Risk Factors Comparison 2024-02-28 to 2023-03-06 Form: 10-K

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We face many challenges and risks in the industry in which we operate. You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report on Form 10- K, including our consolidated financial statements and related notes, and the documents and other information incorporated by reference herein, before investing in our shares. The risks and uncertainties described are not the only ones we face. Additional risk factors not presently known to us or which we currently consider immaterial may also adversely affect us. If any of these risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares could decline and you could lose all or part of your investment. Key Risks Related to Our Business and Operations We derive all our revenues from companies in the oil and natural gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility in oil and natural gas prices. As a provider of land- based contract drilling services, our business depends on the level of exploration and production activity by oil and natural gas companies operating in the United States, and in particular, the regions where we actively market our contract drilling services. The oil and natural gas exploration and production industry is a historically cyclical industry characterized by significant changes in the levels of exploration and development activities. Oil and natural gas prices and market expectations of potential changes in those prices significantly affect the levels of those activities. Worldwide political, regulatory, economic, and military events as well as natural disasters have contributed to oil and natural gas price volatility and are likely to continue to do so in the future. Any prolonged reduction in the overall level of exploration and development activities in the United States and the regions where we market our contract drilling services, whether resulting from changes in oil and natural gas prices, an increase in the use of alternative forms of energy and reduction in demand for oil and natural gas, or otherwise, could materially and adversely affect our business, results of operations and financial condition. Depending on the market prices of oil and natural gas, oil and natural gas exploration and production companies may cancel or curtail their drilling programs and may lower production spending on existing wells, thereby reducing demand for our services. Many factors beyond our control affect oil and natural gas prices, including, but not limited to: ● the cost of exploring for, producing and delivering oil and natural gas; ● the discovery and development rate of new oil and natural gas reserves, especially shale and other unconventional natural gas resources for which we market our rigs; ● the rate of decline of existing and new oil and natural gas reserves; ● available pipeline and other oil and natural gas transportation capacity; ● the levels of oil and natural gas storage; ● the ability of oil and natural gas exploration and production companies to raise capital; ● economic conditions in the United States and elsewhere; ● actions by ~~the~~ **members of** Organization of **the** Petroleum Exporting Countries (" OPEC ") and other oil producing nations, such as Russia, relating to oil price and production levels, including announcements of potential changes to such levels; ● political instability in the Middle East, Russia and other major oil and natural gas producing regions; ● governmental regulations, sanctions and trade restrictions, both domestic and foreign; ● domestic and foreign tax policy; ● the availability of and constraints in pipeline, storage and other transportation capacity in the basins in which we operate, including, for example, takeaway constraints experienced in the Permian Basin **and Haynesville Shale** ; ● weather conditions in the United States; ● the pace adopted by foreign governments for the exploration, development and production of their national reserves; ● the price of foreign imports of oil and natural gas; ● the strength or weakness of the United States dollar; ● the overall supply and demand for oil and natural gas; and ● the development of alternate energy sources and the long- term effects of worldwide energy conservation measures. In addition, if oil and natural gas prices decline, companies that planned to finance exploration, development or production projects through the capital markets may be forced to curtail, reduce, postpone or delay drilling activities even further, and also may experience an inability to pay suppliers. Adverse conditions in the global economic environment could also impact our vendors' and suppliers' ability to meet obligations to provide materials and services in general. If any of the foregoing were to occur, or if current depressed market conditions continue for a prolonged period of time, it could have a material adverse effect on our business and financial results and our ability to timely and successfully implement our growth strategy. ~~During 2020,~~ OPEC and Russia (collectively " OPEC ") ~~instituted~~ **have continued** production cuts **, including additional voluntary and unilateral cuts instituted during 2023,** in order to support oil prices ~~during the period of reduced demand caused by the COVID- 19 pandemic~~ . **Although WTI** ~~Recently, OPEC has announced modest production increases as global supply- demand fundamentals have become more normalized and~~ oil prices have ~~risen~~ **ranged between $ 68** . ~~Although oil prices have recovered from historic 2020 lows~~ **27 and $ 93. 67 over the past six months** , the sustainability of these price levels and adherence by OPEC to agreed allocations remains uncertain. Because of this uncertainty, most of our exploration and production (" E & P ") customers have not significantly increased capital expenditure budgets **and some have decreased budgets** ~~despite substantial improvements in commodity prices~~ . If oil prices were to ~~fall again and~~ remain below $ 70 per barrel for an extended period, we believe demand for contract drilling services **in oil regions such as the Permian Basin** would again soften over current levels, which could have a material adverse effect on our operations and financial condition ~~. Recently, natural gas prices have fallen dramatically~~ . Natural gas prices (Henry Hub) **have fallen dramatically since the third quarter of 2022. On August 22, 2022, natural gas prices** reached a high of $ 9. 85 per mmcf ~~in August 2022~~ , but fell to $ 3. 52 per mmcf as of December 31, 2022 and **was $ 2. 58 per mmcf as of December 31, 2023. Prices** have fallen ~~further~~ to ~~a~~ **as** low ~~of~~ **as** $ ~~2~~ **1** . ~~12 as of February 21,~~ **50 per mmcf since year end** 2023. These commodity price declines, as well as take away capacity issues, ~~have~~ caused market conditions in the Haynesville Shale to weaken rapidly, which ~~we believe will result~~ **resulted** in a reduction in the number of drilling rigs operating in the Haynesville Shale, including a reduction in our operating rigs. ~~We intend to~~ **At the end of the first quarter of 2023, we began** ~~relocate~~ **relocating** ~~any idle~~ **a portion of these** rigs to the Permian Basin where market conditions remain ~~strong~~ **stronger . However, not all of** ~~and where we believe we can recontract~~ these rigs **have been able to continue drilling in the Permian Basin and** ~~on attractive terms, with one relocation already occurring as of March 1, 2023. However,~~ there can be no assurance that **market conditions in the Permian Basin will not be adversely affected by recent volatility in oil prices nor any assurance that** we will be successful in marketing all **of these** ~~idle Haynesville Shale~~ rigs in the Permian Basin or that they will be contracted on a timely basis or upon terms that are acceptable to us ~~. Any failure to successfully remarket these rigs in the Permian Basin could have a material adverse effect on our operations and financial condition~~ . Any loss of large customers could have a material adverse effect on our financial condition and results of operations. Our customer base consists of E & P companies that drill oil and natural gas wells in the United States in the regions where we market our rigs. As of December 31, ~~2022~~ **2023** , we had rigs operating or earning revenues from ~~13~~ **12** different customers, including one customer who had contracted ~~five~~ **four** rigs, or 25 %, of our contracted rigs and ~~three~~ **one** ~~customers~~ - **customer** who had contracted two ~~each~~ **rigs** , or ~~10~~ **13** %, of our contracted rigs. It is likely that we will continue to derive a significant portion of our revenue from a relatively small number of customers in the future. **Recently, there has been an acceleration in the pace of industry consolidation by E & P customers operating in the Company' s target markets, including a recent announcement that two of our customers had signed definitive agreements to merge together. Although we often have term contracts in place that mitigate financial risks from customer consolidation, when 15consolidation transactions occur, it is not unusual for the combined companies to reduce the number of drilling rigs they are operating. In addition, the acquiror in such transactions may also have preferred suppliers of contract drilling services.** If a customer decided not to continue to use our services or to terminate an existing contract, or if there is a change of management or ownership of a customer or a material adverse change in the financial condition of one of our customers, and we are not able to timely recontract such rigs, it could have a material adverse effect on our revenues, cash flows, and financial condition. ~~16All~~ -- **All** of our operating rigs are operating under contracts with terms expiring during ~~2023~~ **2024 and 2025** . If we are unable to continue to operate rigs in the spot- market or renew our expiring contracts or continue their operation in the spot- market, it could have a material adverse effect on our results of operations and financial condition. Upon expiration of a drilling contract, our customers have no obligation to extend the contract term or recontract the drilling rig ~~,~~ and may elect to release the rig. All of our existing contracts expire during ~~2023~~ **2024 and 2025, with the majority of our rigs operating on short- term pad- to- pad contracts** . We cannot assure that a customer will continue to renew contracts as they expire or that any replacement contract can be obtained for any of our rigs operating in the spot- market or with terms expiring, and if obtained, that it would be on terms as favorable as those of our existing drilling contracts or at profitable levels. The failure to renew or timely replace one or more of our expiring contracts could have a material adverse effect on our results of operations and financial condition. Our operations involve operating hazards, which if not insured or indemnified against, could adversely affect our results of operations and financial condition. Our operations are subject to the many hazards inherent in the drilling and well services industries, including the risks of personal injury and loss of life, blowouts, cratering, fires and explosions, loss of well control, collapse of the borehole, damaged or lost drilling equipment, and damage or loss from extreme weather and natural disasters. Any of these hazards can result in substantial liabilities or losses to us from, among other things, suspension of operations, damage to, or destruction of, our property and equipment and that of others, damage to producing or potentially productive oil and natural gas formations through which we drill, and environmental damage. Although, we seek to protect ourselves from some but not all operating hazards through insurance coverage, some risks are either not insurable or insurance is available only at rates that we consider uneconomical. Depending on competitive conditions and other factors, we attempt to obtain contractual protection against uninsured operating risks from our customers. However, customers who provide contractual indemnification protection may not in all cases maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. We do not carry loss of business insurance for a rig being out of service. We maintain insurance against some, but not all, of the potential risks affecting our operations and only in coverage amounts and deductible levels that we believe to be economical. Our insurance coverage includes deductibles which must be met prior to recovery. Additionally, our insurance is subject to exclusions and limitations, and there is no assurance that such coverage will adequately protect us against liability from all potential consequences and damages. The occurrence of a significant event that we have not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition. Furthermore, we may be unable to maintain adequate insurance in the future at rates we consider reasonable. Incurring a liability for which we are not fully insured or indemnified could have a material adverse effect on our financial condition and results of operations. We operate in a highly competitive industry in which price competition could reduce our profitability. We encounter substantial competition from other drilling contractors. The competition in the markets in which we operate has intensified as recent mergers among E & P companies have reduced the number of available customers and the ~~downturn~~ **volatility** in oil prices has decreased demand for drilling rigs and resulted in downward pricing pressure on operating drilling rigs. ~~As~~ **16As** a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, results of operations and financial condition. In addition, the failure to maintain an adequate safety record could harm our ability to secure new drilling contracts. ~~17We~~ **We** face competition from many competitors with greater resources and greater ability to rapidly respond to changing customer requirements and market conditions. We compete with large national and multi- national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Many of our larger competitors are able to offer ancillary products and services with their contract drilling services, and recently, some of our larger competitors have begun integrating and offering contract drilling services in connection with directional drilling and other services that we do not offer. In this regard, large **,** diversified oilfield service companies have begun to market bundled services, including contract drilling services, in the United States. If any of these combined offerings gain acceptance within the United States market, it could place us at a competitive disadvantage that has an adverse impact on our future results of operations and profitability. Furthermore, some of our competitors' greater capabilities in these areas may enable them to better withstand industry downturns, compete more effectively on the basis of price and technology, retain skilled rig personnel, and build new rigs or acquire and refurbish existing rigs so as to be able to place rigs into service more quickly than us in periods of high drilling demand. New technology may cause our drilling methods or equipment to become less competitive. The drilling industry is subject to the introduction of new drilling and completion methods and equipment using new technologies, some of which may be subject to patent protection. Changes in technology or improvements in competitors' equipment could make our equipment less competitive or require significant capital investments to build and maintain a competitive advantage. Further, we may face competitive pressure to design, implement or acquire certain new technologies at a substantial cost. Some of our competitors have greater financial, technical and personnel resources that may allow them to implement new technologies before we can. If we are unable to implement new and emerging technologies on a timely basis or at an acceptable cost, it may have a material adverse effect on our business, results of operations, financial condition and growth strategy. Our current estimated backlog of contract drilling revenue may not ultimately be realized. As of December 31, ~~2022~~ **2023** , our estimated contract drilling backlog for future revenues under term contracts, which we define as contracts with an original fixed term of six months or more, was approximately $ ~~79~~ **82** . ~~1~~ **9** million. ~~All~~ **75 %** of this backlog expires in ~~2023~~ **2024 and 25 % expires in 2025** , which requires us to renew these expiring contracts as well as short- term contracts under which a large number of our rigs operate. Although we historically have been successful in obtaining extensions or follow on work for drilling rigs with expiring contracts, in periods of market decline or uncertainty such as the U. S. land contract drilling industry is experiencing, we cannot assure that we will obtain such renewals, or that such renewals will be on terms acceptable to us. Any failure to renew or find follow- on work for our drilling rigs with expiring contracts, could have a material adverse effect on our operations and financial condition. Fixed- term drilling contracts customarily provide for termination at the election of the customer, with an " early termination payment " to us if a contract is terminated prior to the expiration of the fixed term. Additionally, in certain circumstances, for example, destruction of a drilling rig that is not replaced within a specified period of time, our bankruptcy, or a breach of our contract obligations, the customer may not be obligated to make an early termination payment to us. Additionally, during depressed market conditions, such as those we are currently experiencing, or otherwise, customers may be unable to satisfy their contractual obligations or may seek to terminate, renegotiate or fail to honor their contractual obligations. In addition, we may not be able to perform under these contracts due to events beyond our control, and our customers may seek to cancel or negotiate our contracts for various reasons, including those described above. As a result, we may be unable to realize all of our current contract drilling backlog. In addition, the ~~renegotiation~~ **17renegotiation** or termination of fixed- term contracts without the receipt of early termination payments could have a material adverse effect on our business, financial condition, cash flows and results of operations. ~~18We~~ **We** participate in a capital- intensive business. We may not be able to finance future growth of our operations. The contract drilling industry is capital intensive. Our cash flow from operations and the continued availability of credit are subject to a number of variables, including general economic conditions, conditions in the oil and natural gas market, and more specifically, our rig utilization rates, operating margins and ability to control costs and obtain contracts in a competitive industry. Our cash flow from operations and present borrowing capacity may not be sufficient to fund our anticipated capital expenditures and working capital requirements. We may from time to time seek additional financing, either in the form of bank borrowings, sales of debt or equity securities or otherwise. To the extent our capital resources and cash flow from operations are at any time insufficient to fund our activities or repay our indebtedness as it becomes due, we will need to raise additional funds through public or private financing or additional borrowings. We may not be able to obtain any such capital resources in the amount or at the time when needed. Any new sources of debt capital would require substantially higher interest requirements, and any new sources of equity capital could be substantially dilutive to existing shareholders. **In addition, the number of banks and other lending institutions who provide capital to the oil and gas services industry has been shrinking driven in part by ESG concerns and priorities.** Any limitations on our access to capital or increase in the cost of that capital ~~could~~ **would** significantly impair our operational strategies. Our ability to maintain our targeted credit profile could affect our cost of capital as well as our ability to execute our growth strategy. In addition, a variety of factors beyond our control could impact the availability or cost of capital, including domestic or international economic conditions, increases in key benchmark interest rates and / or credit spreads, the adoption of new or amended banking or capital market laws or regulations, the re- pricing of market risks and volatility in capital and financial markets. If we are at any time not able to obtain the necessary capital resources, our financial condition and results of operations could be materially adversely affected. We depend on a limited number of vendors, some of which are thinly capitalized and the loss of any of which could disrupt our operations. Our contract drilling operations depend upon the availability of various rig equipment, including VFD drives and drillers cabins, top drives, mud pumps, engines and drill pipe, as well as replacement parts, related rig equipment and fuel. Some of these have been in short supply from time to time. In addition, key rig components critical to the operation, construction or upgrade of our rigs are either purchased from or fabricated by a limited number of vendors, including vendors that may compete against us from time to time. For many of these products and services, there are only a limited number of vendors and suppliers available to us. We do not currently have any long- term supply contracts with any of our suppliers or subcontractors and may be at a competitive disadvantage compared to our larger competitors when purchasing from these suppliers and subcontractors. Shortages could occur in these essential components due to an interruption of supply or increased demands in the industry. If we are unable to procure certain of such rig components or services from our subcontractors we would be required to reduce or delay our rig construction and other operations, which could have a material adverse effect on our business, results of operations, financial condition and growth strategy. We could be adversely affected if shortages of equipment or supplies occur. Increased or decreased demand among drilling contractors and our customers for consumable supplies, including fuel, water and ancillary rig equipment, such as pumps, valves, drill pipe and engines, may lead to delays in obtaining these materials and our inability to operate our rigs in an efficient manner. We have periodically experienced increased lead times in purchasing ancillary equipment for our drilling rigs. To the extent there are significant delays in being able to purchase important components for our rigs, certain of our rigs may not be available for operation or may not be able to operate as efficiently as expected, which could adversely affect our results of operations and financial condition. In addition, our customers typically purchase the fuel and water for their operations, including fuel that runs our drilling rigs, and thus bear the financial impact of increased prices. However, prolonged shortages in the availability of ~~fuel~~ **18fuel** or water to conduct drilling and completion activities could result in the suspension of our contracts or reduce demand for our contract drilling services and have a material adverse effect on our financial condition and results of operations. ~~19Our~~ -- **Our** ability to use our existing net operating loss carryforwards or other tax attributes could be limited. Utilization of any NOL carryforwards depends on many factors, including our ability to generate future taxable income, which cannot be assured. In addition, Section 382 of the Internal Revenue Code of 1986, as amended (" Section 382 "), generally imposes, upon the occurrence of an ownership change (discussed below), an annual limitation on the amount of our pre- ownership change NOLs we can utilize to offset our taxable income in any taxable year (or portion thereof) ending after such ownership change. The limitation is generally equal to the value of our stock immediately prior to the ownership change multiplied by the long- term tax- exempt rate. In general, an ownership change occurs if there is a cumulative increase in our ownership of more than 50 percentage points by one or more " 5 % shareholders " (as defined in the Internal Revenue Code of 1986, as amended) at any time during a rolling three- year period. In addition, future ownership changes or future regulatory changes could further limit our ability to utilize our NOLs. If all or a substantial part of our NOLs is lost or limited, it will result in our recognizing a net deferred tax liability and associated expense during the period of limitation. We ~~believe~~ **currently estimate that** we ~~had an ownership change in April 2016, October 2018 in connection with the Sidewinder Merger, and in October 2021. In conjunction with the ownership change in October 2021, we expect to~~ have approximately $ 94. ~~8~~ **2** million of NOLs **that will** expire before becoming available to be utilized by us. Currently, because we have not yet generated taxable income for federal income tax purposes, all of our NOL assets in excess of the amount that we are able to offset against other deferred tax liabilities have been reserved on our balance sheet. Subsequent ownership changes under Section 382 **are possible** in the future **and** could cause further limitations in our existing NOLs as well as NOLs generated during future periods. Legal and Regulatory RisksFederal and state legislative and regulatory initiatives related to hydraulic fracturing could result in operating restrictions or delays in the completion of oil and natural gas wells that may reduce demand for our activities and could adversely affect our financial position, results of operations and cash flows. Hydraulic fracturing is a commonly used process that involves injection of water, sand, and certain chemicals to fracture the hydrocarbon- bearing rock formation to allow flow of hydrocarbons into the wellbore. The adoption of any federal, state or local laws or the implementation of regulations or ordinances restricting or increasing the costs of hydraulic fracturing could potentially increase our costs of operations and cause a decrease in drilling activity levels in the Permian Basin and other unconventional resource plays and an associated decrease in demand for our rigs and ~~service~~ **services** , any or all of which could adversely affect our financial position, results of operations and cash flows. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition, including litigation, to oil and natural gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs **for our customers** in the production of oil and natural gas ~~, including from the developing shale plays, incurred by our customers~~ or could make it more difficult to perform hydraulic fracturing in the unconventional resource plays where we focus our operations. Any such regulation that adversely affects our customers' operations could materially impact demand for our contract drilling services which could adversely affect our financial position, results of operations and cash flows. Legal proceedings could have a negative impact on our business. The nature of our business makes us susceptible to legal proceedings and governmental investigations from time to time. Lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations. Any litigation or claims, even if fully indemnified or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future. ~~20Regulatory~~ **19Regulatory** compliance costs and restrictions, as well as any delays in obtaining permits by our customers for their operations, could impair our business. The operations of our customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, including land drilling, our customers' operations could be disrupted or curtailed by governmental authorities. In most states, our customers are required to obtain permits from one or more governmental agencies in order to perform drilling and completion activities. Such permits are typically required by state agencies, but can also be required by federal and local governmental agencies. The requirements for such permits vary depending on the location where such drilling and completion activities will be conducted. As with all governmental permitting processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit to be issued, and the conditions which may be imposed in connection with the granting of the permit. Additionally, the high cost of compliance with applicable regulations may cause customers to discontinue or limit their operations or defer planned drilling, and may discourage companies from continuing development activities. As a result, demand for our services could be substantially affected by regulations adversely impacting the oil and natural gas industry. We are subject to environmental, health and safety laws and regulations that may expose us to significant liabilities for penalties, damages or costs of remediation or compliance. Our operations are subject to federal, regional, state and local laws and regulations relating to protection of natural resources and the environment, health and safety aspects of our operations and waste management, including the transportation and disposal of waste and other materials. These laws and regulations may impose numerous obligations on our operations, including the acquisition of permits to conduct regulated activities, the incurrence of capital expenditures to mitigate or prevent releases of materials from our facilities, the imposition of substantial liabilities for pollution resulting from our operations and the application of specific health and safety criteria addressing worker protection. Failure to comply with these laws and regulations could result in investigations, restrictions or orders suspending well operations, the assessment of administrative, civil and criminal penalties, the revocation of permits and the issuance of corrective action orders, any of which could have a material adverse effect on our business, results of operations and financial condition. There is inherent risk of environmental costs and liabilities in our business as a result of our handling of petroleum hydrocarbons and oilfield and industrial wastes, air emissions and wastewater discharges related to our ~~operations~~ **operation** , and historical industry operations and waste disposal practices. Some environmental laws and regulations may impose strict, joint and several liability, which means that in some situations, we could be exposed to liability as a result of our conduct that was without fault or lawful at the time it occurred or as a result of the conduct of, or conditions caused by, prior operators or other third parties. Clean- up costs and other damages arising as a result of environmental laws and costs associated with changes in environmental laws and regulations could be substantial and could have a material adverse effect on our financial condition and results of operations. Laws protecting the environment generally have become more stringent over time and are expected to continue to do so, which could lead to material increases in costs for future environmental compliance and remediation. The modification or interpretation of existing laws or regulations, or the adoption of new laws or regulations, could curtail exploratory or developmental drilling for oil and natural gas, could limit well servicing opportunities or impose unforeseen liabilities. We may not be able to recover some or any of our costs of compliance with these laws and regulations from insurance. Potential listing of species as " endangered " under the federal ESA could result in increased costs and new operating restrictions or delays on our oil and natural gas exploration and production customers, which could adversely reduce the amount of contract drilling services that we provide to such customers. The federal ESA and analogous state laws regulate a variety of activities, including oil and natural gas development, which could have an adverse effect on species listed as threatened or endangered under the ESA or their habitats. The designation of previously unidentified endangered or threatened species or the designation of previously unprotected areas as a critical habitat could cause oil and natural gas exploration and production operators to incur ~~21additional~~ **20additional** costs or become subject to operating delays, restrictions or bans in affected areas, which impacts could adversely reduce the amount of drilling activities in affected areas, including support services that we provide to such operators under our contract drilling services segment. Numerous species have been listed or proposed for protected status in areas in which we provide or could in the future provide field services. For instance, the sage grouse, the lesser prairie- chicken and certain wildflower species, among others, are species that have been or are being considered for protected status under the ESA and whose range can coincide with our oil and natural gas production activities. The presence of protected species in areas where operators for whom we provide contract drilling services conduct exploration and production operations could impair such operators' ability to timely complete well drilling and development and, consequently, adversely affect the amount of contract drilling or other field services that we provide to such operators, which reduction of services could have a significant adverse effect on our results of operations and financial position. Climate change legislation or regulations restricting or regulating emissions of greenhouse gases could result in increased operating costs and reduced demand for our field services. In response to findings that emissions of carbon dioxide, methane and other greenhouse gases from industrial and energy sources contribute to increases of carbon dioxide levels in the Earth' s atmosphere and oceans and contribute to global warming and other environmental effects, the EPA has adopted various regulations under the federal Clean Air Act addressing emissions of greenhouse gases that may affect the oil and natural gas industry. During 2012, the EPA published rules that include standards to reduce methane emissions associated with oil and natural gas production. In May 2016, the EPA finalized regulations that set methane emission standards for new and modified oil and natural gas facilities, including production facilities. ~~However~~ **On December 2** , ~~in September 2020~~ **2023** , the EPA issued a final rule that **strengthened** ~~removed the transmission and storage segment from the 2016 new source performance standards, rescinded VOCs and methane emissions~~ standards for ~~the transmission and storage segment, and rescinded~~ methane ~~emissions standards for the production and processing segments. Various states and industry and environmental groups are separately challenging the EPA' s 2016 standards and its September 2020 final rule. On January 20, 2021, President Biden issued an~~ **and** ~~executive order directing the~~ **other air pollutants from new** ~~EPA to consider publishing for notice and comment a proposed rule suspending~~ , **modified and reconstructed sources** ~~revising, or rescinding the September 2020 rule, which could result in more stringent methane emission rulemaking~~ . In addition, the United States has been involved in international negotiations regarding greenhouse gas reductions under the United Nations Framework Convention on Climate Change and was among the 195 nations that signed an international accord in December 2015 with the objective of limiting greenhouse gas emissions. The Paris Agreement (adopted at the conference) went into effect on November 4, 2016 ~~. While the U. S. withdrew from the Paris Agreement on November 4~~ , ~~2020, President Biden issued an~~ **and** ~~executive order on January 20, 2021 recommitting~~ the United States **formally rejoined in February** ~~to the Paris Agreement. On January 27,~~ 2021 ~~, President Biden issued an executive order directing the Secretary of the Interior to pause approval of new oil and natural gas leases on federal lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices and to consider whether to adjust royalties associated with oil and gas resources extracted from public lands and offshore waters to account for corresponding climate costs~~ . Additionally, certain U. S. states and regional coalitions of states have adopted measures regulating or limiting greenhouse gases from certain sources or have adopted policies seeking to reduce overall emissions of greenhouse gases. The adoption and implementation of any international treaty or of any federal or state legislation or regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require us to incur costs to comply with such requirements and possibly require the reduction or limitation of emissions of greenhouse gases associated with our operations and other sources within the industrial or energy sectors. Such legislation or regulations could adversely affect demand for the production of oil and natural gas and thus reduce demand for the services we provide to oil and natural gas producers as well as increase our operating costs by requiring additional costs to operate and maintain equipment and facilities, install emissions controls, acquire allowances or pay taxes and fees relating to emissions, which could adversely affect our results of operations and financial condition. For example, the ~~Inflation Reduction Act of 2022 (the "~~ IRA ~~")~~, which was signed into law in August 2022, contains tax inducements and other provisions that incentivize investment, development, and deployment of alternative energy sources and technologies. The IRA could accelerate the transition to a low carbon economy and could impose new costs on our operations **. The IRA also imposes a methane emissions charge on certain oil and gas facilities, including onshore petroleum and natural gas production facilities, that emit 25, 000 metric tons or more of carbon dioxide equivalent gas per year and exceed certain emissions thresholds. In January 2024, the EPA issued a proposed rule to impose and collect the methane emissions charge authorized under the IRA. Compliance with more stringent federal, state and local requirements and imposition of a methane fee could result in increased costs and the need for operational changes. Any direct and indirect costs of meeting these requirements may adversely affect our business, results of operations and financial condition** . Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases may produce changes in climate or weather, such as increased frequency and severity of storms, floods and other climatic events, which if any such effects were to occur, could have adverse physical effects on our operations, physical assets and field services to exploration and production operators. ~~22Risks~~ **21Risks** Related to Our LiquidityThe conversion of the Convertible Notes issued on March 18, 2022 into shares of our common stock would result in significant dilution to our existing stockholders. **We** ~~On March 18, 2022, we issued $ 157. 5 million principal amount of Convertible Notes, and~~ currently have $ ~~170~~ **179** . 2 million of Convertible Notes outstanding as of December 31, ~~2022~~ **2023** . We have the ability to issue up to an additional $ 7. 5 million principal amount of Convertible Notes to holders willing to purchase such additional Convertible Notes. The Convertible Notes are convertible into shares of our common stock at the option of the holders at any time during the term of the Convertible Notes. The effective conversion price is $ 4. 51 per share. In addition, we have the right to pay in- kind (" PIK ") interest for the entire term of the Convertible Notes. The election by us to PIK interest will increase outstanding principal balance under the Convertible Notes and thus the number of shares of common stock issuable upon conversion of the Convertible Notes. We elected to pay in- kind outstanding interest as of September 30, 2022, **March 31, 2023, and September 30, 2023,** resulting in **the issuance of** an additional $ 12. 7 million **, $ 11. 6 million and $ 12. 4 million** principal amount of Convertible Notes ~~being issued as of September 30~~ , ~~2022 and~~ **respectively. We also** have elected to pay in- kind ~~outstanding~~ **our** interest **payment due** ~~that is payable on~~ March 31, ~~2023~~ **2024 , which will result in the issuance of an additional $ 13. 6 million of Convertible Notes, and will likely pay in- kind additional interest payments due on the Convertible Notes in the future** . The conversion of the Convertible Notes would result in substantial dilution in the percentage of the outstanding common stock owned by our existing stockholders. The market price of our common stock could decline as a result of the large number of shares that will become eligible for sale following conversion of the Convertible Notes. A substantial number of additional shares of our common stock would be eligible for resale in the public market following conversion of the Convertible Notes. Current holders of our Convertible Notes may wish to dispose of some or all of their shares of common stock acquired upon conversion of the Convertible Notes. Sales of substantial numbers of shares of both the newly issued and the existing shares of our common stock in the public market following conversion of the Convertible Notes could adversely affect the market price of our shares of common stock. Affiliates of MSD Partners, L. P. and Glendon Capital Management, L. P. (the " Primary Noteholders ") collectively own ~~a large percentage~~ **over 10 %** of our common stock ~~as a result of the transactions relating to the issuance of the Convertible Notes,~~ and have rights to acquire additional shares upon conversion of Convertible Notes held by them. The Primary Noteholders also have rights to nominate up to an aggregate of three individuals to serve on our Board of Directors. As a result, the Primary Noteholders collectively will have significant influence over the outcome of corporate actions requiring stockholder **or board** approval, and the priorities of the Primary Noteholders for our business may be different from our other stockholders. The Primary Noteholders collectively own approximately ~~17~~ **12** % of the outstanding shares of our common stock, and collectively beneficially own approximately 29. 8 % of the outstanding shares of our common stock (after giving effect to permitted conversions of the Convertible Notes based on the current beneficial ownership limitations after giving effect to such conversions, including a 9. 9 % limitation on Glendon Capital Management, L. P. and 19. 9 % limitation on MSD Partners, L. P.). Accordingly, the affiliates of MSD Partners, L. P. acting alone, or the Primary Noteholders voting together, while not a group, may be able to significantly influence the outcome of many corporate transactions or other matters submitted to our stockholders for approval, including any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction, such that the Primary Noteholders collectively could potentially delay or prevent a change of control of the Company, even if such a change of control would benefit our other stockholders. The interests of the Primary Noteholders may differ from the interests of other stockholders. We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under applicable debt instruments, which may not be successful. Our ability to make scheduled payments on or to refinance indebtedness depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the interest or principal, when due, on our indebtedness. ~~23If~~ **22At December 31, 2023, we had $ 5. 5 million drawn under our Revolving ABL Credit Facility, which term matures on September 30, 2025. Our Convertible Notes require us to offer to purchase up to $ 3. 5 million of Convertible Notes at par, plus accrued interest, on each of March 31, 2024, June 30, 2024, September 30, 2024, December 31, 2024 and March 31, 2025. If** our cash flows and capital resources are insufficient to fund debt service obligations, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital or restructure or refinance indebtedness. Our ability to restructure or refinance indebtedness will depend on the condition of the capital markets and our financial condition at such time. **In**

particular, our Convertible Notes do not mature until March 18, 2026 and do not permit us to refinance the obligations until September 18, 2024, and any such refinancing would be in the form of an in- substance defeasance and require the payment of a make- whole amount equal to the estimated remaining interest that would have been due through maturity, which increases the refinancing costs and options available to the Company. Any refinancing of indebtedness could be at higher interest rates **, may involve the issuance of equity or equity- linked securities that could dilute shareholder ownership** and may require us to comply with more onerous covenants, which could further restrict business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. Our debt facilities currently restrict our ability to dispose of assets and our use of the proceeds from such dispositions subject to certain defined exceptions. We may not be able to consummate those dispositions, and the proceeds of any such disposition may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet scheduled debt service obligations. Restrictions in our existing and future debt agreements could limit our growth and our ability to engage in certain activities. Our existing debt instruments contain a number of significant covenants, including restrictive covenants that may limit our ability to, among other things: ● incur or guarantee additional indebtedness; ● make loans to others; ● make investments; ● merge or consolidate with another entity; ● transfer, lease or dispose of all or substantially all of our assets; ● make certain payments and capital expenditures; ● create or incur liens; ● purchase, hold or acquire capital stock or certain other types of securities; ● pay cash dividends; ● enter into certain transactions with affiliates; and ● engage in certain other transactions without the prior consent of the lenders. Our Convertible Notes **include a covenant that we maintain minimum liquidity, comprised of cash and availability under our revolving line of credit, equal to at least $ 10 million. In addition, our Convertible Notes** contain a covenant restricting capital expenditures to $ ~~15~~ **14** . ~~0~~ **8** million during ~~2023 and~~ **the nine months ended September 30,** 2024 **and $ 11. 25 million during the nine months ended June 30, 2025** , subject to adjustment upward by $ 500, 000 per year for each rig above 17 that operates during each year. In addition, capital expenditures are excluded from this covenant (a) if funded from equity proceeds, (b) if relating to the reactivation of a rig so long as (i) we have a signed contract with a customer with respect to each such rig of at least one (1) year duration providing for early termination payments consistent with past practice equal to at least the expected margin on the contract, (ii) the expected margin on such rig contract will be ~~equal~~ **23equal** to or exceed such reactivation capital expenditures, and (iii) the reactivation capital expenditures, rig contract and the expected margin calculation are approved by our board of directors or (c) relate to other capital expenditures specifically approved by written or electronic consent by both (i) the required holders (which approval may, for the avoidance of doubt, be provided by the required holders in their sole discretion for an amount of capital expenditures to be committed or made by the Company or a subsidiary of the Company within ninety (90) days after the date of such consent) and (ii) the Board of Directors of the Company. During ~~2022~~ **2023** , the holders of our Convertible Notes consented to capital expenditure adjustments under this covenant aggregating $ ~~10. 6 million and have consented to $~~ 16. 9 million ~~of capital expenditures in February 2023~~ . If ~~were~~ **we** are unable to obtain consents in the future ~~to~~ **for** capital expenditures necessary to operate and maintain our rigs, it would require us to reduce the number of rigs we operate, which could have a material adverse effect on our results of operations, liquidity and financial condition. ~~24A~~ **A** breach of any covenant in any of our debt instruments would result in a default. A resulting event of default, if not waived, could result in acceleration of the payment of the indebtedness outstanding under, and a termination of, these debt instruments. The accelerated indebtedness would become immediately due and payable. If that occurs, we may not be able to make all of the required payments or borrow sufficient funds to refinance such indebtedness. Even if new financing were available at that time, it may not be on terms that are acceptable to us. The borrowing base under our revolving credit facility may decline during ~~2023~~ **2024** . As of December 31, ~~2022~~ **2023** , the borrowing base under our ABL Credit Facility was $ ~~33~~ **26** . ~~1~~ **3** million, and we had $ ~~21~~ **20** . ~~3~~ **6** million of availability remaining of our $ 40. 0 million commitment on that date. We are required to maintain minimum availability under the ABL Credit Facility of $ 4. 0 million; if not, we must maintain a minimum fixed charge coverage ratio (" FCCR ") of 1: 1 ~~. During 2022, we did not maintain this minimum fixed charge coverage ratio but maintained minimum availability above $ 4. 0 million at all times~~ . The borrowing base under the ABL Credit Facility is calculated based upon 85 % of the sum of our eligible accounts receivable. In most circumstances, all of accounts receivable are considered eligible unless they are more than 90 days past due. If at any time our borrowing base falls below our outstanding balance under our ABL Credit Facility, and we were not able to promptly repay such deficiency, we would be required to repay to the banks any deficiency amount. In such event, if our available cash balances were not sufficient to repay such amounts, we would be required to obtain other debt or equity financing necessary to cure such deficiency, and there can be no assurance that such additional financing sources would be available to us, or available on terms acceptable to us. Any inability to timely cure any deficiency between our borrowing base and credit facility balance may have a material adverse effect on our liquidity and financial condition. A failure of any of our lenders to honor commitments or advance funds under our existing debt instruments would have a material adverse effect on our ability to fund our operations and business strategy. Our ABL Credit Facility limits the amounts we can borrow up to a borrowing base amount which is calculated monthly and is based on a percentage of our eligible accounts receivable. ~~The borrowing base under our ABL Credit Facility was $ 33. 1 million as of December 31, 2022, with lender commitments of $ 40. 0 million.~~ If our lenders fail to honor their commitments or advance funds pursuant to such commitments, we may be unable to implement our strategic plans, make acquisitions or capital expenditures or otherwise carry out business plans, which would have a material adverse effect on our financial condition and results of operations. Our ability to comply with the financial covenants contained in our debt instruments is based upon our future cash flows and debt levels. Both our existing ABL Credit Facility and Convertible Notes Indenture contain a springing financial covenant requiring us to maintain an FCCR of 1: 1. The FCCR is equal to adjusted EBITDA less capital expenditures divided by cash interest expense plus scheduled principal payments, cash dividends and finance lease obligations plus cash taxes paid. This covenant is only tested when excess availability under our ABL Credit Facility falls below 10 % of the loan commitment. In addition, our existing Convertible Notes Indenture contains a minimum liquidity covenant that requires us to maintain at all times at least $ 10 million of liquidity, which can be comprised of cash plus excess availability under our ABL Credit Facility. Our Convertible Notes Indenture also contains a covenant restricting the amount of capital expenditures we are able to incur during any particular year. Certain capital expenditures are excluded from this covenant, including expenditures funded with proceeds from equity offerings, rig reactivation capex associated with ~~term~~ **24term** contracts with durations of greater than one year and expected margins that exceed the amount of capital expenditures associated with the rig reactivation as well as capital expenditures specifically consented to by the Noteholders under the Convertible Notes Indenture. Our compliance with each of these covenants depends significantly upon our level of cash flows, which are based upon factors such as future dayrates and rig utilization that are difficult to predict based upon the cyclical nature of our industry. In addition, compliance with the capital expenditures under our Convertible Notes Indenture may require ~~25us~~ **us** to obtain consents from our Noteholders in order to maintain our rigs or invest in rig upgrades or additional rig reactivations. If we are not able to receive such consents, we could be required to reduce our operating rig count or forgo investments in rig reactivations and rig improvements. If we are not able to comply with the covenants contained in our debt facilities, we would be required to seek a waiver or amendment to the facility, or seek alternative financing sources, and there can be no assurance that we would be able to obtain such waivers, amendments or alternative financing sources. Any failure to comply with the financial covenants contained in our credit facility, or to cure any such non- compliance may have a material adverse effect on our liquidity and financial condition. Increases in interest rates could adversely affect our business. Our business and operating results can be harmed by factors such as the availability, terms of and cost of capital, increases in interest rates or a reduction in credit rating. Our debt carries a floating rate of interest linked to various indices, including SOFR. A change in indices, resulting in interest rate increases on our debt could adversely affect our cash flow and operating results. These changes could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities, reduce cash flow used for capital expenditures and place us at a competitive disadvantage. For example, total long- term debt as of December 31, ~~2022~~ **2023** included $ ~~182~~ **184** . ~~0~~ **7** million of floating- rate debt attributed to borrowings at an average interest rate of ~~13~~ **14** . ~~30~~ **93** %, and the impact on annual cash flow of a 10 % ~~change~~ **increase** in the floating- rate (approximately ~~14~~ **16** . ~~63~~ **42** %) would be approximately $ 2. ~~4~~ **8** million annually based on the floating- rate debt and other obligations outstanding as of December 31, ~~2022~~ **2023** ; however, there are no assurances that possible rate changes would be limited to such amounts. A significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our desired growth and operating results. Inflationary and supply chain pressures may decrease our operating margins and increase working capital investments required to operate our business. **Competition for competent** ~~As a result of improved U. S. land~~ rig ~~activity driven by improving market conditions, demand~~ and **office** ~~competition for rig~~ personnel ~~in our operating regions has~~ **remain strong. Inflationary pressures have** increased **these** ~~significantly, driven not only by competition between land -~~ **and** ~~drilling companies but also other industries where economic activity has improved. This has resulted in meaningful increases in field- level pay over the past twelve months and the costs to recruit and train new employees. Inflationary factors have also increased~~ other costs ~~to reactivate and~~ to operate our drilling rigs. Although our term drilling contracts typically allow us to pass- through to our customers labor costs increases and cost increases for other items (based upon changes to the applicable oilfield price index for such other items) through adjustment to contractual dayrates, the majority of our current contracts are short- term in nature, which requires us to recoup labor and other price increases through increased dayrates upon repricing of each short- term contract upon its expiration. If we are unable to recoup cost increases through adjustment to term contract dayrates or successful renegotiation of short- term contract dayrates, our daily operating margins will fall, which could materially adversely affect our operating results and financial condition. In addition, ~~as worldwide~~ **political and** economic **events globally and within** ~~activity has improved following emergence from~~ the **United States can create** ~~COVID- 19 pandemic,~~ supply chain pressures and bottlenecks ~~have developed (including due to both COVID- 19 and the war in the Ukraine) and could potentially develop~~ which could reduce the availability of equipment, supplies and other products needed to operate our business. This may cause us to increase investments in critical spare inventory and capital spare items to compensate for increased delivery lead times or potential unavailability of items. If we are required to invest substantial additional amounts to increase inventory levels of critical spare inventory or capital items, it will reduce our financial resources available to invest in rig reactivations which could have a material adverse effect on our future cash flows and ability to pursue plans to reactivate additional rigs. ~~26Risks~~ **25Risks** Related to our Common StockBecause we have no plans to pay any dividends for the foreseeable future, investors must look solely to stock appreciation for a return on their investment in us. We have not paid cash dividends on our common stock since our incorporation, and our credit facility prohibits us from paying cash dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings to support our operations and growth. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company at a premium that a stockholder may consider favorable, which could adversely affect the price of our common stock. The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company that a stockholder may consider favorable, which could adversely affect the price of our common stock. The provisions in our amended and restated certificate of incorporation and amended and restated bylaws that could delay or prevent an unsolicited change in control of our company include: ● provisions regulating the ability of our stockholders to nominate candidates for election as directors or to bring matters for action at annual meetings of our stockholders; ● limitations on the ability of our stockholders to call a special meeting and act by written consent; and ● the authorization given to our Board of Directors to issue and set the terms of preferred stock. We may issue preferred stock **or debt or equity- linked debt securities** whose terms could adversely affect the voting power or value of our common stock. Our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our Board of Directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock. **In addition, future offerings of debt securities, including in connection with refinancing of existing debt securities, could rank senior to our common stock in the event of our liquidation, and future offerings of equity and equity- linked securities, including in connection with refinancing of existing indebtedness, would dilute our existing stockholders or rank senior to our common stock, which may adversely affect the market value of our common stock. Future declines in the market price for our common stock could cause us to lose our listing on the NYSE, which could have a material adverse effect on the market value of our common stock. Under NYSE listing requirements, in order to maintain our listing status, we are required to maintain at all times a minimum 30- day trading average market capitalization of $ 15 million. Unlike certain other listing standards tied to minimum share price, there is no cure period or grace period associated with this listing standard. As of February 26, 2024, we believe that our 30- day average public market capitalization was approximately $ 29. 3 million. Because we cannot predict future prices for our common stock, we cannot assure you that our common stock will remain listed on the NYSE, which could have a material adverse effect on the trading value of our common stock and our ability to raise additional funds through new issuances. If our stock could not remain listed on the NYSE, it is possible that our securities could be quoted on the over- the- counter bulletin board or the pink sheets. This could have negative 26consequences, including a negative effect on the price of our securities, reduced liquidity for stockholders, reduced trading levels for our securities, limited availability of market quotations or analyst coverage of our securities; stricter trading rules for brokers trading our securities, and reduced access to financing alternatives for us. We also would be subject to greater state securities regulation if our common stock was no longer listed on a national securities exchange.** General Risk ~~FactorsThe~~ **FactorsGlobal health crises and pandemics have had, and in the future could have, a material adverse effect on our business, liquidity, results of operations and financial condition. The U. S. and global economy has generally recovered from prior negative impacts of the** COVID- 19 pandemic ~~and related economic repercussions had a significant impact on our business~~ , **which reduced consumer activity** ~~results of operations and financial condition~~ , **disrupted supply chains** and ~~future outbreaks from COVID- 19 or other pandemics could have a material adverse effect on our business, liquidity, results of operations and financial condition. The worldwide outbreak of COVID- 19, the uncertainty regarding the impact of COVID- 19 and various governmental actions taken to mitigate the impact of COVID- 19~~ resulted in a decline in demand for oil and natural gas in 2020 and early 2021 ~~. This had a material negative impact on our business~~ , ~~causing~~ **and caused** our operating rig count to fall to as low as three rigs in August 2020 and ~~resulting~~ **resulted** in our reporting negative cash flows from operations in the first quarter of 2021 through the first quarter of 2022. ~~Since early 2021, the distribution of COVID- 19 vaccines progressed, many government- imposed restrictions were relaxed or rescinded, and the global oil and gas market and our business have recovered and significantly improved.~~ However, if future **global health crises** ~~COVID- 19 outbreaks~~ or ~~other~~ pandemics occur, they could create risks and uncertainties outside of our control which could have a material adverse effect on our liquidity, results of operations and financial condition. ~~27If~~ **If** our customers delay paying or fail to pay a significant amount of our outstanding receivables, it could have a material adverse effect on our business, financial condition, cash flows and results of operations. In most cases, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations and financial condition. The effects of severe weather could adversely affect our operations. Changes in climate due to global warming trends could adversely affect our operations by limiting, or increasing the costs associated with, equipment or product supplies. In addition, coastal flooding and adverse weather conditions such as increased frequency and / or severity of hurricanes could impair our ability to operate in affected regions of the country. Oil and natural gas operations of our customers located in Louisiana and parts of Texas may be adversely affected by hurricanes and tropical storms, resulting in reduced demand for our services. Repercussions of severe weather conditions may include: curtailment of services; weather- related damage to facilities and equipment; suspension of operations; inability to deliver equipment, personnel and products to job sites in accordance with contract schedules; and loss of productivity. These constraints could delay our operations and materially increase our operating and capital costs. Unusually warm winters also adversely affect the demand for our services by decreasing the demand for natural gas. ~~Our~~ **Information technology failures and cybersecurity breaches could harm our** business ~~is subject to cybersecurity risks and threats~~ . ~~Threats~~ **We use information technology and other computer resources** to **carry out important operational activities and to maintain our business records. These systems include systems owned and operated by us, as well as systems of third- party operators and cloud- based services. These** information technology systems ~~associated with~~ **are dependent upon electronic systems and other aspects of the internet infrastructure. A material breach in the security of our information technology systems or other data security controls could result in third parties obtaining or corrupting customer, employee or company data. To date, we have not had a material breach of data security. These** cybersecurity risks ~~and~~ **include** cyber **-** ~~incidents or~~ attacks ~~continue~~ **on both us and**

third parties who provide material services to ~~grow~~ **us** . ~~It is possible that~~ **In addition to disrupting operations, cyber security breaches could affect our ability to operate** ~~our~~ - **or control our facilities, render data or systems unusable, or result in the theft of sensitive, confidential or customer information. These events could also damage our reputation, and result in losses from remedial actions, loss of** business **or potential liability to third parties. Accordingly** , **such occurrences could have a material and adverse effect on our** financial **position** ~~and other systems could be compromised~~ , **results** ~~which might not be noticed for some period~~ of ~~time. Risks associated with these threats include, among other things, loss of intellectual property, disruption of our customers' business~~ operations and **cash flows** ~~safety procedures, loss or damage to our worksite data delivery systems, and increased costs to prevent, respond to or mitigate cybersecurity events~~ . Furthermore, geopolitical tensions or conflicts, such as Russia' s invasion of Ukraine, may further heighten the risk of cybersecurity attacks. ~~Any~~ **27Any** future implementation of price controls on oil and natural gas would affect our operations. Certain groups have asserted efforts to have the United States Congress impose some form of price controls on either oil, natural gas, or both. There is no way at this time to know what results these efforts may have. However, any future limits on the price of oil or natural gas, and resulting impacts on drilling activities, could have a material adverse effect on our business, financial condition and results of operations. Improvements in or new discoveries of alternative energy technologies could have a material adverse effect on our financial condition and results of operations. Since our business depends on the level of drilling activity in the oil and natural gas industry, any improvement in or new discoveries of alternative energy technologies could have a material adverse effect on our business, financial condition and results of operations. We may be adversely impacted by work stoppages or other labor matters. We depend on skilled employees to build and operate our rigs, and any prolonged labor disruption involving our employees could have a material adverse impact on our results of operations and financial condition by disrupting our ability to perform drilling- related services for our customers. Moreover, unionization efforts have been made from time to time within our industry, with varying degrees of success. Any such unionization could increase our costs or limit our flexibility. ~~28We~~ **We** depend on the services of key executives, the loss of whom could materially harm our business. Our senior executives are important to our success because they are instrumental in setting our strategic direction, operating our business and technology, identifying, recruiting and training key personnel, and identifying customers and expansion opportunities. We also depend on the relationships that our senior management have with many of our customers. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We do not maintain key man life insurance on any of our senior executives. As a result, we are not insured against any losses resulting from the death of our key employees. Failure to hire and retain skilled personnel could adversely affect our business. Our ability to be productive and profitable depends upon our ability to employ and retain skilled personnel, and we cannot assure that ~~at~~ **during** times of high demand we will be able to retain, recruit and train an adequate number of skilled workers. **The** ~~Potential~~ **potential** inability or lack of desire by workers to commute to our facilities and job sites and competition for workers from competitors or other industries are factors that could affect our ability to attract and retain workers. A significant increase in the wages paid by competing employers or other industries could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. Our inability to attract and retain skilled workers in sufficient numbers to satisfy our existing service contracts and enter into new contracts could materially adversely affect our business, financial condition, results of operations and growth strategy. ITEM 1B. UNRESOLVED STAFF COMMENTSNone. ITEM ~~2~~ **1C** . ~~PROPERTIESWe lease~~ **CYBERSECURITYRisk Management** ~~an~~ **and StrategyWe understand the importance** ~~approximate 14. 4 acre rig assembly yard complex located at 11601 North Galayda Street, Houston, Texas 77086. The complex includes approximately 18, 000 square feet~~ of **preventing** ~~office space and 76~~ , ~~000 square feet of warehouse space~~ **assessing, identifying, and managing material risks associated with cybersecurity threats** . ~~Our~~ **Processes designed to assess, identify and manage risks from cybersecurity threats have been incorporated as a part of the Company' s overall risk assessment process. On a regular basis we implement into our** operations ~~are~~ **these processes, technologies, and controls to assess, identify, and** ~~managed~~ - **manage** ~~from field locations that~~ **material risks. Specifically,** we **28** ~~own or lease, that contain office, shop and yard space to support day- to- day operations, including repair and maintenance of equipment, as well as storage of equipment, materials and supplies. Including the Galayda facility, we currently have six such field locations. Additionally, we lease office space for our corporate headquarters in northwest Houston located at 20475 State Highway 249, Suite 300, Houston, Texas 77070. We believe that all of our existing properties are suitable for their intended uses and are sufficient to support our operations. We do not believe that any single property is material to our operations and, if necessary, we could obtain a replacement facility. We continuously evaluate the needs of our business, and we will purchase or lease additional properties or reduce our properties, as our business requires. ITEM 3. LEGAL PROCEEDINGSWe are the subject of certain legal proceedings and claims arising in the ordinary course of business from time to time. Management cannot predict the ultimate outcome of such legal proceedings and claims. While the legal proceedings and claims may be asserted for amounts that may be material should an unfavorable outcome be the result, management does not currently expect that the resolution of these matters will have a material adverse effect on our financial position or results of operations. In addition, management monitors our legal proceedings and claims on a quarterly basis and establishes and adjusts any reserves as appropriate to reflect our assessment of the then- current status of such matters. 29~~