

PRESS RELEASE
SHELF DRILLING
REPORTS FOURTH QUARTER 2020 RESULTS

Dubai, UAE, March 4, 2021 – Shelf Drilling, Ltd. (“Shelf Drilling” and, together with its subsidiaries, the “Company”, OSE: SHLF) announces results for the fourth quarter and full year of 2020 ending December 31. The results highlights will be presented by audio conference call on March 4, 2021 at 7:00 pm Dubai time / 4:00 pm Oslo time. Dial-in details for the call are included in the press release posted on February 23, 2021 and on page 3 of this release.

David Mullen, Chief Executive Officer, commented: *“In an unprecedented year for the entire industry, I am extremely proud of the results delivered by Shelf Drilling in 2020. Despite the extreme challenges created by the COVID-19 pandemic, we achieved our best ever safety and operating performance across a range of key metrics and generated positive free cash flow in 2020.”*

Mullen added: *“Our immediate response to the crisis focused on keeping our people safe, maintaining business continuity and preserving cash. These efforts contributed to our very resilient financial performance for 2020, including Adjusted EBITDA of \$200 million and a margin of 34%, despite the intense pressures on activity and dayrates. In the fourth quarter, we continued to see the negative revenue impacts of previous contract terminations and suspensions but also the positive cost impacts of proactive measures taken earlier in the year. We opportunistically divested two rigs from our fleet, including the Shelf Drilling Journey, which significantly enhances our liquidity position. With the recent improvement in oil prices, I remain confident that we will be able to contract several of our rigs that roll off in 2021 and I believe we are best positioned to navigate the current market and play an active role in the recovery of the offshore drilling sector.”*

Fourth Quarter Highlights

- Q4 2020 Revenues of \$121.3 million, a 5% sequential decrease compared to Q3 2020.
- Q4 2020 Adjusted EBITDA of \$31.8 million, representing an Adjusted EBITDA Margin of 26%.
- Full Year 2020 Revenue of \$585.2 million and Adjusted EBITDA of \$200.3 million. Adjusted EBITDA margin was 34%.
- Q4 2020 Net Loss of \$90.4 million. Full Year 2020 Net loss of \$274.9 million.
- In Q4 2020, the Company recorded a non-cash impairment charge of \$61.1 million on long-lived assets. For full Year 2020, the Company recorded a non-cash impairment charge of \$249.2 million on long-lived assets.
- Q4 2020 Capital Expenditures and Deferred Costs totaled \$28.9 million, including \$10.2 million associated with rig acquisitions. Full Year 2020 Capital Expenditures and Deferred Costs were \$154.4 million, including \$88.3 million associated with rig acquisitions.
- The Company’s cash and cash equivalents balance at December 31, 2020 was \$73.4 million.
- The Company’s total debt at December 31, 2020 was \$1.0 billion, including \$55.0 million drawn on the Company’s revolving credit facility.
- \$1.4 billion in contract backlog at December 31, 2020 across 29 contracted rigs.
- In February 2021, the Company completed the sale of the Shelf Drilling Journey for total proceeds of \$77.6 million.

Fourth Quarter Results

Revenues were \$121.3 million in Q4 2020 compared to \$127.4 million in Q3 2020. The \$6.1 million (4.8%) sequential decrease in revenues was primarily due to lower effective utilization. Effective utilization decreased to 69% in Q4 2020 from 72% in Q3 2020, mostly due to the completion of a contract in UAE, the suspension of one rig in Saudi Arabia

and extended out of service time for another rig in Saudi Arabia. This was partly offset by the startup of two new contracts in India and Nigeria. The average day rate decreased to \$55.8 thousand in Q4 2020 from \$56.6 thousand in Q3 2020.

Total operating and maintenance expenses decreased by \$0.4 million (0.5%) in Q4 2020 to \$78.6 million compared to \$79.0 million in Q3 2020. The sequential decrease was primarily due to lower operating costs on rigs which were suspended or terminated during Q4 2020, partly offset by an increase in maintenance and shipyard expenses for a rig in UAE and contract preparation expenses for a rig that started a new contract in Oman in December 2020.

General and administrative expenses of \$11.1 million in Q4 2020 increased by \$1.7 million as compared to Q3 2020 of \$9.4 million. General and administrative expenses in Q4 2020 and Q3 2020 included \$1.1 million of non-cash share-based compensation expense.

Adjusted EBITDA for Q4 2020 was \$31.8 million compared to \$39.3 million for Q3 2020. The Adjusted EBITDA margin of 26% for Q4 2020 decreased from 31% in Q3 2020.

The Company performed impairment testing on all rigs in the Company's fleet at the end of Q4 2020. As a result, a \$61.1 million loss on impairment of long-lived assets was recorded in December 2020. Twelve of the Company's rigs were impaired, of which four rigs are held for sale.

Capital expenditures and deferred costs of \$28.9 million in Q4 2020 increased by \$2.4 million from \$26.5 million in Q3 2020. Capital expenditures and deferred costs, excluding rig acquisitions, increased across the fleet to \$18.7 million in Q4 2020 from \$16.6 million in Q3 2020, primarily due to increased spending on fleet spares. Rig acquisitions increased to \$10.2 million in Q4 2020 from \$9.9 million in Q3 2020. Rig acquisitions in Q4 and Q3 2020 were largely related to the continuation of the reactivation, upgrade and contract preparation project on the Shelf Drilling Enterprise, which was completed in early 2021.

Q4 2020 ending cash and cash equivalents balance of \$73.4 million increased by \$4.2 million from \$69.2 million at the end of Q3 2020. The sequential decline in revenues and EBITDA were offset by favorable working capital impacts, including the reduction in cash interest payments during Q4 2020 compared to Q3 2020.

The Form 10-K equivalent, which includes the Consolidated Financial Statements, and a corresponding slide presentation to address the results highlights for Q4 2020 are available on the Company's website.

For further queries, please contact:

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Dial in Details for the Audio Conference call:

Participants will receive conference access information only when they register for the conference via the link below:

Online Registration: <http://emea.directeventreg.com/registration/3785954>

Participants must register for the call using online registration. Upon registering, each participant will be provided with call details and a Registrant ID. Call reminder will also be sent to registered participants via email the day prior to the event.

Conference ID number: 3785954

About Shelf Drilling

Shelf Drilling is a leading international shallow water offshore drilling contractor with rig operations across the Middle East, Southeast Asia, India, West Africa and the Mediterranean. Shelf Drilling was founded in 2012 and has established itself as a leader within its industry through its fit-for-purpose strategy and close working relationship with industry leading clients. The Company is incorporated under the laws of the Cayman Islands with its corporate headquarters in Dubai, United Arab Emirates. The Company is listed on the Oslo Stock Exchange under the ticker "SHLF".

Special Note Regarding Forward-Looking Statements

Matters discussed in this announcement may constitute forward-looking statements. Forward-looking statements are statements that are not historical facts and may be identified by words such as "believe", "expect", "anticipate", "strategy", "intends", "estimate", "will", "may", "continue", "should" and similar expressions. The forward-looking statements in this release are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although the Company believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant known and unknown risks, uncertainties, contingencies and other important factors which are difficult or impossible to predict and may be beyond its control. Such risks, uncertainties, contingencies and other important factors could cause actual events to differ materially from the expectations expressed or implied in this release by such forward-looking statements. Given these factors, users of this information should not place undue reliance on the forward-looking statements.

Additional information about Shelf Drilling can be found at www.shelfdrilling.com.

This information is subject to the disclosure requirements pursuant to section 5-12 of the Norwegian Securities Trading Act

Financial Report for the Period Ended December 31, 2020

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Operating revenues – dayrate	\$ 113.1	\$ 152.8	\$ 551.2	\$ 550.4
Operating revenues – others	4.6	2.7	19.2	10.9
Other revenues	3.6	4.3	14.8	14.9
Total revenues ⁽¹⁾	\$ 121.3	\$ 159.8	\$ 585.2	\$ 576.2
Rig operating expenses	\$ 70.1	\$ 81.7	\$ 306.0	\$ 329.6
Shore-based expenses	8.5	10.4	35.4	37.1
Total operating and maintenance expenses ⁽²⁾	\$ 78.6	\$ 92.1	\$ 341.4	\$ 366.7
Corporate G&A ⁽³⁾	\$ 9.4	\$ 13.8	\$ 36.8	\$ 49.3
Provision for / (reversal of) doubtful accounts, net	-	-	2.6	(0.1)
Share-based compensation expense, net of forfeitures ⁽⁴⁾	1.1	0.6	4.2	1.5
Restructuring costs ⁽⁵⁾ in G&A	0.6	-	2.3	0.1
Total general & administrative expenses	\$ 11.1	\$ 14.4	\$ 45.9	\$ 50.8
Other, net expense / (gain) ⁽⁶⁾	0.8	0.4	0.9	0.8
EBITDA ⁽⁷⁾	\$ 30.8	\$ 52.9	\$ 197.0	\$ 157.9
Acquired rig reactivation costs ⁽⁸⁾	0.4	2.8	0.8	19.5
Restructuring costs ⁽⁵⁾	0.6	-	2.5	0.1
Total adjustments	1.0	2.8	3.3	19.6
Adjusted EBITDA ⁽⁷⁾	\$ 31.8	\$ 55.7	\$ 200.3	\$ 177.5
Adjusted EBITDA margin	26%	35%	34%	31%
Operating Data:				
Average marketable rigs ⁽⁹⁾	31.9	32.3	32.1	32.6
Average dayrate (in thousands) ⁽¹⁰⁾	\$ 55.8	\$ 64.6	\$ 58.9	\$ 64.7
Effective utilization ⁽¹¹⁾	69%	80%	80%	71%
Capital expenditures and deferred costs:				
Regulatory and capital maintenance ⁽¹²⁾	\$ 9.3	\$ 13.0	\$ 44.8	\$ 56.1
Contract preparation ⁽¹³⁾	6.8	1.5	14.8	30.2
Marketable rigs	\$ 16.1	\$ 14.5	\$ 59.6	\$ 86.3
Fleet spares and others ⁽¹⁴⁾	2.6	3.6	6.5	10.6
Sub-Total (excluding acquisitions)	\$ 18.7	\$ 18.1	\$ 66.1	\$ 96.9
Rig acquisitions ⁽¹⁵⁾	10.2	27.7	88.3	203.2
Total capital expenditures and deferred costs	\$ 28.9	\$ 45.8	\$ 154.4	\$ 300.1

The following table reconciles the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs:

Cash payments for additions to property and equipment:	\$ 16.8	\$ 37.5	\$ 111.8	\$ 91.4
Net change in accrued but unpaid additions to property and equipment	(0.6)	(7.0)	0.8	6.7
	\$ 16.2	\$ 30.5	\$ 112.6	\$ 98.1
Add: Asset additions related to share issuance	-	-	-	121.8
Total Capital expenditures	\$ 16.2	\$ 30.5	\$ 112.6	\$ 219.9
Changes in deferred costs, net	\$ (0.2)	\$ (2.9)	\$ (5.3)	\$ 4.9
Add: Amortization of deferred costs	12.9	18.2	47.1	75.3
Total deferred costs	\$ 12.7	\$ 15.3	\$ 41.8	\$ 80.2
Total capital expenditures and deferred costs	\$ 28.9	\$ 45.8	\$ 154.4	\$ 300.1

(In US\$ millions, except rig numbers, average dayrate and effective utilization)
(percentages and figures may include rounding differences)

GAAP and Non-GAAP Financial Measures

The above Financial Report reflects certain US generally accepted accounting principles (“GAAP”) and non-GAAP financial measures to evaluate the performance of our business. We believe the non-GAAP financial measures we use are useful in assessing our historical and future performance throughout the commodity price cycles that have characterized our industry since our inception.

- (1) “Revenues” includes all revenues earned over the period including: (a) integrated drilling service contract dayrates, (b) other operating revenues such as mobilization and contract preparation fees amortized over the firm contract term, demobilization, contract termination fees, contractual operational incentive bonus and revenue provisions and (c) others which mainly include recharge revenue for client requested services and materials.
- (2) “Operating and maintenance expenses” consist of Rig “Personnel expenses”, “Maintenance expenses”, “Other operating expenses” and shore-based offices expenses. “Personnel expenses” include compensation, transportation, training and catering costs for rig crews. Such expenses vary from country to country reflecting the combination of expatriates and nationals, local market rates, unionized trade arrangements, local law requirements regarding social security, payroll charges and end of service benefit payments. “Maintenance expenses” relate to maintaining our rigs in operation, including the associated freight and customs duties, which are not capitalized nor deferred. Such expenses do not directly extend the rig life or increase the functionality of the rig. “Other operating expenses” include all remaining operating expenses such as insurance, professional services, equipment rental and other miscellaneous costs.
- (3) “Corporate G&A” as used herein include general & administrative expenses, excluding the provision for doubtful accounts, share-based compensation expense and certain one-time expenses related to cost saving and restructuring measures.
- (4) “Share-based compensation expense, net of forfeitures” is recognized as general and administrative expense in the consolidated statements of operations under GAAP.
- (5) “Restructuring costs” represents certain one-time expenses related to cost saving and restructuring measures and third-party professional services.
- (6) “Other, net expense / (gain)” as used herein is composed primarily of currency exchange loss / (gain), tax indemnities and certain vendor discounts.
- (7) “EBITDA” as used herein represents revenue less: operating and maintenance expenses, Corporate G&A, provision for doubtful accounts, share-based compensation expense, net of forfeitures and other, net, and excludes interest expense and financing charges, interest income, income taxes, depreciation, amortization, loss on impairment of assets and (gain) / loss on disposal of assets. “Adjusted EBITDA” as used herein represents EBITDA as adjusted for the exclusion of acquired rig reactivation costs and restructuring costs. These terms, as we define them, may not be comparable to similarly titled measures employed by other companies and are not a measure of performance calculated in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or other income or cash flow statement data prepared in accordance with GAAP.

We believe that EBITDA and Adjusted EBITDA are useful because they are widely used by investors in our industry to measure a company’s operating performance without regard to items such as interest expense and financing charges, interest income, income tax expense (benefit), depreciation, amortization and non-recurring expenses (benefits), which can vary substantially from company to company. EBITDA and Adjusted EBITDA have significant limitations, such as not reflecting our cash requirements for capital expenditures and deferred costs, contractual commitments, working capital, taxes or debt service.

Our management uses EBITDA and Adjusted EBITDA for the reasons stated above. In addition, our management uses Adjusted EBITDA in presentations to our Board of Directors to provide a consistent basis to measure operating performance of management; as a measure for planning and forecasting overall expectations; for evaluation of actual results against such expectations; and in communications with equity holders, lenders, note holders, rating agencies and others concerning our financial performance.
- (8) “Acquired rig reactivation costs” represent the expenditures accounted for as operating expenses in accordance with GAAP, which were incurred in connection with the reactivation of stacked or idle rigs acquired with the specific intention to reactivate and deploy.
- (9) “Marketable rigs” are defined as the total number of rigs that are operating or are available to operate, which excludes stacked rigs, rigs undergoing reactivation projects, rigs under non-drilling contracts and non-contracted newbuild rigs under construction.
- (10) “Average dayrate” is defined as the average contract dayrate earned by marketable rigs over the reporting period excluding amortization of lump sum mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues.
- (11) “Effective utilization” is defined as the actual number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those same rigs could have generated dayrate revenues.
- (12) “Regulatory and capital maintenance” includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.
- (13) “Contract preparation” includes specific upgrade, mobilization and preparation costs associated with a customer contract.
- (14) “Fleet Spares and Others” include: (i) acquisition and certification costs for the rig fleet spares pool which is allocated to specific rig expenditure as and when required by that rig which will result in an expenditure charge to that rig and a credit to Fleet spares and (ii) office and infrastructure expenditure.
- (15) “Rig acquisitions” include all capital expenditures and deferred costs associated with the acquisition and readiness projects for the Shelf Drilling Enterprise acquired in January 2020 and for two newbuild premium jack-up drilling rigs acquired in May 2019 and the subsequent reactivation of one premium jack-up rig acquired in July 2018.