

SHELF DRILLING, LTD.

**QUARTERLY REPORT
THREE MONTHS ENDED MARCH 31, 2021 AND 2020**

SHELF DRILLING, LTD.
INDEX TO QUARTERLY REPORT
THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(UNAUDITED)

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SHELF DRILLING, LTD.
THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three months ended March 31,	
	2021	2020
Revenues		
Operating revenues.....	\$ 127,360	\$ 175,910
Other revenues.....	2,377	5,458
	<u>129,737</u>	<u>181,368</u>
Operating costs and expenses		
Operating and maintenance.....	74,287	100,980
Depreciation.....	16,126	20,146
Amortization of deferred costs.....	9,258	14,991
General and administrative.....	9,642	13,329
Loss on impairment of assets.....	-	188,017
(Gain) / loss on disposal of assets.....	(774)	27
	<u>108,539</u>	<u>337,490</u>
Operating income / (loss).....	<u>21,198</u>	<u>(156,122)</u>
Other (expense) / income, net.....		
Interest income.....	15	117
Interest expense and financing charges.....	(33,077)	(21,715)
Other, net.....	134	398
	<u>(32,928)</u>	<u>(21,200)</u>
Loss before income taxes.....	<u>(11,730)</u>	<u>(177,322)</u>
Income tax expense.....	4,644	7,578
Net loss.....	<u>\$ (16,374)</u>	<u>\$ (184,900)</u>
Loss per share:		
Basic and Diluted - Common shares.....	\$ (0.12)	\$ (1.36)
Weighted average shares outstanding:		
Basic and Diluted - Common shares.....	136,472	136,186

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2021	2020
Net loss	\$ (16,374)	\$ (184,900)
Other comprehensive income, net of tax.....		
Change in unrealized losses on derivative financial instruments.....		
Changes in unrealized losses.....	-	(1,046)
Reclassification of net gains from other comprehensive income to net income...	-	(10)
	<u>\$ -</u>	<u>\$ (1,056)</u>
Total comprehensive loss	<u>\$ (16,374)</u>	<u>\$ (185,956)</u>

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SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents.....	\$ 287,279	\$ 73,408
Accounts and other receivables, net.....	110,346	129,009
Assets held for sale.....	677	77,075
Other current assets.....	53,629	56,654
Total current assets.....	451,931	336,146
Property and equipment.....	1,582,937	1,575,114
Less: accumulated depreciation.....	525,265	508,794
Property and equipment, net.....	1,057,672	1,066,320
Deferred tax assets.....	1,645	1,958
Other long-term assets.....	120,275	111,929
Total assets.....	\$ 1,631,523	\$ 1,516,353
Liabilities and equity		
Accounts payable.....	\$ 64,894	\$ 66,632
Interest payable.....	9,870	29,333
Accrued income taxes.....	5,840	4,680
Other current liabilities.....	38,210	46,682
Total current liabilities.....	118,814	147,327
Long-term debt.....	1,187,882	1,023,963
Deferred tax liabilities.....	6,352	5,591
Other long-term liabilities.....	44,946	50,509
Total long-term liabilities.....	1,239,180	1,080,063
Commitments and contingencies (Note 10)		
Common shares of \$0.01 par value; 184,063 shares authorized at both March 31, 2021 and December 31, 2020; 136,691 and 136,223 issued and outstanding at March 31, 2021 and December 31, 2020, respectively.....	1,367	1,362
Additional paid-in capital.....	1,003,849	1,002,914
Accumulated other comprehensive income.....	-	-
Accumulated losses.....	(731,687)	(715,313)
Total equity.....	273,529	288,963
Total liabilities and equity.....	\$ 1,631,523	\$ 1,516,353

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY
(In thousands)
(Unaudited)

	Common		Additional paid-in capital	Accumulated other comprehensive (loss) / income	Accumulated losses	Total equity
	Shares	Par value				
Balance at December 31, 2020.....	136,223	\$ 1,362	\$ 1,002,914	\$ -	\$ (715,313)	\$ 288,963
Net loss.....	-	-	-	-	(16,374)	(16,374)
Issuance of common shares.....	468	5	(5)	-	-	-
Share-based compensation expense, net of forfeitures.....	-	-	940	-	-	940
Balance at March 31, 2021.....	136,691	\$ 1,367	\$ 1,003,849	\$ -	\$ (731,687)	\$ 273,529
Balance at December 31, 2019.....	136,643	\$ 1,366	\$ 1,000,298	\$ 240	\$ (440,454)	\$ 561,450
Net loss.....	-	-	-	-	(184,900)	(184,900)
Net unrealized loss on derivative financial instruments.....	-	-	-	(1,056)	-	(1,056)
Repurchase of common shares.....	(721)	(7)	(1,550)	-	-	(1,557)
Share-based compensation expense, net of forfeitures.....	-	-	860	-	-	860
Balance at March 31, 2020.....	135,922	\$ 1,359	\$ 999,608	\$ (816)	\$ (625,354)	\$ 374,797

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2021	2020
Cash flows from operating activities		
Net loss.....	\$ (16,374)	\$ (184,900)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	16,126	20,146
Loss on impairment of assets.....	-	188,017
(Reversal of) / provision for doubtful accounts, net.....	(1,820)	69
Amortization of deferred revenue.....	(4,265)	(3,172)
Gain on derivative financial instruments, net.....	-	(10)
Share-based compensation expense, net of forfeitures.....	940	860
Non-cash loss on debt extinguishment.....	5,232	-
Debt extinguishment costs.....	4,832	-
Amortization of debt issue costs, premium and discount.....	977	743
(Gain) / loss on disposal of assets.....	(774)	27
Deferred tax expense, net.....	1,074	765
Proceeds from settlement of derivative financial instruments, net.....	-	10
Changes in deferred costs, net*.....	157	3,258
Changes in operating assets and liabilities.....	6,148	(24,836)
Net cash provided by operating activities.....	<u>12,253</u>	<u>977</u>
Cash flows from investing activities		
Additions to property and equipment*.....	(14,091)	(56,512)
Proceeds from disposal of assets.....	62,130	103
Deposits related to rig sales, net.....	515	-
Net cash provided by / (used in) investing activities.....	<u>48,554</u>	<u>(56,409)</u>
Cash flows from financing activities		
Proceeds from issuance of debt.....	304,054	80,000
Repayments of long-term debt.....	(80,000)	-
Proceeds from revolving credit facility.....	-	75,000
Repayments of revolving credit facility.....	(55,000)	(55,000)
Payments of debt extinguishment and retirement costs.....	(4,285)	-
Payments of debt financing costs.....	(3,182)	(2,223)
Purchase of common shares.....	-	(1,639)
Net cash provided by financing activities.....	<u>161,587</u>	<u>96,138</u>
Net increase in cash, cash equivalents and restricted cash.....	<u>222,394</u>	<u>40,706</u>
Cash, cash equivalents and restricted cash at beginning of period*.....	<u>88,963</u>	<u>28,299</u>
Cash, cash equivalents and restricted cash at end of period*.....	<u>\$ 311,357</u>	<u>\$ 69,005</u>

* See Note 15 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs and a reconciliation of cash, cash equivalents and restricted cash balances.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd. (“SDL”) was incorporated on August 14, 2012 (“inception”) as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the “Company”, “we” or “our”) is a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet and our drilling fleet consists of 31 independent-leg cantilever (“ILC”) jack-up rigs as of March 31, 2021, excluding stacked and/or held for sale rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange (“OSE”) under the ticker symbol SHLF.

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through Shelf Drilling Holdings, Ltd. (“SDHL”) an indirect wholly owned subsidiary of SDL. Our corporate offices are in Dubai, United Arab Emirates (“UAE”), geographically close to our operations in the Middle East, North Africa and the Mediterranean (together, “MENAM”), South East Asia, India and West Africa. Our largest shareholders are affiliates of Castle Harlan, Inc., Lime Rock Partners and China Merchants & Great Wall Ocean Strategy & Technology Fund (“China Merchants”). Additionally, other shareholders may have large holdings as reported in public filings in accordance with the rules of the OSE.

Basis of Preparation

The Company has prepared the accompanying condensed consolidated interim financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by GAAP for complete financial statements. The condensed consolidated interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of financial position, results of operations and cash flows for the interim periods. Such adjustments are of a normal recurring nature unless otherwise noted. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021 or for any future period. The accompanying condensed consolidated interim financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2020. The amounts are presented in United States (“U.S.”) dollar (“\$”) rounded to the nearest thousand, unless otherwise stated.

Summary of Significant Accounting Policies

The Company’s significant accounting policies were included in our Annual Report for the year ended December 31, 2020. See also the discussion of the Company’s accounting policy related to allowance for credit losses in Note 3 – Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses.

Note 2 — Recently Issued Accounting Pronouncements

Recently issued accounting standards

In March 2020, the FASB issued ASU No. 2020-04—Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides relief for companies preparing for discontinuation of interest rates such as the London Interbank Offered Rate (“LIBOR”) in 2021. The ASU provides companies with optional expedients mainly relating to eligible contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The key optional expedients generally allow a Company (1) to account for and present contract modifications as an event that does not require contract remeasurement or reassessment of a previous accounting determination at the modification date, (2) to continue hedge accounting when certain critical terms of a hedging relationship change, and (3) to make a one-time election to sell and/or reclassify certain held-to-maturity debt securities. This ASU is effective for all entities as of March 12, 2020 and can be applied prospectively as of the beginning of the interim period that includes March 12, 2020 through December 31, 2022. As this ASU has an open effective date until December 31, 2022, the Company will continue to evaluate the impact of this standard on our condensed consolidated interim financial statements and to determine if the Company will adopt this standard.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Note 3 — Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses

Revenues

See condensed consolidated interim statements of operations for the amounts of operating and other revenues. At March 31, 2021, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through February 2031. See Note 17 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

Contract liabilities and deferred contract costs

Contract liabilities

The Company recognizes a contract liability when we transfer goods or services to a customer and invoice an amount which differs from the revenues allocated to the related performance obligations. Contract liabilities include fees for mobilization or capital upgrades and advance payments from customers for future services and are recorded as other current liabilities and other long-term liabilities, as appropriate, in the condensed consolidated interim balance sheets.

Following are the details of the contract liabilities (in thousands):

	March 31, 2021	December 31, 2020
Current contract liabilities.....	\$ 13,039	\$ 9,546
Non-current contract liabilities.....	4,573	5,419
	\$ 17,612	\$ 14,965

Significant changes in contract liabilities were as follows (in thousands):

	Three months ended March 31,	
	2021	2020
Balance, beginning of year.....	\$ 14,965	\$ 25,421
Increase due to contractual additions.....	6,912	500
Decrease due to amortization of deferred revenue.....	(4,265)	(3,172)
Balance, end of period.....	\$ 17,612	\$ 22,749

Approximately \$3.2 million of revenues recognized both during the three months ended March 31, 2021 and 2020, respectively was included in the beginning contract liabilities balance.

Expected future amortization of contract liabilities, net recorded as of March 31, 2021 is as follows (in thousands):

For the periods ending December 31,

Remainder of 2021.....	\$ 10,168
2022.....	7,404
2023.....	40
	\$ 17,612

Deferred contract costs

The Company's deferred contract costs are mainly related to contract preparation and mobilization costs. Certain non-contractual costs such as regulatory inspections, major equipment overhauls (including rig upgrades), and stacked rig activations are expensed, deferred or capitalized into property and equipment as appropriate and are not included in deferred contract costs.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Following are the details of the deferred contract costs (in thousands):

	March 31, 2021	December 31, 2020
Current deferred contract costs.....	\$ 11,050	\$ 12,114
Non-current deferred contract costs.....	13,873	13,762
	<u>\$ 24,923</u>	<u>\$ 25,876</u>

Significant changes in deferred contract costs are as follows (in thousands):

	Three months ended March 31,	
	2021	2020
Balance, beginning of year.....	\$ 25,876	\$ 39,050
Increase due to contractual additions.....	3,650	1,415
Decrease due to amortization of deferred contract costs.....	(4,603)	(5,615)
Decrease due to impairment of deferred contract costs.....	-	(8,917)
Balance, end of period.....	<u>\$ 24,923</u>	<u>\$ 25,933</u>

Allowance for credit losses

Allowance for credit losses was \$0.7 million and \$2.6 million as of March 31, 2021 and December 31, 2020, respectively. Movements in allowance for credit losses were as follows (in thousands):

	Three months ended March 31,	
	2021	2020
Balance, beginning of year.....	\$ 2,639	\$ 1,849
Provision for / (reversal of) doubtful accounts, net.....	(1,820)	69
Write-off of uncollectible amounts.....	(128)	-
Foreign exchange and other	1	(335)
Balance, end of period.....	<u>\$ 692</u>	<u>\$ 1,583</u>

Note 4 — Variable Interest Entities

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of four variable interest entities (“VIEs”) providing drilling related services which are Shelf Drilling Ventures (Malaysia) Sdn. Bhd. (“SDVM”), PT. Hitek Nusantara Offshore Drilling (“PT Hitek”), Shelf Drilling (Nigeria) Limited (“SDNL”) and Shelf Drilling Offshore Services Limited (“SDOSL”), and which are included in these condensed consolidated interim financial statements. These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or commercially incompatible with local content requirements. To comply with such foreign ownership and/or local content restrictions, the Company and the relevant local third parties, described further below, have established these VIEs and have contractual arrangements to convey decision-making and economic rights to the Company.

Following is the information about the third-party interests in the VIEs as of both March 31, 2021 and December 31, 2020:

	Third party country of incorporation	Third party ownership percentage
SDVM.....	Malaysia	60%
PT Hitek.....	Indonesia	20%
SDNL.....	Nigeria	51%
SDOSL.....	Nigeria	20%

Each of the third parties listed above are not in a position to provide additional financing to their respective VIEs and do not participate in any gains or losses. Additionally, the Company has the power to direct the operating and marketing activities, which are the activities that most significantly impact each entity’s economic performance, and the Company is the primary beneficiary as it has the obligation to absorb losses and the right to receive a majority of the benefits of the VIEs. Therefore, the

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Company has determined that the VIEs meet the criteria to be presented as consolidated entities in the Company's condensed consolidated interim financial statements.

Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the three months ended March 31, 2021 and 2020 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
March 31, 2021:					
Revenues.....	\$ -	\$ -	\$ 4,648	\$ -	\$ 4,648
Operating costs and expenses...	55	91	5,859	1,289	7,294
March 31, 2020:					
Revenues.....	\$ -	\$ -	\$ 19,207	\$ -	\$ 19,207
Operating costs and expenses...	(22)	215	14,288	2,335	16,816

There are no material differences between the results of operations and cash flows of the consolidated Company, inclusive of the VIEs listed above, than there would have been if the VIE operations were run out of a wholly owned subsidiary of the Company.

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of March 31, 2021 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
Assets					
Cash and cash equivalents.....	\$ 3	\$ 1,109	\$ 167	\$ 20	\$ 1,299
Accounts and other receivables, net...	-	145	6,728	-	6,873
Other current assets.....	-	-	176	1,179	1,355
Total current assets.....	3	1,254	7,071	1,199	9,527
Property and equipment, net.....	-	-	2,148	-	2,148
Other long-term assets.....	7	76	4,595	497	5,175
Total non-current assets.....	7	76	6,743	497	7,323
Total assets.....	\$ 10	\$ 1,330	\$ 13,814	\$ 1,696	\$ 16,850
Liabilities					
Accounts payable.....	\$ 64	\$ 108	\$ 4,052	\$ 91	\$ 4,315
Other current liabilities.....	26	67	3,989	615	4,697
Total current liabilities.....	90	175	8,041	706	9,012
Other long-term liabilities.....	225	198	3,777	580	4,780
Total long-term liabilities.....	225	198	3,777	580	4,780
Total liabilities.....	315	373	11,818	1,286	13,792
Carrying amount, net.....	\$ (305)	\$ 957	\$ 1,996	\$ 410	\$ 3,058

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of December 31, 2020 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
Assets					
Cash and cash equivalents.....	\$ 26	\$ 521	\$ 2,818	\$ 91	\$ 3,456
Accounts and other receivables, net...	-	965	5,906	-	6,871
Other current assets.....	-	-	668	1,134	1,802
Total current assets.....	26	1,486	9,392	1,225	12,129
Property and equipment, net.....	-	-	2,165	-	2,165
Other long-term assets.....	8	64	3,912	581	4,565
Total non-current assets.....	8	64	6,077	581	6,730
Total assets.....	\$ 34	\$ 1,550	\$ 15,469	\$ 1,806	\$ 18,859
Liabilities					
Accounts payable.....	\$ 66	\$ 246	\$ 3,129	\$ 40	\$ 3,481
Other current liabilities.....	17	43	4,030	391	4,481
Total current liabilities.....	83	289	7,159	431	7,962
Other long-term liabilities.....	231	202	4,273	604	5,310
Total long-term liabilities.....	231	202	4,273	604	5,310
Total liabilities.....	314	491	11,432	1,035	13,272
Carrying amount, net.....	\$ (280)	\$ 1,059	\$ 4,037	\$ 771	\$ 5,587

There are no material restrictions on distributions of the assets disclosed above, except for certain property and equipment which is pledged as collateral as discussed in Note 8 – Debt. Liability holders typically have recourse to the general credit of the Company when seeking to enforce settlement of liabilities. See Note 18 – Related Parties for additional discussion on the Company’s transactions with its VIEs.

Note 5 — Assets Held for Sale and Asset Sales and Disposals

Assets Held for Sale

As of March 31, 2021, the Randolph Yost, Trident 15, Key Hawaii and Galveston Key were recorded as assets held for sale. As of December 31, 2020, the Randolph Yost, Trident 15, Key Hawaii, Galveston Key and Shelf Drilling Journey were recorded as assets held for sale. Assets held for sale are recorded at the lower of carrying value or fair value less estimated costs to sell.

Sales and Disposals

In the fourth quarter of 2020, the Company executed agreements to sell the five rigs recorded as assets held for sale as of December 31, 2020. The Company received gross cash deposits totaling \$16.5 million related to these sales in 2020, of which \$15.5 million relating to the sale of the Shelf Drilling Journey was recorded as restricted cash as other current assets on the Company’s consolidated balance sheet as of December 31, 2020. The Company received additional gross deposits totaling \$0.8 million relating to the sale of one of the remaining rigs in 2021. During the three months ended March 31, 2021, the Company sold the Shelf Drilling Journey with a carrying value of \$76.1 million, for total net proceeds of \$76.6 million which resulted in a gain of \$0.5 million. No rigs were sold during the three months ended March 31, 2020.

The Company completed the sale of the Trident 15, Key Hawaii and Galveston Key in April 2021 and expects the sale of the Randolph Yost to close in the second half of 2021. The Company could record additional expense in future periods, if the Company incurs higher than anticipated costs to complete the final rig sale. See also Note 6 – Loss on Impairment of Assets.

Sales and disposals of other property and equipment with a net carrying value of \$0.3 million and \$0.2 million during the three months ended March 31, 2021 and 2020, respectively, were concluded for net proceeds of \$0.6 million and \$0.2 million, respectively, which resulted in a gain on disposal of assets of \$0.3 million and loss on disposal of assets of less than \$0.1 million, respectively.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Note 6 — Loss on Impairment of Assets

The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's determination of the fair value of its asset groups represents a non-recurring Level 3 fair value measurement.

During the three months ended March 31, 2020, the Company identified several indicators of impairment, including an unprecedented decrease in global oil and gas demand and an increase in economic instability resulting from the COVID-19 pandemic, as well as the sharp decline in Brent crude oil prices. Further, as the number of global cases of COVID-19 increased, many governments implemented lock downs and travel restriction measures. The resulting reduction in oil consumption and price created significant downward pressure on rig demand and dayrates. Due to these factors, the Company concluded that a triggering event had occurred and performed an asset impairment analysis for its long-lived assets during the three months ended March 31, 2020.

These impairment calculations use significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions. The assumptions can vary from year-to-year until the rigs reach the end of their estimated useful lives. The assumptions used in the March 31, 2020 impairment calculations included in the first few years an average effective utilization above 80% and a modest deterioration in average dayrates. The discount rate used of 14% represented an increase from prior years, primarily due to the negative impacts of COVID-19.

During the three months ended March 31, 2020, the Company recorded a loss on impairment of assets of \$188.0 million in the condensed consolidated interim statements of operations. Impairment losses were recognized on 15 rigs and other long-lived assets and four rigs classified as assets held for sale. These impairment losses primarily related to the Company's property and equipment of \$144.7 million and also included the impairment of assets held for sale of \$2.7 million, current deferred costs of \$14.7 million, non-current deferred costs of \$18.3 million and right-of-use assets of \$7.6 million.

During the three months ended March 31, 2021, the Company did not identify any indicators which would trigger an impairment analysis for its long-lived assets. Therefore, the Company did not record a loss on impairment during the three months ended March 31, 2021.

The continuing impact of the COVID-19 pandemic on the global economy, including but not limited to further reductions in oil and gas prices, on the number of new contract opportunities, dayrates, or utilization rates could require the Company to recognize additional impairment losses in future periods.

Note 7 — Income Taxes

Tax Rate

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. Tax rates can vary significantly between jurisdictions. SDL is exempt from all income taxation in the Cayman Islands, its country of incorporation. The relationship between the provision for income taxes and the income or loss before income taxes can vary significantly from period-to-period considering, among other factors:

- the overall level of income before income taxes;
- changes in the blend of income that is taxed based on gross revenues rather than income before taxes;
- rig movements between taxing jurisdictions;
- changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction, and
- fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

The effective income tax rate for the Company's continuing operations was (39.6)% and (4.3)% for the three months ended March 31, 2021 and 2020, respectively.

Income Tax Expense

Income tax expense for the three months ended March 31, 2021 and 2020, was calculated using a discrete approach whereby income tax expense is determined by estimating the actual income tax liability that will result from earnings from continued

SHELF DRILLING, LTD.
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operations for the three months ended March 31, 2021 and 2020, rather than by using an estimated annual effective income tax rate as applied to year-to-date income before income taxes, primarily due to management's view that it was not possible to reliably estimate an annual 2021 and 2020 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

Income tax expense was \$4.6 million and \$7.6 million for the three months ended March 31, 2021 and 2020, respectively. Income tax expense for the three months ended March 31, 2021 was lower than for the same period in 2020 primarily due to reduction in revenues and a reduction in tax expense related to prior year tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar.

Deferred Income Taxes

The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2028.

The Company's deferred tax liabilities as of March 31, 2021 and December 31, 2020 include liabilities related to differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries, none of which are considered permanently reinvested. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's condensed consolidated interim financial statements.

Tax Returns and Examinations

The Company is currently subject to, or expects to be subject to, income tax examinations in various jurisdictions where the Company operates or has previously operated. If any tax authority successfully challenges the Company's tax positions, or should the Company otherwise lose a material tax dispute in any jurisdiction, the Company's income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected.

Note 8 — Debt

The following table provides details of the principal amounts and carrying values of debt (in thousands):

	March 31, 2021	December 31, 2020
8.875% Senior Secured First Lien Notes, due November 2024		
Principal amount.....	\$ 310,000	\$ -
Unamortized debt issuance costs.....	(7,888)	-
Unamortized discount.....	(5,927)	-
Carrying value.....	<u>\$ 296,185</u>	<u>\$ -</u>
8.25% Senior Unsecured Notes, due February 2025		
Principal amount.....	\$ 900,000	\$ 900,000
Unamortized debt issuance costs.....	(10,246)	(10,801)
Unamortized premium.....	1,943	2,048
Carrying value.....	<u>\$ 891,697</u>	<u>\$ 891,247</u>
Revolving Credit Facility, due April 2023		
Principal amount, carrying value.....	\$ -	\$ 55,000
8.75% Senior Secured Notes, due November 2024		
Principal amount.....	\$ -	\$ 80,000
Unamortized debt issuance costs.....	-	(2,284)
Carrying value.....	<u>\$ -</u>	<u>\$ 77,716</u>
Total.....	<u>\$ 1,187,882</u>	<u>\$ 1,023,963</u>

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The total unamortized debt issuance costs for the Revolving Credit Facility, due April 2023 were zero and \$3.4 million, as of March 31, 2021 and December 31, 2020, respectively, recorded under other long-term assets on the condensed consolidated interim balance sheets.

The following is a summary of scheduled long-term debt maturities by year (in thousands):

Years ending December 31,	
Remainder of 2021.....	\$ -
2022.....	-
2023.....	-
2024.....	310,000
2025.....	900,000
2026 and thereafter.....	-
Total	\$ 1,210,000

Revolving Credit Facility, due April 2023

On February 24, 2014, SDHL entered into a revolving credit facility, which was subsequently amended four times, including on January 9, 2017 and June 4, 2018 and modified in related waivers and side letters (“SDHL Revolver”). The SDHL Revolver had a facility of \$225 million, which could be drawn as, or as a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of contractual conditions set forth in the underlying credit agreement. All borrowings under the SDHL Revolver were to mature on April 30, 2023 and letters of credit and bank guarantees issued under the SDHL Revolver were to expire no later than five business days prior to April 30, 2023. The facility was cancellable at any time with no penalty or premium.

SDHL’s obligations under the SDHL Revolver were guaranteed by the majority of SDHL’s subsidiaries (collectively, the “Guarantors”), subject to certain exceptions. The obligations of the Guarantors were secured by liens on certain rigs and other assets owned by the Guarantors.

The SDHL Revolver also contained various customary restrictive covenants, including limitations on the Company’s leverage ratio, subject to certain specific add-backs and adjustments as outlined in the SDHL Revolver (“Total Net Leverage Ratio”). The covenants included a maximum Total Net Leverage Ratio and provided restrictions on dividend payments through April 30, 2023 based on the Total Net Leverage Ratio. See also the relief from the Total Net Leverage Ratio financial covenant discussed below. There were certain contractual limitations which restricted the Company’s ability to draw down the available balance of the SDHL Revolver, including but not limited to prohibiting draw down while an event of default or material adverse event was ongoing and requiring that the Company be in compliance with its financial covenant obligations both before and after the draw down.

Interest for the SDHL Revolver was based on the London inter-bank offered rate (“LIBOR”), subject to certain adjustments (“Adjusted LIBOR”) plus a specified margin (“Adjusted LIBOR Rate”), and/or the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR rate plus a specified margin (“Alternative Base Rate”). The specified margin was a range from a minimum of 3.0% per year to a maximum of 5.0% per year for borrowings at the Adjusted LIBOR Rate and from a minimum of 2.0% per year to a maximum of 4.0% per year for borrowings at the Alternative Base Rate based on the higher of SDHL’s or SDHL’s Total Net Leverage Ratio, the (“Applicable Margin”). The Applicable Margin range was adjusted in September 2020 as discussed below.

On September 21, 2020, the Company entered into the fifth amendment of the SDHL Revolver (the “Amendment”). The Amendment provided relief from the Total Net Leverage Ratio financial covenant from January 1, 2021 until September 29, 2021 or upon the Company’s voluntary election to early terminate in accordance with the Amendment. Other changes included, for the term of the Amendment: increase of the applicable margin by 100 basis points, new financial covenants required a minimum 1.5:1.0 consolidated coverage ratio and a maximum 1.5:1.0 senior secured leverage ratio (defined in the Amendment to exclude liens junior to those securing the SDHL Revolver); and a prohibition of cash dividends by SDHL until the end of such covenant relief, which effectively limited cash dividends from the Company to its shareholders.

The outstanding borrowings under the SDHL Revolver were classified as a long-term liability on the Company’s condensed consolidated interim balance sheets. Participation fees accrued on financial letters of credit and bank guarantees at the Applicable Margin for borrowings at the Adjusted LIBOR Rate and on non-financial letters of credit and bank guarantees at 50% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. SDHL was liable for a commitment fee on the daily unused amount of the SDHL Revolver at 35% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate.

In March 2021, the Company fully settled the outstanding \$55.0 million of the balance due under the SDHL Revolver and the bank guarantees and performance bonds totaling \$22.9 million. The Company recognized a loss of \$3.6 million associated with

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the debt extinguishment, which included a \$3.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the three months ended March 31, 2021. The amortization of debt issuance costs during the three months ended March 31, 2021 was \$0.4 million. The Company owed \$55.0 million under the SDHL Revolver and had issued bank guarantees and performance bonds totaling \$23.6 million against the SDHL Revolver as at December 31, 2020.

8.75% Senior Secured Notes, due November 2024

On February 20, 2020, SDHL completed the issuance through a private offering of \$80.0 million aggregate principal amount of new 8.75% Senior Secured Notes, due November 15, 2024 (the “8.75% Senior Secured Notes”) issued at par. SDHL received proceeds of \$80.0 million, less \$2.7 million of fees and expenses, which were recorded as debt issuance costs and were being amortized over the life of the debt. The Company used the proceeds to replenish its liquidity following the acquisition of the Shelf Drilling Enterprise in January 2020 and to finance the reactivation and upgrade costs associated with the deployment of the rig in advance of its contract commencement in January 2021 in the Gulf of Thailand.

SDHL’s obligations under the 8.75% Senior Secured Notes were guaranteed by the majority of SDHL’s subsidiaries (collectively, the “SSN Guarantors”), subject to certain exceptions. The obligations of SDHL and the SSN Guarantors were secured by second lien security interest on certain rigs and other assets owned by the SSN Guarantors.

Interest on the 8.75% Senior Secured Notes accrued from February 20, 2020 at a rate of 8.75% and was payable semiannually in arrears on May 15 and November 15 of each year. The effective interest rate on the 8.75% Senior Secured Notes was 9.65%.

At any time prior to August 20, 2021, SDHL was entitled to redeem the notes, in whole or in part at a price equal to 100% of the principal amount plus accrued and unpaid interest and a premium of at least 1%, to be calculated based on the present value of the debt.

If SDHL experienced a change of control, as defined in the indenture governing the 8.75% Senior Secured Notes, it was obligated to offer to repurchase the 8.75% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

In March 2021, the Company fully settled the \$80.0 million of 8.75% Senior Secured Notes. The Company recognized a loss of \$6.4 million associated with this debt extinguishment, which included a \$4.2 million call premium and a \$2.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the three months ended March 31, 2021. The total amortization of debt issuance costs during the three months ended March 31, 2021 was \$0.1 million.

8.875% Senior Secured First Lien Notes, due November 2024

On March 26, 2021, SDHL completed the issuance through a private offering of \$310.0 million aggregate principal amount of new 8.875% Senior Secured First Lien Notes, due November 15, 2024 (the “8.875% Notes”) issued at 98.082% for total gross proceeds of \$304.1 million, including a \$5.9 million discount. SDHL recorded \$7.9 million of fees and expenses as debt issuance costs, which are being amortized over the life of the debt. The resulting \$296.1 million net proceeds were used to cash collateralize bank guarantees issued under the SDHL Revolver, repay all outstanding borrowings under the SDHL Revolver and redeem and repurchase all of the outstanding 8.75% Senior Secured Notes.

The obligations under the 8.875% Notes are guaranteed by SDL and the majority of the Company’s subsidiaries that guarantee the obligations under the 8.25% Senior Unsecured Notes and are secured by a first-priority lien on substantially all of the assets of the Company and the subsidiary guarantors.

Interest on the 8.875% Notes accrues from March 26, 2021 at a rate of 8.875% and is payable semi-annually in arrears beginning on November 15, 2021 and on May 15 and November 15 of each year thereafter. The effective interest rate on the 8.875% Notes is 10.38%.

At any time prior to March 15, 2022, SDHL is entitled to redeem the notes, in whole or in part at a price equal to 100% of the principal amount plus accrued and unpaid interest and a “make-whole” premium. On or after March 15, 2022, SDHL may redeem the 8.875% Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to but not including the redemption date.

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Period	Redemption Price
Between March 15, 2022 and March 15, 2023.....	106.656%
Between March 15, 2023 and September 15, 2023.....	103.328%
On or after September 15, 2023.....	100.000%

In addition, at any time prior to March 15, 2022, the Company will be entitled at its option on one or more occasions to redeem the 8.875% Notes, from the net cash proceeds of one or more qualified equity offerings, in an amount not to exceed 35% of the aggregate principal amount at a redemption price of 108.875% plus accrued and unpaid interest. If a change in control occurs, as per the terms of the 8.875% Notes, the Company must offer to repurchase the outstanding 8.875% Notes at a price equal to 101% plus any accrued and unpaid interest.

8.25% Senior Unsecured Notes, due February 2025

On February 7, 2018, SDHL completed the issuance of \$600.0 million of new 8.25% Senior Unsecured Notes due February 15, 2025 (the “8.25% Senior Unsecured Notes”) issued at par. SDHL received net proceeds of \$589.3 million, after deduction of \$10.7 million of fees and expenses which were recorded as debt issuance costs and are being amortized over the life of the debt. On June 19, 2018, SDHL completed the issuance of an additional \$300.0 million of 8.25% Senior Unsecured Notes at an issue price of 101% for total gross proceeds of \$303.0 million, including a \$3.0 million premium. SDHL received net proceeds of \$297.2 million, after the deduction of \$5.8 million of fees and expenses which were recorded as debt issuance costs and are being amortized over the life of the debt.

Interest on the 8.25% Senior Unsecured Notes accrues at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year. The effective interest rate on the 8.25% Senior Unsecured Notes is 8.54%.

SDHL’s obligations under the 8.25% Senior Unsecured Notes are guaranteed by the majority of SDHL’s subsidiaries (collectively, the “Note Guarantors”), subject to certain exceptions. The 8.25% Senior Unsecured Notes, and the related guarantee of payment by SDHL and the Note Guarantors:

- rank senior in right of payment to any of SDHL’s and the Note Guarantors’ existing and future subordinated indebtedness, if any;
- rank pari passu in right of payment with all existing and future senior unsecured indebtedness of SDHL and the Note Guarantors;
- are effectively subordinated to all existing and future secured indebtedness of SDHL and the Note Guarantors, to the extent of the value of the assets securing such indebtedness; and
- are structurally subordinated to all existing and future indebtedness, preferred stock and other liabilities, including trade payables, of any non-guarantor subsidiaries of SDHL.

At any time prior to February 15, 2021, SDHL is entitled to redeem the notes, in whole or in part at a price equal to 100% of the principal amount plus accrued and unpaid interest and a premium of at least 1%, to be calculated based on the present value of the debt. SDHL may also redeem the notes of up to 35% of the aggregate principal amount at a redemption price of 108.25% plus accrued and unpaid interest from the net cash proceeds from one or more qualified equity offerings.

On or after February 15, 2021, SDHL may redeem the 8.25% Senior Unsecured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
Between February 15, 2021 and February 14, 2022.....	106.188%
Between February 15, 2022 and February 14, 2023.....	104.125%
Between February 15, 2023 and February 14, 2024.....	102.063%
On or after February 15, 2024.....	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.25% Senior Unsecured Notes and a decrease in the rating of the 8.25% Senior Unsecured Notes by both Moody’s Investors Services (“Moody’s”) and Standard & Poor’s Financial Services LLC (“S&P’s”) by one or more gradations, it must offer to repurchase the 8.25% Senior Unsecured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

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Unsecured overdraft facility

On April 26, 2017, Shelf Drilling (Egypt) Limited, a wholly owned subsidiary of the Company, entered into a \$5.0 million equivalent of foreign currency unsecured and uncommitted credit facility. The facility was available in foreign currency to finance the subsidiary's running expenses, overheads and payments to suppliers. Interest was paid monthly on the drawn balance and was calculated using the Central Bank of Egypt Mid Corridor rate plus 3% per annum. An additional stamp duty of 0.2% per annum was to be paid quarterly on actual utilization. This facility was withdrawn in the fourth quarter of 2020.

Terms Common to All Indebtedness

The 8.875% Notes and 8.25% Senior Unsecured Notes contain customary restrictive covenants. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary on any other indebtedness exceeding \$25.0 million would be triggered if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity.

The 8.875% Notes and 8.25% Senior Unsecured Notes contain covenants that, among other things, limit SDHL's ability and the ability of their restricted subsidiaries to:

- Incur or guarantee additional indebtedness or issue certain preferred shares;
- Pay dividends or make other distributions on, or redeem or repurchase, any equity interests;
- Make other restricted payments;
- Make certain acquisitions or investments;
- Create or incur liens;
- Transfer or sell assets;
- Incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;
- Enter into transactions with affiliates and
- Consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Company's assets or certain subsidiaries' assets.

The 8.875% Notes and 8.25% Senior Unsecured Notes also contain standard events of default. The Company was in compliance with all covenants of its debt agreements as of March 31, 2021 and December 31, 2020.

Note 9 — Retention Plans

The Company recorded \$1.0 million expense for retention plans for both the three months ended March 31, 2021 and 2020. The Company recorded obligations for these plans of \$3.4 million in other current liabilities on the condensed consolidated interim balance sheets as of March 31, 2021. The Company recorded obligations for these plans of \$1.6 million and \$0.9 million in other current liabilities and other long-term liabilities, respectively, on the condensed consolidated interim balance sheets as of December 31, 2020. As of March 31, 2021, the total cash payments under the retention plans in 2021 are estimated to be \$3.4 million.

One of the Company's retention plans consists of cash awards granted in November 2020 with payments in 2021 and 2022, which are calculated based on the fair value of the Company's common stock over a defined time period and linked to certain share-based compensation awards discussed in Note 13 – Share-based Compensation. These awards have a maximum cash payout of \$4.5 million, of which \$0.8 million and \$0.4 million were accrued as of March 31, 2021 and December 31, 2020, respectively.

In May 2021, the Company granted a new cash retention bonus plan for certain employees for a total of \$9.0 million, which is expected to be paid during 2021 and expensed over the vesting period through June 30, 2024. The plan has a repayment provision, which requires employees to repay the bonus if employment is not maintained through the end of the vesting period, with certain exceptions.

Note 10 — Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. The Company does not believe that the resolution of these legal proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

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China Merchants bareboat charter leases

On February 21, 2019, the Company signed agreements with China Merchants to bareboat charter two premium newbuild jack-up rigs, each with an initial contract term of three years and options to extend the lease term or to buy the rig. These operating leases provided for total lease payments of approximately \$16.4 million each to be paid over the respective lease terms.

In September 2020, the Company paid \$3.9 million to settle and terminate its obligations under the bareboat charter agreements with China Merchants. The Company did not take possession of the leased rigs prior to the terminations. The Company recorded \$3.6 million in operating and maintenance expenses on the condensed consolidated interim statements of operations during the nine months ended September 30, 2020 related to the lease terminations. The Company had zero accrued liabilities recorded on its condensed consolidated interim balance sheets as of both March 31, 2021 and December 31, 2020 for contractual but unpaid lease payments related to these agreements.

Surety Bonds and Other Bank Guarantees

It is customary in the contract drilling business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations. The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE and Nigeria, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of March 31, 2021, the Company's total surety bond facilities totaled \$67.6 million, of which \$42.2 million was outstanding, and no additional amounts were drawn against the SDHL Revolver, as it was fully settled during March 2021. As of December 31, 2020, the Company's total surety bond facilities totaled \$63.0 million, of which \$39.4 million was outstanding and an additional \$23.6 million of bank guarantees and performance bonds were drawn against the SDHL Revolver.

Other Contingencies

In the first quarter of 2021, the Company received notice of a \$12.1 million assessment for withholding tax, interest and penalties for one of its subsidiaries related to multiple tax years under review. The Company is indemnified for \$11.8 million of this exposure from the third-party prior owner of the subsidiary. The Company does not believe that the resolution of these proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

Note 11 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities and operating lease liabilities, approximate their fair market values due to the short-term duration and/or the nature of the instruments.

The following table represents the estimated fair value and carrying value of long-term debt (in thousands):

	<u>March 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Carrying value</u>	<u>Estimated fair value</u>	<u>Carrying value</u>	<u>Estimated fair value</u>
8.875% Senior Secured First Lien Notes, due November 2024.....	\$ 296,185	\$ 316,445	\$ -	\$ -
8.25% Senior Unsecured Notes, due February 2025.....	891,697	636,804	891,247	415,638
Revolving Credit Facility, due April 2023.....	-	-	55,000	55,000
8.75% Senior Secured Notes, due November 2024.....	-	-	77,716	68,000
	<u>\$ 1,187,882</u>	<u>\$ 953,249</u>	<u>\$ 1,023,963</u>	<u>\$ 538,638</u>

The estimated fair values of the 8.875% Notes and 8.25% Senior Unsecured Notes were determined using quoted market prices or Level 1 inputs and the December 31, 2020 estimated fair value of the 8.75% Senior Secured Notes was determined using Level 2 inputs. The Company believes the December 31, 2020 carrying value of the borrowings under the SDHL Revolver approximate its fair value due to the terms of the SDHL Revolver, including its variable interest rate. The estimated fair values of the 8.875% Notes, 8.25% Senior Unsecured Notes and 8.75% Senior Secured Notes exclude unamortized debt issuance costs, discounts and premiums, as applicable. See also Note 8 – Debt.

Derivative financial instruments were measured at fair value on a recurring basis using Level 2 inputs. See Note 14 – Derivative Financial Instruments.

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Note 12 — Shareholders' Equity

Authorized share capital and issued and outstanding shares

As of June 25, 2018, following the completion of an initial public offering on the Oslo Stock Exchange ("OSE"), the Company was authorized to issue up to 144,063,473 common shares with a par value of \$0.01 per share. On August 31, 2020, the Company's shareholders approved a resolution to increase the Company's authorized shares to 184,063,473 common shares with a par value of \$0.01 per share. As of March 31, 2021, 136,690,672 of the Company's authorized common shares were outstanding and 9,933,496 shares were reserved by the Company's Board of Directors for issuance pursuant to the 2017 Long-Term Incentive Plan (the "2017 LTIP"). See Note 13 – Share-based Compensation. However, the Board of Directors may amend or alter the number of shares reserved for such purposes in future periods.

As of March 31, 2021, 103,569,696 shares were listed on the OSE. The remaining shares represent shares held by Castle Harlan, Inc. and Lime Rock Partners (together, the "Sponsors"), or certain other shareholders, which have not been listed and are not currently required to be listed on the OSE.

All common shares have pari passu rights to participate in any common share dividends declared and represent the residual claim on the Company's assets. The Company did not pay any common share dividends during the three months ended March 31, 2021 or 2020. Certain of the Company's debt agreements contain covenants that limit the payment of dividends. See Note 8 – Debt.

Share repurchase program

On September 1, 2019, the Board of Directors approved a share repurchase program under which the Company may repurchase shares of the Company's common stock for an aggregate of \$25.0 million over a period of two years from the date of approval (the "2019 Repurchase Program"). Any repurchased shares are canceled and resume the status of authorized and unissued shares upon the repurchase date, as the repurchased shares are considered constructively retired on the repurchase date. These unissued shares are made available for issuance in the future. Shares can be repurchased in the open market on the OSE. In accordance with Cayman Islands law, the repurchased shares are canceled by default immediately after repurchase. The Company has made an accounting policy election to allocate the purchase price of repurchased shares between additional paid-in-capital and retained earnings. In March 2020, the Company suspended its repurchase activities under the 2019 Repurchase Program. Repurchases may continue in future periods at the discretion of the Company's management and Board of Directors, subject to certain limitations under the Company's financing agreements.

The Company repurchased approximately 721,000 shares of common stock at an average price of \$2.16 (19.50 NOK) per share during the three months ended March 31, 2020 under the 2019 Repurchase Program. No amounts were repurchased during the three months ended March 31, 2021. As of March 31, 2021, approximately \$20.5 million remains available for repurchase under the 2019 Repurchase Program.

As of March 31, 2021 and December 31, 2020, the Company was in compliance with relevant contractual requirements in our debt agreements, as applicable, and the regulatory requirements for the Cayman Islands and the OSE related to its stock repurchases.

Note 13 — Share-based Compensation

2017 Long-Term Incentive Plan

The Company's 2017 long-term incentive plan or ("2017 LTIP") provides for the issuance of share options, restricted shares, deferred shares, share units, unrestricted shares and cash-based awards (the "awards").

Restricted Share Units ("RSU")

RSUs are contractual rights to receive shares in the future provided the specific vesting condition is met. All awards are accounted for as equity awards. The RSUs granted to employees may be settled in cash in lieu of shares at the Company's sole discretion. During the requisite service period, the RSUs may not be sold or transferred and are subject to forfeiture. The RSU holder has the right to receive dividend equivalent but does not have the rights of a shareholder until the shares are issued. The dividend equivalent will be forfeited if the RSUs are forfeited before vesting.

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Time-based restricted share units (“TBRsUs”)

The TBRsUs granted to key employees typically vest in one-third increments over a three-year period and to a non-employee director typically vest at the end of one year from the grant date, subject to acceleration following a change in control where the underlying award is not assumed, substituted or otherwise converted into an equivalent award. The fair value of TBRsUs is based on the market price of the shares on the date of grant. Compensation expense is recognized on a straight-line basis over the requisite service period.

There were no TBRsUs granted during the three months ended March 31, 2021. During the three months ended March 31, 2020, the Company granted 1.4 million TBRsUs to key employees with a grant date fair value of \$2.05 per share (NOK 19.00).

During the three months ended March 31, 2021, 467,632 common shares were issued related to an equal number of vested TBRsUs and 42,422 TBRsUs were forfeited. No common shares were issued and no TBRsUs were forfeited during the three months ended March 31, 2020.

Performance-based restricted share units (“PBRsUs”)

There were no PBRsUs awarded during the three months ended March 31, 2021. During the three months ended March 31, 2020, the Company awarded 1.4 million PBRsUs to key employees. The PBRsUs awarded are subject to the achievement of specified performance goals, of which 75% of the awards are based on the market condition of total shareholder return against a predetermined peer group (“TSR share units”), and 25% of the awards are based on the performance condition of return on capital employed (“ROCE share units”). The total PBRsUs that may be earned could range from 0% to 200% of the granted units depending on performance.

During the three months ended March 31, 2021, no TSR share units were vested and 47,725 TSR share units were forfeited. During the three months ended March 31, 2021, no ROCE share units were vested and 15,908 ROCE share units were forfeited. No PBRsUs were vested or forfeited during the three months ended March 31, 2020.

The TSR share units granted in 2020 were measured on the grant date using the Monte-Carlo option pricing model, which was prepared by an independent third party. Management reviewed the assumptions and methodologies used by the third-party experts to ensure they appear reasonable and consistent with the objective of determining fair value. The total potential compensation cost for TSR share units is recognized over the service period regardless of whether the market conditions are ultimately achieved.

The estimated fair value of the TSR share units granted in 2020 of \$3.15 per share was determined based on several inputs and assumptions, including the market price of the shares on the date of grant of \$2.05 and the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the remaining term prior to vesting, as follows:

Valuation assumptions:	
Expected term.....	3.00 years
Risk free interest rate.....	1.30%
Expected volatility.....	56.77%
Expected dividend yield.....	0%

The expected term represented the period from the grant date to the expected date of vesting, the risk-free interest rate was based on the rate of government securities with similar terms and the expected volatility was based on implied volatility from publicly traded peer group, historical volatility of the Company’s share price and other factors.

The final number of ROCE share units vested from the PBRsUs awarded in 2020 will be determined based on the average achievement of the performance goals for each of the calendar years 2020, 2021 and 2022. The final number of ROCE share units vested from the PBRsUs awarded in 2019 will be determined based on the average achievement of the performance goals for each of the calendar years 2019, 2020 and 2021. For the ROCE share units awarded in 2020 and 2019, the grant date will be established once all three years’ performance goals are determined. Compensation cost is recognized for the number of ROCE awards expected to vest based on the anticipated achievement of the performance goals. Any subsequent changes in the estimate for the number of ROCE share units expected to vest will be recorded as a cumulative catch-up adjustment to compensation cost in the period in which the change in estimate occurs.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Note 14 — Derivative Financial Instruments

Foreign Currency Forward Exchange Contracts

The Company did not have any foreign currency forward exchange contracts (“forex contracts”) to settle during the three months ended March 31, 2021. During the three months ended March 31, 2020, the Company settled forex contracts with aggregate notional values of approximately \$7.7 million, of which the aggregate amounts were designated as an accounting hedge.

As of March 31, 2021 and December 31, 2020, the Company had no outstanding forex contracts.

Gain / (loss) on Derivative Financial Instruments

The following table presents the impact of gains and losses related to the Company’s derivative financial instruments designated as cash flow hedges on accumulated other comprehensive income / (loss) (“AOCIL”) in the Company’s condensed consolidated interim statements of operations (in thousands). Included are gains and losses recognized through AOCIL, less gains and losses reclassified from AOCIL and recorded under operating and maintenance expense in the condensed consolidated interim statements of operations.

	Cash Flow Hedges	
	Three months ended March 31,	
	2021	2020
Foreign currency forward contracts		
Unrealized loss recognized through AOCIL.....	\$ -	\$ (1,046)
Less realized gain reclassified from AOCIL and recognized through “Operating and maintenance”	-	10
	\$ -	\$ (1,056)

Note 15 — Supplemental Cash Flow Information

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases, construction expenditures on newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades), mobilization and stacked rig reactivations.

The following table sets out the Company’s capital expenditures and deferred costs (in thousands):

	Three months ended March 31,	
	2021	2020
Regulatory and capital maintenance.....	\$ 7,589	\$ 12,735
Contract preparation.....	3,650	1,364
Fleet spares and others.....	4,179	3,459
	\$ 15,418	\$ 17,558
Rig acquisitions.....	1,196	54,960
Total capital expenditures and deferred costs.....	\$ 16,614	\$ 72,518

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

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 (in thousands):

	Three months ended March 31,	
	2021	2020
Cash payments for additions to property and equipment.....	\$ 14,091	\$ 56,512
Net change in accrued but unpaid additions to property and equipment.....	(6,578)	4,273
Total capital expenditures.....	\$ 7,513	\$ 60,785
Changes in deferred costs, net.....	\$ (157)	\$ (3,258)
Add: Amortization of deferred costs.....	9,258	14,991
Total deferred costs.....	\$ 9,101	\$ 11,733
Total capital expenditures and deferred costs.....	\$ 16,614	\$ 72,518

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the condensed consolidated interim balance sheets to the total of such amounts reported in the condensed consolidated interim statements of cash flows (in thousands):

	March 31,	December 31,
	2021	2020
Cash and cash equivalents.....	\$ 287,279	\$ 73,408
Restricted cash included in other current assets.....	9,122	15,520
Restricted cash included in other long-term assets.....	14,956	35
Total cash, cash equivalents and restricted cash.....	\$ 311,357	\$ 88,963

Note 16 — Loss Per Share

The following tables set forth the computation of basic and diluted loss per share (in thousands, except per share data):

	Three months ended March 31,	
	2021	2020
Numerator for loss per share		
Net loss and net loss attributable to common shares.....	\$ (16,374)	\$ (184,900)
Denominator for loss per share		
Weighted average common shares:		
Basic outstanding common shares.....	136,472	136,186
Diluted common shares.....	136,472	136,186
Basic and diluted loss per common share.....	\$ (0.12)	\$ (1.36)

The restricted share units awarded in 2020 and 2019 contain forfeitable rights to dividends, and therefore would not be considered participating securities for purposes of computing earnings per share. The restricted share units do not represent common shares outstanding until they are vested and converted into common shares. See Note 13 – Share-based Compensation.

For the three months ended March 31, 2021 and 2020, there were 108,054 and 7,553 dilutive common shares, respectively, which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 17 — Segment and Related Information

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that the drilling fleet is dependent upon the worldwide oil industry.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Total revenues by country based on the location of the service provided were as follows (in thousands):

	Three months ended March 31,	
	2021	2020
Thailand.....	\$ 40,977	\$ 36,147
Saudi Arabia.....	31,350	49,384
India	25,013	22,054
United Arab Emirates.....	10,213	19,383
Nigeria.....	7,567	34,395
Others.....	14,617	20,005
	\$ 129,737	\$ 181,368

Although the Company is incorporated under the laws of the Cayman Islands, the Company does not conduct any operations and does not have any operating revenues in the Cayman Islands.

Total long-lived assets, net of impairment, depreciation and amortization by location based on the country in which the assets were located at the balance sheet date were as follows (in thousands):

	March 31,	December 31,
	2021	2020
Thailand.....	\$ 569,719	\$ 575,181
Saudi Arabia.....	166,107	188,747
United Arab Emirates.....	146,150	146,146
Nigeria.....	103,253	104,347
Bahrain.....	37,102	15,083
India.....	34,136	35,483
Others.....	99,884	103,064
	\$ 1,156,351	\$ 1,168,051

The total long-lived assets are comprised of property and equipment, right-of-use assets and short-term and long-term deferred costs. A substantial portion of the Company's assets are mobile, and as such, asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the period. As of March 31, 2021 and December 31, 2020, the long-lived assets in Bahrain included \$37.0 million and \$15.0 million, respectively relating to certain rigs in shipyard.

Note 18 — Related Parties

The Company's related parties consist of the VIEs, the Sponsors and China Merchants.

A related party provided rig related services to one of the Company's foreign subsidiaries. These services totaled \$0.7 million for the three months ended March 31, 2020, and the total liability recorded under accounts payable was zero and \$0.3 million as of March 31, 2021 and December 31, 2020, respectively. There was no material spending with this related party during the three months ended March 31, 2021.

The Company recorded \$0.1 million and \$0.4 million for the three months ended March 31, 2021 and 2020, respectively, of Sponsors' and Directors' costs. Sponsors' and Directors' costs include directors' fees and reimbursement of costs incurred by Sponsors, and by a former sponsor through the first quarter of 2020, and directors for attendance at meetings relating to the management and governance of the Company. The total liability recorded under accounts payable for such transactions was \$32 thousand as of March 31, 2021 and \$0.1 million as of December 31, 2020.

A VIE related party provided goods and services to drilling rigs owned by several of the Company's foreign subsidiaries. These goods and services totaled \$0.3 million and \$0.7 million during the three months ended March 31, 2021 and 2020, respectively. The total liability recorded under accounts payable for such transactions was \$0.2 million and \$0.3 million as of March 31, 2021 and December 31, 2020.

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Lease with a related party

The Company entered into lease agreements for the lease of two bareboat charter rigs with a related party. These agreements were terminated prior to their commencement in September 2020. See Note 10 – Commitments and Contingencies.

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The right-of-use asset was \$2.5 million and \$2.8 million as of March 31, 2021 and December 31, 2020, respectively. The corresponding operating lease liability was \$4.6 million (current: \$1.6 million; long-term: \$3.0 million) as of March 31, 2021 and \$5.0 million (current: \$1.6 million; long-term: \$3.4 million) as of December 31, 2020. The Company has recorded total lease expense of \$0.3 million and \$0.4 million for the three months ended March 31, 2021 and 2020, respectively.

Note 19 — Subsequent Events

The Company has evaluated subsequent events through May 11, 2021, the date of issuance of the condensed consolidated interim financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements contained in this Quarterly Report on Form 10-Q equivalent and the audited consolidated financial statements included in our Annual Report for the year ended December 31, 2020.

Forward Looking Statements

All statements other than statements of historical facts included in this report regarding any of the matters in the list immediately below are forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements about the following subjects:

- the novel coronavirus ("COVID-19") pandemic and its effect on demand for our services, global demand for oil and natural gas, the U.S. and world financial markets and our financial condition, results of operations and cash flows;
- expectations, trends and outlook regarding industry and market conditions, oil and gas production and market prices, demand for hydrocarbons, offshore drilling activity and dayrates;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere;
- the decline in demand as oil and gas fossil fuels are replaced by sustainable/clean energy;
- future regulatory requirements or customer expectations to reduce carbon emissions;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild rigs;
- the impact of variations in demand for our rigs, including the preferences of some of our customers for newer and/or higher specification rigs;
- the ability of our customers to obtain drilling permits;
- our ability to renew or extend contracts, enter into new contracts when such contracts expire or are terminated, and negotiate the dayrates and other terms of such contracts;
- expectations, trends and outlook regarding operating revenues, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense and other matters with regard to outlook and future earnings;
- the effect of disproportionate changes in our costs compared to changes in operating revenues;
- complex laws and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect the cost, manner or feasibility of doing business;
- the effects and results of our strategies;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs;
- the expected completion of shipyard projects including the timing of rig construction or reactivation and delivery and the return of idle rigs to operations;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;
- the cost and timing of acquisitions and integration of additional rigs;
- sufficiency and availability of funds and adequate liquidity for required capital expenditures and deferred costs, working capital, debt service and other business requirements;
- our ability to obtain financing and pursue other business opportunities may be limited by our debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies;
- the market value of our rigs and of any rigs we acquire in the future, which may decrease and/or be impaired as a result of Company specific, industry specific or market factors;
- the level of reserves for accounts receivables and other financial assets, as appropriate;
- the proceeds and timing of asset dispositions;
- litigation, investigations, claims, disputes and other contingent liabilities and their effects on our financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- the effect of changes in foreign currency exchange rates; and
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to United States ("U.S.") laws.

This Quarterly Report should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL"). Except where indicated, the condensed consolidated interim financial statements and the notes to the condensed consolidated interim financial statements are combined. References in this report to "Shelf Drilling", "SDL", the "Company", "we", "us", "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries, unless the context requires otherwise. When used in this Quarterly Report, the words "could", "believe", "anticipate", "intend", "estimate", "expect", "project" or the negative of these terms and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain

such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in our Annual Report for the year ended December 31, 2020 should be read carefully in addition to the above uncertainties and assumptions. These risks and uncertainties are beyond the Company's ability to control, and in many cases, the Company cannot predict such risks and uncertainties, which could cause its actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by reference to these risks and uncertainties. Undue reliance should not be placed on forward-looking statements. Each forward-looking statement is applicable only as of the date of the particular statement, and the Company undertakes no obligation to update or revise any forward-looking statements, except as required by law.

Business

Shelf Drilling, Ltd. ("SDL") was incorporated on August 14, 2012 ("inception") as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the "Company", "we", "us" or "our"), is a leading international shallow water drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet, and our drilling fleet consists of 31 independent-leg cantilever ("ILC") jack-up rigs as of March 31, 2021, excluding stacked and/or held for sale rigs, making us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange ("OSE") under the ticker symbol SHLF. Our website address is www.shelfdrilling.com.

Since our inception, we have applied our "fit-for-purpose" strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. The diversified geographical focus of our jack-ups and the allocation of resources to build or upgrade rigs is determined by the activities and needs of our customers. Currently, our main customers are national oil companies ("NOCs"), international oil companies ("IOCs") and independent oil and gas companies, who contract our rigs for varying durations.

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through Shelf Drilling Holdings, Ltd. ("SDHL"), an indirect wholly owned subsidiary of SDL. Our corporate offices are in Dubai, United Arab Emirates ("UAE"), geographically close to our operations in the Middle East, North Africa and the Mediterranean (together "MENAM"), South East Asia, India and West Africa. Our largest shareholders are affiliates of Castle Harlan, Inc., Lime Rock Partners and China Merchants & Great Wall Ocean Strategy & Technology Fund ("China Merchants"). Additionally, other shareholders may have large holdings as reported in public filings in accordance with the rules of the OSE.

Recent events

In January 2021, the Company received a notification from a customer on early termination of operations for the High Island VII and Compact Driller to August 2021 from February 2023 and June 2022, respectively. In March 2021, the Company was awarded a two-year contract extension for the Trident 16 in Egypt. In April 2021, the Company was awarded a three-year contract for the J.T. Angel in India. In May 2021, the Company received an award for a three-year contract for the Trident XII with planned start-up of operations in India in the fourth quarter of 2021 and secured a ten-year contract extension for the High Island IX in Saudi Arabia.

On March 26, 2021, the Company closed a private offering of \$310.0 million aggregate principal amount of 8.875% Senior Secured Notes due November 2024 (the "8.875% Notes") to repay and terminate the revolving credit facility, due April 2023 ("SDHL Revolver"), cash collateralize bank guarantees issued under the SDHL Revolver and to redeem and repurchase all of the outstanding 8.75% Senior Secured Notes, due November 15, 2024 (the "8.75% Senior Secured Notes").

During the three months ended March 31, 2021, the Company completed the sale of the Shelf Drilling Journey for total net proceeds of \$76.6 million. In April 2021, the Company completed the sale of the Trident 15, Key Hawaii and Galveston Key.

COVID-19 Pandemic and Market Conditions

During the first quarter of 2021, our Company continued to be impacted by the low level of demand for hydrocarbons generated by the COVID-19 pandemic. Although the large-scale vaccination effort has generated optimism for a return to normalcy,

general economic activity remains significantly lower than pre-pandemic levels, as progress has been negatively impacted by the spread of harmful strains of COVID-19, forcing certain countries to impose new lockdowns.

Like many other energy companies, our business, financial condition, results of operations and cash flows have been adversely affected since the COVID-19 pandemic started in the first half of 2020. The Company immediately established the objectives to protect the health and safety of all employees, maintain business continuity and preserve cash. In March 2020, the Company also requested that employees and contractors work from home, if possible, and put in place specific procedures for all other personnel working offshore or directly supporting rig operations or shipyard activities who were unable to work from home. In April 2020, the Company implemented a range of cost cutting and restructuring measures at the Company’s headquarters, involving headcount and compensation reductions and targeted savings across all other cost categories. In the second half of 2020 and early 2021, the Company continued its efforts to preserve liquidity by completing opportunistic rig sales, divesting certain idle assets and completing the 8.875% Notes offering. The Company continues to monitor and proactively explore ways to address the evolving impacts of the pandemic on our business and industry.

Drilling fleet

The following table summarizes the Company’s offshore drilling rigs as of March 31, 2021 and 2020:

	As of March 31,	
	2021	2020
Jack-ups.....	35	37
Swamp barge.....	-	1
Total	35	38

Included in the total rigs are four and five rigs reported as Assets held for sale in the March 31, 2021 and December 31, 2020 condensed consolidated interim balance sheets, respectively.

Outlook

Brent crude oil prices, the key driver of exploration, development and production activity, improved from a low price point of approximately \$20 per barrel in April 2020 to an average of \$65 per barrel in recent months. The anticipated increase in oil and gas demand in the second half of 2021 due to global vaccine rollouts and gradual reopening of economies has many predicting a further run-up in oil prices by the end of the year. While we remain cautious in the overall anticipation of the global economy recovery, we can now see a path where demand for hydrocarbons may return to pre-pandemic levels within the next year or two.

The global number of contracted jack-up rigs increased slightly from 346 in February 2021 to 353 in April 2021. Marketed utilization for the industry shows a similar trend in 2021, increasing from 81% in February to 83% in April.

Shelf Drilling results show an improvement in the first quarter of 2021 compared to the fourth quarter of 2020. In the first quarter of 2021, we had a 7% sequential increase in revenues, the first such increase since the first quarter of 2020 coupled with a modest increase in average dayrates and effective utilization, as defined below. While the completion of certain contracts is expected to result in lower revenues and effective utilization in the short term, the recent multi-year contract awards in Saudi and India improve visibility in 2022 and beyond. In addition, we closed the opportunistic sale of the Shelf Drilling Journey for net proceeds of \$76.6 million in February 2021, completed a private offering of \$310.0 million aggregate principal amount of the 8.875% Notes due in 2024 in March 2021 and completed the sale of the rigs Trident 15, Key Hawaii and Galveston Key in April 2021. These actions, combined with the cost cutting and restructuring measures implemented in 2020, significantly enhance our liquidity and financial flexibility, and position us well to capitalize on opportunities in our sector.

Operational measures

We use various operational measures common to our industry to evaluate our operational performance including:

- *Contract backlog* is the maximum contract drilling dayrate revenues that can be earned from firm commitments for contract drilling services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues under non-drilling contracts for the use of our rigs such as bareboat charters and contracts for accommodation units. The contract period excludes revenues from extension options under our contracts, unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to mobilization, weather, unscheduled downtime and repairs, among other factors. Actual dayrates may also include adjustments based on market factors, such as oil prices or cost increases, and such adjustments are not estimated in the backlog dayrate. Contract backlog is a key indicator of our potential future revenue generation.

- *Average dayrate* is the average contract dayrate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average dayrate can be calculated related to historical revenues or contract backlog.
- *Contracted rigs* consist of all of our rigs that are under contract, including contracted newbuild rigs under construction and rigs under non-drilling contracts.
- *Average contracted days per rig* is the total remaining contracted days for all contracted rigs divided by the number of contracted rigs.
- *Marketable rigs* consist of the total of our rigs that are operating or are available to operate, but excluding stacked rigs, rigs under non-drilling contracts and non-contracted newbuild rigs under construction.
- *Effective utilization* measures the dayrate revenue efficiency of our marketable rigs. This is the number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenue. Effective utilization varies due to changes in operational uptime, planned downtime for periodic surveys, timing of underwater inspections, contract preparation and upgrades, time between contracts and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, force majeure, mobilization or other rates that apply under certain circumstances. We exclude all other types of revenues from effective utilization.

The following tables include selected operating measures as of and for the periods presented:

	As of March 31,	
	2021	2020
Total contract backlog (in millions).....	\$ 1,284	\$ 1,875
Weighted average backlog dayrate (in thousands).....	\$ 69.8	\$ 70.4
Average contract days per rig	681	832
Number of contracted rigs.....	27	32
Marketable rigs.....	31	33

	Three months ended March 31,	
	2021	2020
Average dayrate (in thousands).....	\$ 56.3	\$ 64.2
Effective utilization.....	77%	92%

Financial measures

In addition to terms under U.S. generally accepted accounting principles (“GAAP”), we utilize certain non-GAAP financial measures. We present the non-GAAP measures, which include adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) and Adjusted EBITDA divided by revenues (“Adjusted EBITDA Margin”) in addition to net income (loss), which is the most directly comparable GAAP financial measure. We believe that Adjusted EBITDA and Adjusted EBITDA Margin are useful non-GAAP financial measures because they are widely used in our industry to measure a company’s operating performance without regard to the excluded items, which can vary substantially from company to company, and are also useful to an investor in evaluating the performance of the business over time. In addition, our management uses Adjusted EBITDA and Adjusted EBITDA Margin in presentations to our Board of Directors to provide a consistent basis to measure the operating performance of our business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with our shareholders, lenders, noteholders, rating agencies and others concerning our financial performance. Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly titled measures employed by other companies and should not be considered in isolation or as a substitute for net income (loss) or other data prepared in accordance with GAAP. Adjusted EBITDA and Adjusted EBITDA Margin have significant limitations, including but not limited to the exclusion from these numbers of various cash requirements to operate our business.

Our financial measures for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

	Three months ended March 31,	
	2021	2020
Net loss.....	\$ (16,374)	\$ (184,900)
Add back:		
Interest expense and financing charges, net of interest income ⁽¹⁾	33,062	21,598
Income tax expense.....	4,644	7,578
Depreciation.....	16,126	20,146
Amortization of deferred costs.....	9,258	14,991
Loss on impairment of assets.....	-	188,017
(Gain) / loss on disposal of assets.....	(774)	27
EBITDA	\$ 45,942	\$ 67,457
Acquired rig reactivation costs ⁽²⁾	-	156
One-time corporate transaction costs ⁽³⁾	577	-
Adjusted EBITDA	\$ 46,519	\$ 67,613
Adjusted EBITDA Margin	35.9%	37.3%

- (1) Represents interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt, net of interest income. This also includes the \$10.1 million loss on debt extinguishment in relation to our debt refinancing transactions.
- (2) Represents 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.
- (3) Represents certain one-time third-party professional services.

Our restricted subsidiaries accounted for 100% of our Adjusted EBITDA for the three months ended March 31, 2021 and 2020; our restricted subsidiaries accounted for 100% and 93% of our assets as of March 31, 2021 and December 31, 2020.

Operating Results

The following table sets forth information regarding our consolidated results of operations:

	Three months ended March 31,		Change	% change
	2021	2020		
Revenues				
Operating revenues.....	\$ 127,360	\$ 175,910	\$ (48,550)	(28%)
Other revenues.....	2,377	5,458	(3,081)	(56%)
	<u>129,737</u>	<u>181,368</u>	<u>(51,631)</u>	<u>(28%)</u>
Operating costs and expenses				
Operating and maintenance.....	74,287	100,980	(26,693)	(26%)
Depreciation.....	16,126	20,146	(4,020)	(20%)
Amortization of deferred costs.....	9,258	14,991	(5,733)	(38%)
General and administrative.....	9,642	13,329	(3,687)	(28%)
Loss on impairment of assets.....	-	188,017	(188,017)	(100%)
(Gain) / loss on disposal of assets.....	(774)	27	(801)	(2967%)
	<u>108,539</u>	<u>337,490</u>	<u>(228,951)</u>	<u>(68%)</u>
Operating income / (loss)	21,198	(156,122)	177,320	114%
Other (expense) / income, net				
Interest income.....	15	117	(102)	(87%)
Interest expense and financing charges.....	(33,077)	(21,715)	(11,362)	(52%)
Other, net.....	134	398	(264)	(66%)
	<u>(32,928)</u>	<u>(21,200)</u>	<u>(11,728)</u>	<u>(55%)</u>
Loss before income taxes	(11,730)	(177,322)	165,592	93%
Income tax expense.....	4,644	7,578	(2,934)	(39%)
Net loss	\$ (16,374)	\$ (184,900)	\$ 168,526	91%

Three months ended March 31, 2021 compared to three months ended March 31, 2020

Revenues

Total revenues for the three months ended March 31, 2021 was \$129.7 million compared to \$181.4 million for the same period in 2020. Revenues for the three months ended March 31, 2021 consisted of \$127.3 million (98.2%) of operating revenues and \$2.4 million (1.8%) of other revenues. In 2020, the corresponding revenues were \$175.9 million (97.0%) and \$5.5 million (3.0%), respectively.

Total revenues for the three months ended March 31, 2021 decreased by \$51.6 million compared to the same period in 2020 primarily due to \$29.7 million related to lower effective utilization across the fleet, as five fewer rigs were operating in the 2021 period as compared to the same period in 2020, a reduction of \$21.0 million from lower average earned dayrates mainly explained by lower pricing where customers renegotiated dayrates as a result of the COVID-19 pandemic and \$0.9 million from lower recharges and amortization of mobilization revenue.

Operating and maintenance

Total operating and maintenance expenses for the three months ended March 31, 2021 were \$74.3 million, or 57.3% of total revenue, compared to \$101.0 million, or 55.7% of total revenue, in the three months ended March 31, 2020. Operating and maintenance expenses in the three months ended March 31, 2021, consisted of \$65.5 million rig-related expenses and \$8.8 million shore-based expenses. In the three months ended March 31, 2020, these same expenses were \$90.4 million and \$10.6 million, respectively.

The decrease in total rig-related expenses of \$24.9 million primarily consisted of \$12.2 million lower expenses related to rigs whose operations were suspended or terminated in 2021 but were operating in the comparative period in 2020, \$8.1 million lower maintenance and shipyard expenses, \$2.0 million lower expenses for rigs divested in the current or prior periods, and \$5.3 million in other rig cost savings. This was partially offset by \$2.7 million increased expenses for an acquired rig that began operations in 2021.

Shore-based expenses decreased by \$1.8 million for the three months ended March 31, 2021 compared to the same period in 2020 due to cost savings measures implemented across all field locations.

Depreciation expense

Depreciation expense in the three months ended March 31, 2021 was \$16.1 million compared to \$20.1 million for the same period in 2020. Depreciation expense was impacted by \$5.0 million of lower depreciation on drilling rigs and equipment which were impaired in 2020 and by \$1.0 million of increased depreciation for one rig that was placed into operation in early 2021.

Amortization of deferred costs

The amortization of deferred costs in the three months ended March 31, 2021 was \$9.3 million compared to \$15.0 million for the same period in 2020. The \$5.7 million decrease was primarily related to lower amortizations of contract preparation costs on drilling rigs that were impaired in 2020, partially offset by increased amortization on drilling rigs which started new contracts in 2020.

General and administrative expenses

General and administrative expenses were \$9.6 million in the three months ended March 31, 2021 compared to \$13.3 million for the same period in 2020. The \$3.7 million decrease primarily resulted from lower provision for bad debt of \$1.9 million due to the current year collection of aged receivables for which an allowance was recorded in 2020, and lower personnel and administrative costs due to a range of cost savings and restructuring measures implemented at the Company's headquarters in 2020.

Loss on impairment of assets

Loss on impairment of assets was \$188.0 million in the three months ended March 31, 2020. The loss included impairment on 15 of our rigs and other long-lived assets and four rigs classified as assets held for sale. There were no such transactions during the three months ended March 31, 2021.

Gain / (loss) on disposal of assets

Gain on disposal of assets was \$0.8 million in the three months ended March 31, 2021, compared to a loss of (\$27) thousand for the same period in 2020. The increase in the gain on disposal of assets was due to the sale of the Shelf Drilling Journey and other property and equipment during the three months ended March 31, 2021.

Other (expense) / income, net

Other (expense) / income, net, consisting of interest expense and finance charges, interest income and other, net was an expense of (\$32.9) million in the three months ended March 31, 2021 compared to (\$21.2) million for the same period in 2020. During the three months ended March 31, 2021, other expense consisted primarily of interest expense and financing charges of (\$33.0) million, as well as interest income of \$15 thousand and other, net of \$0.1 million in income. This compares to (\$21.7) million in expense, \$0.1 million in income and \$0.4 million in income for those respective categories during the same period in 2020.

Interest expense and financing charges in the three months ended March 31, 2021 were \$11.4 million higher compared to the same period in 2020, primarily due to \$10.1 million in loss on debt extinguishment related to the termination of the SDHL Revolver and the 8.75% Senior Secured Notes and \$1.0 million in additional interest on the 8.75% Senior Secured Notes issued midway through the first quarter of 2020.

Income tax expense

Income tax expense for the three months ended March 31, 2021 was \$4.6 million compared to \$7.6 million for the three months ended March 31, 2020.

While the Company is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period-to-period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions, (d) changes in the Company's rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction, and (e) fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

Income tax expense for the three months ended March 31, 2021 was lower than for the same period in 2020 primarily due to a reduction in revenues and a reduction in tax expense related to prior year tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar.

Liquidity and Capital Resources

Sources and uses of liquidity

We had \$287.3 million and \$73.4 million in cash and cash equivalents as of March 31, 2021 and December 31, 2020, respectively. Historically, we have met our liquidity needs principally from cash balances in banks, cash generated from operations, and cash from issuance of long-term debt and equity. Our primary uses of cash were payments for capital and deferred expenditures, costs related to debt financing and debt servicing and income taxes.

On March 26, 2021, the Company closed a private offering of \$310.0 million aggregate principal amount of the 8.875% Notes. The proceeds were used to cash collateralize bank guarantees issued under the SDHL Revolver, repay all outstanding borrowings under the SDHL Revolver and redeem and repurchase all of the outstanding 8.75% Senior Secured Notes.

Restricted cash consists of cash deposits held related to bank guarantees and are recorded according to the maturity date plus expected extensions and renewals as either other current assets or other long-term assets in the condensed consolidated interim balance sheets. As of March 31, 2021, we had restricted cash of \$9.1 million and \$15.0 million in other current assets and other long-term assets, respectively. As of December 30, 2020, we had restricted cash of \$15.5 million and \$35 thousand in other current assets and other long-term assets, respectively. The increase in restricted cash in March 31, 2021 as compared to December 31, 2020, was due to the Company cash collateralization of bank guarantees which had been issued under the SDHL Revolver before its termination in March 2021. As of December 31, 2020, the Company owed \$55.0 million and had issued bank guarantees and performance bonds totaling \$23.6 million against the SDHL Revolver.

At any given time, we may require a significant portion of cash on hand for working capital, capital and deferred expenditures and other needs related to the operation of our business. We may consider establishing additional financing arrangements with banks or other capital providers. Subject in each case to then existing market conditions and to our then-expected liquidity needs, among other factors, we may use a portion of our existing cash balances and internally generated cash flows to reduce debt prior to scheduled maturities through debt repurchases, either in the open market or in privately negotiated transactions or through debt redemptions or tender offers. Any such transactions will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. We may seek to extend our maturities and/or reduce the overall principal amount of our debt through liability management transactions, which may include exchange offers and/or recapitalizations.

Going concern assumption as per Oslo Bors reporting requirements

The existence of COVID-19 has caused disruptions to businesses and economic activity globally. As of March 31, 2021, certain of our contracts have been terminated, shortened or renegotiated which will adversely impact our business in future periods. As of March 31, 2021, we have adequate cash reserves, significantly enhanced by the sale of the Shelf Drilling Journey in February 2021 and the issuance of the 8.875% Notes in March 2021, and we are continuously managing our cash flows and cash forecasts.

As a result of these factors, management believes that we have adequate liquidity to fund our operations for the next twelve months, and, therefore, our financial statements have been prepared under the going concern assumption. Additional capital and/or refinancing of our existing debt may be required in the future if the current market situation continues and/or worsens.

Discussion of Cash flows

The following table sets out certain information regarding our cash flow statements for the three months ended March 31, 2021 and 2020 (in thousands):

	Three months ended March 31,	
	2021	2020
Net cash provided by operating activities.....	\$ 12,253	\$ 977
Net cash provided by / (used in) investing activities.....	48,554	(56,409)
Net cash provided by financing activities.....	161,587	96,138
Net increase in cash and cash equivalents	<u>\$ 222,394</u>	<u>\$ 40,706</u>

Net cash provided by operating activities

Net cash provided by operating activities totaled \$12.3 million during the three months ended March 31, 2021 compared to \$1.0 million during the three months ended March 31, 2020. The increase of \$11.3 million in cash from operations was primarily due to an increase in cash from working capital and a decrease in operating and maintenance and general and administrative expenses, partially offset by a decrease in revenues when compared to the prior year period.

During the three months ended March 31, 2021 and 2020, we made cash payments of \$41.4 million and \$38.7 million, respectively, in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of \$2.8 million and \$3.7 million in income taxes included in other operating assets and liabilities, net during the three months ended March 31, 2021 and 2020, respectively.

Net cash provided by / (used in) investing activities

Net cash provided by investing activities totaled \$48.6 million during the three months ended March 31, 2021 compared to cash used of \$56.4 million during the three months ended March 31, 2020.

The net proceeds from disposal of assets totaled \$62.1 million and \$0.1 million during the three months ended March 31, 2021 and 2020, respectively. The \$62.0 million increase primarily related to the receipt of the remaining proceeds for the sale of the Shelf Drilling Journey in 2021 as compared to no rig divested in the corresponding period of 2020. Deposits related to rig sales, net of \$0.5 million in 2021 primarily related to the sale of a rig held for sale, with no corresponding amounts in 2020.

Cash used for capital expenditures totaled \$14.1 million and \$56.5 million during the three months ended March 31, 2021 and 2020, respectively. The \$42.4 million decrease was primarily due to the acquisition and readiness project costs for the Shelf Drilling Enterprise, which was acquired in early 2020 and commenced operations in early 2021.

Net cash provided by financing activities

Net cash provided by financing activities totaled \$161.6 million in the three months ended March 31, 2021 compared to \$96.1 million during the three months ended March 31, 2020.

The increase of \$65.5 million in cash provided by financing activities was primarily due to an increase in cash proceeds from issuance of debt, partially offset by an increase in payments to retire long-term debt when compared to the prior year period.

Net cash provided by financing activities for the three months ended March 31, 2021 consisted of \$304.1 million in proceeds from issuance of the 8.875% Notes, net of discount, less \$3.2 million in debt financing costs, partially offset by cash payments of \$80.0 million and \$55.0 million to retire the 8.75% Senior Secured Notes and SDHL Revolver, respectively, and \$4.3 million in related debt extinguishment costs. Net cash provided by financing activities for the three months ended March 31, 2020 consisted of \$80.0 million in proceeds from issuance of the 8.75% Senior Secured Notes, less \$2.2 million in debt financing costs

and a net increase of \$20.0 million in borrowings under the SDHL Revolver, partially offset by \$1.6 million in repurchases of common shares.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include fixed asset purchases, investments associated with the construction of newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades), mobilization and stacked rig reactivations. Capital expenditures and deferred costs can vary from quarter-to-quarter and year-to-year depending upon the requirements of existing and new customers, the number and scope of out-of-service projects, the timing of regulatory surveys and inspections, and the number of rig reactivations. Capital additions are included in property and equipment and are depreciated over the estimated remaining useful life of the assets. Deferred costs are included in other current assets and other long-term assets on the condensed consolidated interim balance sheet and are amortized over the relevant periods covering: (i) the underlying firm contract period to which the expenditures relate, or; (ii) the period until the next planned similar expenditure is to be made.

The table below sets out our capital expenditures and deferred costs for the three months ended March 31, 2021 and 2020 (in thousands):

	Three months ended March 31,	
	2021	2020
Regulatory and capital maintenance ⁽¹⁾	\$ 7,589	\$ 12,735
Contract preparation ⁽²⁾	3,650	1,364
Fleet spares and other ⁽³⁾	4,179	3,459
	\$ 15,418	\$ 17,558
Rig acquisitions ⁽⁴⁾	1,196	54,960
Total capital expenditures and deferred costs.....	\$ 16,614	\$ 72,518

- (1) Includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.
- (2) Includes specific upgrade, mobilization and preparation costs associated with a customer contract.
- (3) Includes (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.
- (4) Includes 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.

Capital expenditures and deferred costs were \$16.6 million and \$72.5 million in the three months ended March 31, 2021 and 2020, respectively. The decrease of \$55.9 million was primarily due to the \$53.8 million decrease in rig acquisitions, mainly explained by \$50.7 million for the acquisition and operations readiness of the Shelf Drilling Enterprise in 2020. In addition, there was a \$5.1 million decrease in regulatory and capital maintenance expenditures, primarily due to higher spending for planned out of service projects in 2020 for rigs in Saudi Arabia and India, partly offset by a \$3.0 million increase in contract preparation and fleet spares expenditures.

Certain Financial Information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the three months ended March 31, 2021 and certain adjustments to show the differences in this financial information between SDL and SDHL for these periods. These adjustments primarily reflect the existence of preferred shares at SDL outstanding in 2018 and general and administrative costs relating to certain professional expenses that are recorded at SDL and not at SDHL.

Condensed Consolidated Interim Statements of Operations for the three months ended March 31, 2021 (In thousands)

	<u>Shelf Drilling, Ltd.</u>	<u>Adjustments</u>	<u>Shelf Drilling Holdings, Ltd.</u>
Revenues			
Operating revenues.....	\$ 127,360	\$ -	\$ 127,360
Other revenues	2,377	-	2,377
	<u>129,737</u>	<u>-</u>	<u>129,737</u>
Operating costs and expenses			
Operating and maintenance	74,287	-	74,287
Depreciation	16,126	-	16,126
Amortization of deferred costs	9,258	-	9,258
General and administrative.....	9,642	(224)	9,418
Gain on disposal of assets	(774)	-	(774)
	<u>108,539</u>	<u>(224)</u>	<u>108,315</u>
Operating income	<u>21,198</u>	<u>224</u>	<u>21,422</u>
Other (expense) / income, net			
Interest income	15	-	15
Interest expense and financing charges	(33,077)	-	(33,077)
Other, net.....	134	-	134
	<u>(32,928)</u>	<u>-</u>	<u>(32,928)</u>
Loss before income taxes	<u>(11,730)</u>	<u>224</u>	<u>(11,506)</u>
Income tax expense	4,644	-	4,644
Net loss and net loss attributable to common shares	<u>\$ (16,374)</u>	<u>\$ 224</u>	<u>\$ (16,150)</u>

Condensed Consolidated Interim Balance Sheets as of March 31, 2021
(In thousands)

	<u>Shelf Drilling, Ltd.</u>	<u>Adjustments</u>	<u>Shelf Drilling Holdings, Ltd.</u>
Assets			
Cash and cash equivalents	\$ 287,279	\$ (3,512)	\$ 283,767
Accounts and other receivables, net ⁽¹⁾	110,346	801	111,147
Assets held for sale	677	-	677
Other current assets	53,629	-	53,629
Total current assets	451,931	(2,711)	449,220
Property and equipment	1,582,937	-	1,582,937
Less accumulated depreciation	(525,265)	-	(525,265)
Property and equipment, net	1,057,672	-	1,057,672
Deferred tax assets	1,645	-	1,645
Other long-term assets	120,275	-	120,275
Total assets	\$ 1,631,523	\$ (2,711)	\$ 1,628,812
Liabilities and equity			
Accounts payable	\$ 64,894	\$ (6)	\$ 64,888
Interest payable	9,870	-	9,870
Accrued income taxes	5,840	-	5,840
Other current liabilities	38,210	-	38,210
Total current liabilities	118,814	(6)	118,808
Long-term debt	1,187,882	-	1,187,882
Deferred tax liabilities	6,352	-	6,352
Other long-term liabilities	44,946	-	44,946
Total long-term liabilities	1,239,180	-	1,239,180
Commitments and contingencies			
Common shares ⁽²⁾	1,367	(1,367)	-
Additional paid-in capital ⁽³⁾	1,003,849	(93,535)	910,314
Accumulated losses ⁽⁴⁾	(731,687)	92,197	(639,490)
Total equity	273,529	(2,705)	270,824
Total liabilities and equity	\$ 1,631,523	\$ (2,711)	\$ 1,628,812

(1) This adjustment primarily relates to legal and accounting fees paid by SDHL on behalf of SDL.

(2) This adjustment reflects the total number of SDL outstanding shares of 136,690,672 with a par value of \$0.01 per share.

(3) This adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. ("SDIL") to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd. ("Midco") which is 100% directly owned by SDL.

(4) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividend at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL.

Condensed Consolidated Interim Statements of Cash flows for the three months ended March 31, 2021
(In thousands)

	<u>Shelf Drilling, Ltd.</u>	<u>Adjustments</u>	<u>Shelf Drilling Holdings, Ltd.</u>
Cash flows from operating activities			
Net loss	\$ (16,374)	\$ 224	\$ (16,150)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	16,126	-	16,126
Reversal of doubtful accounts, net	(1,820)	-	(1,820)
Amortization of deferred revenue	(4,265)	-	(4,265)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation ...	940	(12)	928
Non-cash loss on debt extinguishment	5,232	-	5,232
Debt extinguishment costs	4,832	-	4,832
Amortization of debt issue costs, premium and discount	977	-	977
Gain on disposal of assets	(774)	-	(774)
Deferred tax expense, net	1,074	-	1,074
Changes in deferred costs, net	157	-	157
Changes in operating assets and liabilities			
Intercompany receivables	-	(207)	(207)
Other operating assets and liabilities, net	6,148	(3)	6,145
Net cash provided by operating activities	<u>12,253</u>	<u>2</u>	<u>12,255</u>
Cash flows from investing activities			
Additions to property and equipment	(14,091)	-	(14,091)
Proceeds from disposal of assets	62,130	-	62,130
Deposits related to rig sales, net	515	-	515
Net cash provided by investing activities	<u>48,554</u>	<u>-</u>	<u>48,554</u>
Cash flows from financing activities			
Proceeds from issuance of debt	304,054	-	304,054
Repayments of long-term debt	(80,000)	-	(80,000)
Repayments of revolving credit facility	(55,000)	-	(55,000)
Payments of debt extinguishment and retirement costs	(4,285)	-	(4,285)
Payments of debt financing costs	(3,182)	-	(3,182)
Net cash provided by financing activities	<u>161,587</u>	<u>-</u>	<u>161,587</u>
Net increase in cash, cash equivalents and restricted cash	<u>222,394</u>	<u>2</u>	<u>222,396</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>88,963</u>	<u>(3,514)</u>	<u>85,449</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 311,357</u>	<u>\$ (3,512)</u>	<u>\$ 307,845</u>

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. The table below contains our estimated contractual obligations stated at face value as of March 31, 2021 (in thousands):

	Years ending December 31,						Total
	Remainder of 2021	2022	2023	2024	2025	Thereafter	
Debt repayment.....	\$ -	\$ -	\$ -	\$ 310,000	\$ 900,000	\$ -	\$ 1,210,000
Interest on debt.....	54,702	101,763	101,763	101,763	37,125	-	397,116
Operating lease obligations....	6,530	6,398	3,984	2,444	423	-	19,779
Total.....	\$ 61,232	\$ 108,161	\$ 105,747	\$ 414,207	\$ 937,548	\$ -	\$ 1,626,895

As of March 31, 2021, the Company has liabilities related to postemployment benefits of \$16.7 million and liabilities for uncertain tax positions of \$11.7 million that are not included in the table above as the Company cannot make a reasonable estimation of the timing of the payment of such amounts.

Other Commercial Commitments

We have other commercial commitments which contractually obligate us to settle with cash under certain circumstances. Surety bonds and parent company guarantees entered into between certain customers and governmental bodies guarantee our performance regarding certain drilling contracts, customs import duties and other obligations in various jurisdictions.

The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE and Nigeria, and which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of March 31, 2021, the Company's total surety bond facilities totaled \$67.6 million, of which \$42.2 million was outstanding, and no additional amounts were drawn against the SDHL Revolver. As of December 31, 2020, the Company's total surety bond facilities totaled \$63.0 million, of which \$39.4 million was outstanding and an additional \$23.6 million of bank guarantees and performance bonds were drawn against the SDHL Revolver.

Contingencies

As of March 31, 2021, we are not exposed to any contingent liabilities that are expected to result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities that we are exposed to relate to legal proceedings, certain contractual and customs obligations secured by surety bonds and bank guarantees and uncertain tax positions. See "Note 7 – Income Taxes" and "Note 10 – Commitments and Contingencies" in "Item 1. Financial Statements" of "Part I. Financial Information" for discussion of any material changes in our contingent liabilities from those previously reported in our Form 10-K Equivalent for the year ended December 31, 2020.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated interim financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated interim financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities and related disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in the preparation of our condensed consolidated interim financial statements.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated interim financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in Part II. of our Form 10-K Equivalent for the year ended December 31, 2020. During the three months ended March 31, 2021, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based. See "Note 1 – Summary of Significant Accounting Policies" in "Item 1. Financial Statements" of "Part I. Financial Information".

New Accounting Pronouncements

See “Note 2 – Recently Issued Accounting Pronouncements” in “Item 1. Financial Statements” of “Part I. Financial Information”.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including liquidity risk, interest rate risk, foreign currency risk and credit risk.

Liquidity risk

We manage our liquidity risk by maintaining adequate cash reserves and debt facilities, and by continuously monitoring our actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities when possible.

Interest Rate Risk

We are exposed to interest rate risk related to the fixed rate debt under the 8.25% Senior Unsecured Notes and the 8.875% Notes. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument’s maturity is greater than one year, exposes us to changes in market interest rates if and when maturing debt is refinanced with new debt.

We have in the past and may in the future utilize interest rate swaps to manage differences in the amount, timing and duration of the Company’s known or expected cash payments principally related to the Company’s borrowings, for which we maintain documented policies and procedures to monitor and control the use of derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign Currency Risk

Our international operations expose us to currency exchange rate risk. This risk is primarily associated with compensation costs of employees and purchasing costs from non-U.S. suppliers, which are denominated in currencies other than the U.S. dollar. We do not have any non-U.S. dollar debt and thus are not exposed to currency risk related to debt.

Our primary currency exchange rate risk management strategy involves structuring certain customer contracts to provide for payment from the customer in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. The currency exchange effect resulting from our international operations has not historically had a material impact on our operating results.

Further, we have in the past and may in the future utilize foreign currency forward exchange contracts (“forex contracts”) to manage a portion of our foreign currency risk, for which we maintain documented policies and procedures to monitor and control the use of derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes. Our forex contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract fixing date.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, restricted cash and accounts receivables. We generally maintain cash and cash equivalents and restricted cash at commercial banks with high credit ratings.

Our trade receivables are with a variety of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. We perform ongoing credit evaluations of our customers, and generally do not require material collateral. We may from time to time require our customers to make an advance payment or issue a bank guarantee/letter of credit in our favor to cover the risk of non-payment under drilling contracts.

We determine our expected credit losses for our pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations. Allowance for credit losses was \$0.7 million and \$2.6 million as of March 31, 2021 and December 31, 2020, respectively.

Item 4. Controls and Procedures

We are not required to report this Item.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company may be involved in litigations, claims and disputes incidental to our business, which may involve claims for significant monetary amounts, some of which would not be covered by insurance. In the opinion of management, none of the existing disputes to which we are a party will have a material adverse effect on our financial position, results of operations or cash flows.

See “Note 10 – Commitments and Contingencies” in “Item 1. Financial Statements” of “Part I. Financial Information”.

Item 1A. Risk Factors

The information set forth under the caption “Forward-looking Information” in “Part I. Item 2. Management’s Discussion and Analysis” of this report is incorporated by reference in response to this Item and there have been no material changes from the risk factors previously disclosed in the Company’s Form 10-K Equivalent for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In September 2019, the Board of Directors approved a share repurchase program under which the Company may repurchase shares of the Company’s common stock for an aggregate of \$25.0 million. In March 2020, the Company suspended its repurchase activities under the 2019 Repurchase Program and therefore no shares were repurchased subsequent to that. Repurchases may continue in future periods at the discretion of the Company’s management and Board of Directors, subject to certain limitations under the Company’s debt agreements. As of March 31, 2021, approximately \$20.5 million remains available for repurchase under the 2019 Repurchase Program. See “Note 12 – Shareholders’ Equity” in “Item 1. Financial Statements” of “Part I. Financial Information”.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Material agreements governing indebtedness can be found on our website at www.shelfdrilling.com in the investor relations section under financial reports, key documents.