8	**(456,855)**	(760,372)
Profit/(loss) before taxation		**1,898,486**	(970,290)
Tax on profit/(loss)	9	**(2,489,646)**	(1,936,120)
Loss and total comprehensive expense for the financial year		**(591,160)**	(2,906,410)

The results have been derived wholly from continuing operations.

The Company had no other comprehensive income during the year other than that included in the Statement of Comprehensive Income.

KCA Deutag Enterprises Limited
Balance Sheet as at 31 December 2019

	Note	2019 $	Restated 2018 $	Restated 2017 $
Fixed assets				
Tangible fixed assets	10	**-**	-	-
Right of use assets	16	**3,088,660**	6,968,354	11,719,632
		3,088,660	6,968,354	11,719,632
Current assets				
Debtors	12	**11,213,612**	6,228,876	3,986,394
Stocks	13	**4,676,470**	3,945,820	556,954
Cash at bank and in hand		**144,921**	185,048	750,098
		16,035,003	10,359,744	5,293,446
Current liabilities				
Creditors: amounts falling due within one year	14	**(23,780,552)**	(17,850,206)	(9,692,557)
Lease liabilities	16	**(2,996,819)**	(4,550,429)	(5,533,771)
		(26,777,371)	(22,400,635)	(15,226,328)
Net current liabilities		**(10,742,368)**	(12,040,891)	(9,932,882)
Total assets less current liabilities		**(7,653,708)**	(5,072,537)	1,786,750
Non-current liabilities				
Lease liabilities	16	**(86,425)**	(2,076,436)	(6,029,313)
Net liabilities		**(7,740,133)**	(7,148,973)	(4,242,563)
Capital and reserves				
Called up share capital	15	**3**	3	3
Profit and loss account		**(7,740,136)**	(7,148,976)	(4,242,566)
Total shareholders' deficit		**(7,740,133)**	(7,148,973)	(4,242,563)

The financial statements on pages 14 to 32 were approved by the Board of Directors on 22 December 2020 and signed on its behalf by:

S Branston
Director

Registered number 06715023

KCA Deutag Enterprises Limited

Statement of Changes in Equity for the year ended 31 December 2019

	Called up share capital	Profit and loss account	Total Shareholders' funds
	$	$	$
At 1 January 2019 as restated	3	(7,148,976)	**(7,148,973)**
Comprehensive expense			
Loss for the year	-	(591,160)	**(591,160)**
Total comprehensive expense	-	(591,160)	**(591,160)**
At 31 December 2019	**3**	**(7,740,136)**	**(7,740,133)**
At 1 January 2018 as previously presented	3	(4,399,114)	**(4,399,111)**
Impact of restatement at 1 January 2018	-	156,548	**156,548**
At 1 January 2018 as restated	3	(4,242,566)	**(4,242,563)**
Comprehensive expense			
Loss for the year	-	(2,906,410)	**(2,906,410)**
Total comprehensive expense	-	(2,906,410)	**(2,906,410)**
At 31 December 2018 as restated	3	(7,148,976)	**(7,148,973)**

The Notes on pages 17 to 32 are an integral part of these financial statements.

1 General information

The principal activity of KCA Deutag Enterprises Limited (the Company) is the provision of onshore drilling services to the energy industry.

The Company is a private company, limited by shares, incorporated in England and Wales and domiciled in Scotland. The address of its registered office is 1 Park Row, Leeds, LS1 5AB.

2 Basis of preparation

These financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards - in particular FRS 101 and the Companies Act 2006 ("the Act"). FRS 101 sets out a reduced disclosure framework for a "qualifying entity", as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historic cost convention.

The Company is a qualifying entity for the purposes of FRS 101. Note 19 gives details of the Company's ultimate parent and from where the consolidated financial statements prepared in accordance with IFRS may be obtained.

Adoption of Financial Reporting Standard 101 has enabled the Company to take advantage of certain disclosure exemptions, most notably in respect of financial instruments (IFRS 7 requirements) and related party transactions with fellow 100% subsidiaries of KCAD Holdings I Limited. Furthermore the Company is no longer required to prepare a cash flow statement. The below provides a summary of the disclosure exemptions adopted in the preparation of these financial statements, in accordance with FRS 101:

- *IFRS 7: Financial instruments: disclosures;*
- *IFRS 13: Fair value measurement in respect of the disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities;*
- *IAS 1: Presentation of financial statements' comparative information requirements in respect of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets;*
- *IAS 1: Presentation of financial statements in respect of: statement of cash flows including comparatives and statement of compliance with all IFRS;*
- *IAS 8: Accounting policies, changes in accounting estimates and errors' for the disclosure of new standards not yet effective;*
- *IAS 24: Related party disclosures in respect of key management compensation;*
- *IAS 24: Related party disclosures to disclose related party transactions entered into between two or more wholly owned members of a group;*
- *IAS 36: Impairment of assets in respect of the assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts; and*
- *IFRS 3: Business combinations in respect of the disclosure of: the reasons for the business combination and a description of how control was obtained; acquired receivables; and the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date had been the beginning of the year.*

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

2 Basis of preparation (continued)

Going concern

The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's loan documentation. This is done to identify risks to liquidity and covenant compliance and to enable management to formulate appropriate and timely mitigation strategies.

At the year end the Group had sufficient liquidity and was in compliance with all of the financial covenants in its loan documents. However, the Group continues to experience a very challenging trading environment and market uncertainty which puts additional pressure on prospective pricing and margins. The recent COVID-19 pandemic and significant reduction in the oil price, due to concerns about future demand for oil, is having an additional material downside impact on the Group's trading results, cash generation and forecast liquidity. This ongoing uncertainty caused increased pressure on the ability of the Group to meet loan covenants, maintain sufficient liquidity and be able to refinance the $375 million Senior Secured Notes which were due for payment in May 2021.

Taking into account updated financial projections, the Group decided to utilise the grace period available under its lending documents in relation to interest payments due from the start of April 2020. During this grace period, the Group initiated discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet and, on 2 May 2020, entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt. During the standstill period, the Group also had certain obligations to comply with, including the provision of an updated 5 year business plan and restructuring proposal for consideration by the lenders. On 31 July 2020, the Group entered into a binding lock-up agreement with the majority of its secured creditors in connection with a financial restructuring which resulted in a significant reduction in Group debt from c. $1.9 billion to $505 million. Post restructuring, the Group's annual interest cost is expected to be c. $50 million (pre-restructuring net interest payable was c. $170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of $1.9 billion was accordingly reduced on the same day.

Subsequent to the successful completion of the Group's financial restructuring, and based on the most recent projections and forecasts for the next 12 months, the Directors believe that the Group will have sufficient liquidity headroom. As a result the Directors are confident that the Group has sufficient resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

3 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out as follows. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Foreign currency translation

(i) Functional and presentation currency
These financial statements are presented in US Dollars, which is also the functional currency of the Company and the primary economic environment in which it operates. Management believe that this currency is more useful for the users of the financial statements as it is consistent with the presentation currency of the KCAD Holdings I Limited consolidated financial statements.

(ii) Transactions and balances
Transactions denominated in a foreign currency are converted to the functional currency at rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the Balance Sheet date. The resulting exchange gains and losses are dealt with through the profit and loss account for the period, except where hedge accounting is applied.

(b) Business combinations and goodwill
Business combinations are accounted for using the acquisition method. All assets and liabilities of the acquiree are measured at fair value at the date of acquisition. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill arising on acquisition (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) is recognised as an asset and reviewed for impairment at least annually. On disposal of an entity, the attributable amount of remaining goodwill is included in the determination of profit and loss on disposal.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised through the Income Statement. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity.

When deferred consideration is payable on the acquisition of a business, an estimate of the amount payable is made at the date of acquisition and reviewed regularly thereafter, with any subsequent change in the estimated liability being reflected in the Proft and Loss Account. Where deferred consideration is payable after more than one year the estimated liability is discounted using an appropriate rate of interest.

c) Intercompany loans
Intercompany loans are accounted for at their amortised cost with provisions for Expected Credit Losses ("ECLs") being booked when considered necessary. The ECLs are calculated with reference to the expected timescale for repayment and the effective rate of interest applicable to each loan. A discounted value of the loan receivable is derived and consequently any applicable impairment charge is reflected in the profit and loss account.

3 Summary of significant accounting policies (continued)

(d) Tangible fixed assets

Tangible fixed assets held for use in the Company's operations, or for administrative purposes, are stated in the Balance Sheet at cost, net of accumulated depreciation and any provisions for impairment. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over their estimated useful lives.

The depreciation for drilling rigs and equipment is calculated by dividing the total number of days a rig is operational in any period over the total estimated number of operational days in the life of the asset. This equates to a useful life of between 3 and 25 years. Should a rig not be operational for an extended period, a charge to depreciation will be made based on its estimated useful life remaining.

Assets in the course of construction are not depreciated until brought into use.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(e) Impairment

The Company performs impairment reviews in respect of investments and tangible fixed assets when circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's recoverable amount and its value per an independent third party valuation, is less than its carrying amount. In the absence of comparable market transactions, a discounted cash flow model has been used to value the assets, as such a model is equivalent to what a market participant would use as a methodology for asset valuation.

f) Trade debtors

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for an expected credit loss, if applicable. When determining the level of expected credit loss provision, management consider the age of the outstanding receivable along with prior experience in relation to the specific customer as well as the jurisdiction in which the balance is due before booking any provision. When determining the level of expected credit loss provision required in respect of trade debtor balances, management also consider the creditworthiness and probability of the future default of the customer.

g) Stocks

Stocks of spare parts which are held for use in the Company's drilling operations are stated at weighted average cost less a provision in respect of those spares attached to the older rigs and equipment. Other inventory and work in progress are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3 Summary of significant accounting policies (continued)

h) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as creditors falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors due within more than one year. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

i) Taxation

The tax charge represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the Statement of Comprehensive Income due to items that are not taxable or deductible in any year and also due to items that are taxable or deductible in a different year. The Company's liability for current tax is calculated using tax rates enacted or substantively enacted at the Balance Sheet date.

i) Taxation (continued)

Deferred tax is provided, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on tangible fixed assets, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base. Tax rates enacted, or substantially enacted, by the Balance Sheet date are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

j) Leases

Company as a lessee

As explained in note 3(l)(i) below, the Company has changed its accounting policy for leases where the Company is the lessee. The new policy is described below and the impact of the change is provided in note 3(l)(ii). This results in almost all leases being recognised on the balance sheet. An asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The lease liability is measured at the present value of the future lease payments. The lease term includes all periods covered by extension options, if exercise of the extension is reasonably certain. The present value is calculated based on an appropriate discount rate being the Company's incremental borrowing rate.

The right of use asset is initially measured based on the calculated lease liability plus any indirect costs, payments at or prior to lease commencement, dilapidation provisions less any lease incentives. Subsequent measurement is at cost less depreciation and any provision for impairment. The right of use asset is also adjusted based on any re-measurement of the lease liability.

The Company has also chosen to take advantage of the exemptions as allowed in the standard for certain short term leases and leases of low value assets;

3 Summary of significant accounting policies (continued)

j) Leases (continued)

(i) Short term leases

This is defined as a lease which has a lease term of 12 months or less and does not contain a purchase option. In terms of assessing the duration of a lease, if a lease is more likely than not to be extended to a duration in excess of 12 months, then lessee accounting under IFRS 16 will apply.

(ii) Low-value assets

The standard does not specify a value which would ensure an asset was of low-value however this is likely to apply to items such as tablets and personal computers and small items of office furniture and telephones. An asset can only be low-value if the lessee can benefit from the use of the asset on its own and the asset is not highly dependent on other assets.

Leases which meet the exemptions above continue to be charged to profit or loss on a straight-line basis over the period of the lease (net of any incentives received from the lessor).

k) Turnover

Turnover is recognised based on the gross amount received or receivable for services provided in the normal course of business, net of value-added tax and other sales related taxes.

Turnover from land drilling operations is recognised in the accounting period in which the services are rendered, typically based on a day rate for rigs provided to the customer. In land drilling, the Company typically provides the drilling rig and crew to the customer on a day rate, which fluctuates depending on activity.

Mobilisation costs that are incurred in relation to the mobilisation of new rigs are capitalised and depreciated over the life of the rig. Mobilisation costs incurred on moving rigs to locations under a new customer contract are amortised on a straight line basis over the primary period of the new contract.

Costs and revenues that are expected to be incurred or earned in relation to the demobilisation of rigs are accrued over the primary term of the drilling contract.

Any rig move costs for moving the rigs to new locations while operating under a drilling contract are expensed as incurred, with the relevant revenue being recognised when the rig move is complete.

Early Termination Fees in relation to Land Drilling contracts are recognised as a point in time revenue stream at the time they are agreed with the customer and the Company has no future performance obligations under the relevant contract.

Incentive income is recognised when earned. Incentive income is earned in respect of contract Key Performance Indicators (KPIs) detailed in customer contracts, and revenue is recognised only when a KPI has been achieved and achievement has been agreed with a customer.

The Company recognises flow through revenue, which relates to reimbursable costs, based on the gross amount received or receivable in respect of its performance under the sales contract with the customer.

Interest income is accrued on a time basis, by reference to the principal amount outstanding and the effective interest rate applicable.

3 Summary of significant accounting policies (continued)

l) Disclosure of impact of accounting standards

(i) New standards, amendments and interpretations

The following standards have been adopted and are effective for the financial year beginning as of 1 January 2019:

- IFRS 16 Leases;
- Prepayment Features with Negative Compensation - Amendments to IFRS 9;
- Long- term interests in Associates and Joint Ventures - Amendments to IAS 28;
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle;
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19; and
- Interpretation 23 'Uncertainty over Income Tax Treatments'.

The Company has updated its accounting policies as a result of adopting IFRS 16. The Company elected to apply the fully retrospective transition approach and has restated comparative amounts for the year prior to first adoption. Right of use assets for all leases have been measured on transition as if the new rules had always been applied. The impact of this is disclosed in note 16. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ii) Impact of adoption of IFRS 16 Leases

IFRS 16 Leases results in almost all leases being recognised on the balance sheet by lessees, since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The new accounting policies are set out in note 3(j). The standard is effective for the Company from 1 January 2019. IFRS 16 must be applied retrospectively. However, an entity can choose whether to apply the standard retrospectively to each period presented or apply the modified retrospective method, whereby the cumulative effect of applying the standard is recognised in equity at the date of initial application.

In accordance with the transition provisions in IFRS 16, the Company has decided to apply the new rules using the full retrospective method. Having completed an assessment of the impact on the Company's reported results for 2018 and financial position at 1 January 2018 and 31 December 2018, the results have been restated as disclosed below.

Measurement of lease liabilities

	$
Operating lease commitments disclosed as at 31 December 2018	62,394
Discounted using the incremental borrowing rate of 8.99% at the date of initial application	(1,371)
Adjustments as a result of a different treatment of extension and termination options	6,565,842
Lease liability recognised as at 1 January 2019	**6,626,865**
Of which are:	
Current lease liabilities	4,550,429
Non-current lease liabilities	2,076,436

3 Summary of significant accounting policies (continued)

l) Disclosure of impact of accounting standards (continued)

(ii) Impact of adoption of IFRS 16 Leases (continued)

Financial statement adjustments

The tables below show the adjustments recognised for each individual line item as at 1 January 2018 and 31 December 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance sheet (extract)	31 December 2018 As originally presented $	IFRS 16 $	31 December 2018 Restated $	1 January 2018 As originally presented $	IFRS 16 $	1 January 2018 Restated $
Fixed assets						
Right of use assets	-	6,968,354	6,968,354	-	11,719,632	11,719,632
Current liabilities						
Lease liabilities	-	(4,550,429)	(4,550,429)	-	(5,533,771)	(5,533,771)
Net current liabilities	(7,490,462)	(4,550,429)	(12,040,891)	(4,399,111)	(5,533,771)	(9,932,882)
Total assets less current liabilities	(7,490,462)	2,417,925	(5,072,537)	(4,399,111)	6,185,861	1,786,750
Non-current liabilities						
Lease liabilities	-	(2,076,436)	(2,076,436)	-	(6,029,313)	(6,029,313)
Net liabilities	(7,490,462)	341,489	(7,148,973)	(4,399,111)	156,548	(4,242,563)
Profit and loss account	(7,490,465)	341,489	(7,148,976)	(4,399,114)	156,548	(4,242,566)
Total shareholders' funds	(7,490,462)	341,489	(7,148,973)	(4,399,111)	156,548	(4,242,563)

Statement of profit or loss (extract)	2018 As originally presented $	IFRS 16 $	2018 Restated $
Cost of sales	(27,388,409)	945,313	(26,443,096)
Gross profit	1,525,064	945,313	2,470,377
Interest payable and similar charges	-	(760,372)	(760,372)
Loss before taxation	(1,155,231)	184,941	(970,290)
Loss and total comprehensive expense for the year	(3,091,351)	184,941	(2,906,410)

4 Significant accounting judgments and estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Significant judgements and estimates in these financial statements have been made with regard to tax balances (note 9). An explanation of key uncertainties or assumptions used by the management in accounting for these items is explained, where material, in the respective note.

5 Business combinations

On 23 December 2019, the Company acquired two land rigs along with associated inventory and customer contracts in South Iraq for $6,700,000 in cash. The amounts recognised as at the acquisition date for each major class of assets acquired are set out in the table below.

	$
Assets	
Property, plant and equipment	5,849,000
Inventories and work in progress	851,000
Net assets acquired	**6,700,000**

The fair values as at the acquisition date of each major class of consideration transferred are set out in the table below.

	$
Purchase consideration	
Cash	6,700,000
Total considedration	**6,700,000**

The value of the goodwill arising on purchase is shown in the table below.

	$
Goodwill	
Purchase consideration transferred	6,700,000
Total identifiable net assets	(6,700,000)
Goodwill arising on purchase	-

Immediately after acquisition on 23 December 2019, the property, plant and equipment was sold to a fellow group company, KCA Deutag (Land Rig) Limited, at net book value of $5,849,000 with no gain or loss arising on disposal.

The revenue included in the Statement of Comprehensive Income since 23 December 2019 contributed by the acquired business and assets was $600,000 with EBITDA of $300,000 over the same period.

6 Directors and employees

The Directors neither received nor waived any emoluments during the year from the Company (2018: nil). Their remuneration is allocated to companies in the Group as part of an overall management charge and therefore it is not possible to determine the elements of directors' remuneration relevant to this Company in a practical manner.

Employee remuneration

The aggregate remuneration of all employees, including Directors, of the Company comprised:

	2019 $	2018 $
Wages and salaries	**8,392,939**	7,823,068
Social security costs	**1,387,034**	523,786
	9,779,973	8,346,854

The average monthly number of persons employed by the Company was:

	2019 Number	2018 Number
Production	**167**	135
Administration	**4**	8
	171	143

7 Operating profit/(loss)

The following items have been included in arriving at operating profit/(loss):

	2019 $	Restated 2018 $
Employee benefits expense (note 6)	**9,779,973**	8,346,854
Depreciation of right of use assets (note 16)	**5,793,644**	5,214,776
Net foreign exchange loss	**6,541**	187,857
Cost of inventories recognised as an expense	**1,522,275**	1,420,101

Audit remuneration

The audit fees are borne by another group company. For the purpose of disclosure, a fair allocation of the audit fee to the Company would be $44,780 (2018: $10,051).

8 Interest payable and similar expenses

	2019 $	Restated 2018 $
Interest payable on leases (note 16)	**454,124**	760,372
Other interest payable	**2,731**	-
	456,855	760,372

9 Tax on profit/(loss)

(a) Analysis of charge in year

	2019	2018
	$	$
Current tax		
Overseas tax - current year	**2,489,646**	1,936,120
Total current tax charge (note 9(b))	**2,489,646**	1,936,120

(b) Factors affecting tax charge in year

The tax assessed for both years is higher than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019	Restated 2018
	$	$
Profit/(loss) before taxation	**1,898,486**	(970,290)
Profit/(loss) at standard rate of corporate tax in the UK 19% (2018: 19%)	**360,712**	(184,355)
Effects of:		
Group relief for nil consideration	**211,168**	686,343
Expenses not deductible for tax purposes	**18,074**	-
Other permanent differences	**(116,921)**	(98,986)
Adjustments in respect of foreign taxes	**2,489,646**	1,936,120
Double taxation relief	**(473,033)**	(367,863)
Deferred tax assets relating to property, plant & equipment and other temporary differences not recognised	**-**	(35,139)
Total tax charge for the year (note 9(a))	**2,489,646**	1,936,120

The Company has not recognised potential deferred tax assets of $2,798k (2018: $2,978k) as at the year end, which is the tax effect at 17% (2018: 17%) on deductible temporary differences and unused tax credits of $16,461k (2018: $17,517k) as it may not be possible to utilise the potential benefit in future years.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%.

The deferred tax asset has been calculated at 17%, which was the tax rate substantively enacted at the 31 December 2019 Balance Sheet date.

10 Tangible fixed assets

	Drilling, rigs and equipment $
Cost and net carrying amount	
At 1 January 2019	-
Additions	5,849
Disposals	(5,849)
At 31 December 2019	-

11 Contract assets and liabilities

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

Contract assets	2019 $	2018 $
Balance at 1 January	**154,535**	417,231
Mobilisation costs deferred	**1,085,973**	1,004,474
Amounts charged to income statement	**(969,015)**	(1,267,170)
Balance at 31 December	**271,493**	154,535

Contract liabilities	2019 $	2018 $
Balance at 1 January	**169,231**	923,077
Mobilisation income deferred	**1,000,000**	1,100,000
Amounts released to income statement	**(919,231)**	(1,853,846)
Balance at 31 December	**250,000**	169,231

	2019 $	2018 $
Contract liabilities at the balance sheet date are comprised of:		
Deferred Income - less than one year (note 12)	**250,000**	169,231
Contract liabilities	**250,000**	169,231

(a) Significant changes in contract assets and contract liabilities

- Contract assets mainly represent deferred costs incurred in relation to the mobilisation of land rigs.
- Contract liabilities mainly represent deferred income arising from mobilisation income in our Land Drilling and Offshore Services Business Units.

(b) Revenue recognised in relation to contract liabilities

- A $919,231 reduction in contract liabilities since 31 December 2018 has been recognised entirely as revenue in 2019, with further deferred mobilisation income of $1,000,000 being recognised as a liability in 2019.

12 Debtors

	2019	2018
	$	$
Trade debtors	**8,783,201**	5,792,457
Contract assets (note 11)	**271,493**	154,535
Amounts owed by group undertakings	**207,034**	143,176
Other debtors	**229**	74,512
Prepayments and accrued income	**1,951,655**	64,196
	11,213,612	6,228,876

The fair value of debtors due within one year are approximate to their carrying amounts given that they are short term in nature. The amounts owed by group undertakings are unsecured, interest free and repayable on demand.

As of 31 December 2019, trade debtors of $8,783,201 (2018: $5,792,457) were fully performing, and no provision was necessary for 2019 (2018: $nil). The other classes within debtors do not contain impaired assets.

Trade debtors are neither past due nor impaired. Management is confident that the trade debtor balance will be fully received in due course.

The Company applies lifetime Expected Credit Losses ("ECLs") to trade debtors upon their initial recognition.

The Company assesses the ECLs on its debtors, which are based on the age of the outstanding debtor along with prior experience in relation to the specific customer as well as the jurisdiction in which the balance is due before booking any provision. As well as considering historical factors, the Company also considers each customer's risk of default when determining the level of ECL provision.

Debtors are appropriately grouped by geographical region, product type or type of customer, and separate calculations produced, if historical or forecast credit loss experience shows significantly different loss patterns for different customer segments.

Actual credit loss experience is then adjusted to reflect differences in economic conditions over the period the historical data was collected, current economic conditions, forward-looking information and the Company's view of economic conditions over the expected lives of the receivables.

13 Stocks

	2019	2018
	$	$
Materials and consumables	**4,676,470**	3,945,820

The value of provisions against stocks was $2,806,941 (2018: $251,501)

14 Creditors: amounts falling due within one year

	2019 $	2018 $
Trade creditors	**2,782,607**	734,644
Contract liabilities (note 11)	**250,000**	169,231
Amounts owed to group undertakings	**14,805,643**	14,227,325
Accruals and deferred income	**5,942,302**	2,719,006
	23,780,552	17,850,206

The fair value of creditors due within one year are approximate to their carrying amounts given that they are short term in nature. The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15 Called up share capital

	2019 $	2018 $
Authorised		
5,000,000 (2018: 5,000,000) ordinary shares of £1 each	**9,046,500**	9,046,500

Issued and fully paid		
2 (2018: 2) ordinary shares of £1 each	**3**	3

16 Leases

Company as a lessee

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019 $	Restated 2018 $
Right of use assets:		
Properties	374,108	289,686
Vehicles, plant & equipment	33,190	-
Drilling rigs	2,681,362	6,678,668
	3,088,660	6,968,354
Lease liabilities:		
Current	(2,996,819)	(4,550,429)
Non-current	(86,425)	(2,076,436)
	(3,083,244)	(6,626,865)

Additions to the right of use assets during the year were $1,702,000 (2018: $11,594,000).

16 Leases (continued)

(b) Amounts recognised in the statement on profit or loss

The statement of profit or loss includes the following amounts relating to leases:

	2019	Restated 2018
	$	$
Depreciation charge of right of use assets:		
Properties	283,945	180,951
Vehicles, plant & equipment	33,190	-
Drilling rigs	5,476,509	5,033,825
	5,793,644	5,214,776
Interest expense (included in interest payable and similar charges)	454,124	760,372

The total cash outflow for leases in 2019 was $5,911,000 (2018: $5,744,000).

17 Capital commitments

The Company had no capital commitments at 31 December 2019 and 31 December 2018.

18 Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard 101 not to disclose transactions and balances with KCAD Holdings I Limited and its wholly owned subsidiaries, for which consolidated financial statements are publicly available.

19 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of Abbot Group Limited.

At the Balance Sheet date, the Company's ultimate parent undertaking was KCAD Holdings I Limited, which is registered in England and Wales and the ultimate controlling company, is PHM Holdco 14 S.a.r.l., which is registered in Luxembourg. PHM Holdco 14 S.a.r.l. is in turn controlled by Pamplona Capital Partners II L.P.

Subsequent to the restructuring of the Group's secured debt during December 2020, the Company's ultimate controlling company is Kelly Topco Limited, which is registered in Jersey.

At 31 December 2019 the smallest and largest groups in which the results of the Company are consolidated are those headed by KCA Deutag Alpha Limited and KCAD Holdings I Limited respectively. Copies of financial statements of KCAD Holdings I Limited and KCA Deutag Alpha Limited are available from Group Headquarters, Bankhead Drive, City South Office Park, Portlethen, Aberdeenshire, AB12 4XX.

20 Subsequent events

The COVID-19 outbreak in early 2020 has affected business and economic activity throughout the world, including countries where the Group operates. The Group considers this outbreak to be a non-adjusting post balance sheet event as at 31 December 2019, in accordance with IAS 10.

The spread of the virus has created volatility in the global energy markets, which has had an impact on the demand for the services we provide in the markets where we operate. However, the impact on the business in the medium to long-term period is difficult to predict due to the wide range of possible outcomes when it comes to the development of this global pandemic and its effect on the economy. As a result, we are monitoring the COVID-19 outbreak closely and we are responding to the economic uncertainty in order to mitigate the potential adverse impact on the Group's operations and employees.

As a result of the above, taking into account updated financial projections prepared by the business, the Group decided utilise the grace period available under its lending documents in relation to interest payments due at the start of April 2020. During this grace period, the Group entered into discussions with its lenders with a view to agreeing a restructuring of the Group's balance sheet.

On 2 May 2020, the Group entered into a Standstill Agreement with its lenders. This agreement allowed the Group to defer interest payments and scheduled repayments of the Group's debt for three months. During the standstill period, the Group had certain obligations to comply with, including the provision of an updated 5 year business plan and restructuring proposal for consideration by the lenders. On 31 July 2020, the Group entered into a binding lock-up agreement with the majority of its secured creditors in connection with a financial restructuring which will result in a significant reduction in Group debt from c. $1.9 billion to $505 million. Post restructuring, the Group's annual interest cost is expected to be c. $50 million (pre-restructuring net interest payable was c. $170 million per year) and its leverage ratio is expected to fall to below two times EBITDA (pre-restructuring leverage was over 6 times EBITDA). On 21 December 2020, the Group completed the proposed financial restructuring through an English law scheme of arrangement under the Companies Act 2006 and the debt of $1.9 billion was accordingly reduced on the same day.

Subsequent to the successful completion of the Group's financial restructuring, and based on the most recent projections and forecasts for the next 12 months, the Directors believe that the Group will have sufficient liquidity headroom. As a result the Directors are confident that the Group has sufficient resources to meet all of its liabilities as they fall due over the next 12 months. For these reasons the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

Following the successful completion of the restructuring, KCA Deutag Enterprises Limited will be ultimately owned by Kelly Topco Limited, a newly formed entity registered in Jersey. The shareholders of Kelly Topco Limited are comprised of holders of the pre-restructuring secured debt which was partially swapped for equity in Kelly Topco Limited as part of the restructuring transaction. The Board of Kelly Topco Limited is made up of non-executive directors as well as members of the KCA Deutag Executive Team.