SHELF DRILLING, LTD.

QUARTERLY REPORT
THREE MONTHS ENDED MARCH 31, 2022 AND 2021

SHELF DRILLING, LTD.
INDEX TO QUARTERLY REPORT
THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(UNAUDITED)

CONTENTS

PART I.	**FINANCIAL INFORMATION**	**2**
	ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	**2**
	CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS	**3**
	CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME	**4**
	CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS	**5**
	CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY	**6**
	CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS	**7**
	ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	**25**
	ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	**40**
	ITEM 4. CONTROLS AND PROCEDURES	**40**
PART II.	**OTHER INFORMATION**	**41**
	ITEM 1. LEGAL PROCEEDINGS	**41**
	ITEM 1A. RISK FACTORS	**41**
	ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	**41**
	ITEM 3. DEFAULTS UPON SENIOR SECURITIES	**41**
	ITEM 4. MINE SAFETY DISCLOSURES	**41**
	ITEM 5. OTHER INFORMATION	**41**
	ITEM 6. EXHIBITS	**41**

SHELF DRILLING, LTD.
THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(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,	
	2022	**2021**
Revenues		
Operating revenues	$ 150,548	$ 127,360
Other revenues	5,472	2,377
	156,020	129,737
Operating costs and expenses		
Operating and maintenance	85,481	74,287
Depreciation	14,415	16,126
Amortization of deferred costs	15,277	9,258
General and administrative	12,504	9,642
Gain on disposal of assets	(328)	(774)
	127,349	108,539
Operating income	28,671	21,198
Other (expense) / income, net		
Interest income	8	15
Interest expense and financing charges	(26,733)	(33,077)
Other, net	138	134
	(26,587)	(32,928)
Income / (loss) before income taxes	2,084	(11,730)
Income tax expense	6,710	4,644
Net loss	$ (4,626)	$ (16,374)
Loss per share:		
Basic and Diluted - Common shares	$ (0.03)	$ (0.12)
Weighted average shares outstanding:		
Basic and Diluted - Common shares	137,116	136,472

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,	
	2022	**2021**
Net loss	$ (4,626)	$ (16,374)
Other comprehensive income, net of tax	—	—
Total comprehensive loss	$ (4,626)	$ (16,374)

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

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

	March 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 214,388	$ 232,315
Accounts and other receivables, net	125,614	136,251
Other current assets	77,391	68,080
Total current assets	417,393	436,646
Property and equipment	1,594,233	1,588,062
Less: accumulated depreciation	569,468	555,975
Property and equipment, net	1,024,765	1,032,087
Deferred tax assets	4,065	3,241
Other long-term assets	144,504	145,563
Total assets	$ 1,590,727	$ 1,617,537
Liabilities and equity		
Accounts payable	$ 63,534	$ 68,624
Interest payable	19,881	31,565
Accrued income taxes	6,234	4,977
Other current liabilities	46,516	53,715
Total current liabilities	136,165	158,881
Long-term debt	1,193,822	1,192,529
Deferred tax liabilities	8,092	7,469
Other long-term liabilities	42,979	44,987
Total long-term liabilities	1,244,893	1,244,985
Commitments and contingencies (Note 9)	—	—
Common shares of $0.01 par value; 184,063 shares authorized as of both March 31, 2022 and December 31, 2021; 137,116 issued and outstanding as of both March 31, 2022 and December 31, 2021	1,371	1,371
Additional paid-in capital	1,006,874	1,006,250
Accumulated losses	(798,576)	(793,950)
Total equity	209,669	213,671
Total liabilities and equity	$ 1,590,727	$ 1,617,537

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 losses		Total equity
	Shares		Par value						
Balance at December 31, 2021	137,116	$	1,371	$	1,006,250	$	(793,950)	$	213,671
Net loss	—		—		—		(4,626)		(4,626)
Share-based compensation expense, net of forfeitures	—		—		624		—		624
Balance at March 31, 2022	**137,116**	**$**	**1,371**	**$**	**1,006,874**	**$**	**(798,576)**	**$**	**209,669**
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**

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, 2022	Three months ended March 31, 2021
Cash flows from operating activities		
Net loss	$ (4,626)	$ (16,374)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities		
Depreciation	14,415	16,126
Provision for / (reversal of provision for) credit losses, net	33	(1,820)
Amortization of deferred revenue	(9,034)	(4,265)
Share-based compensation expense, net of forfeitures	624	940
Non-cash portion of loss on debt extinguishment	—	5,232
Debt extinguishment costs	—	4,832
Amortization of debt issue costs, premiums and discounts	1,293	977
Gain on disposal of assets	(328)	(774)
Deferred tax (benefit) / expense, net	(201)	1,074
Changes in deferred costs, net*	(192)	157
Changes in operating assets and liabilities	(11,126)	6,148
Net cash (used in) / provided by operating activities	(9,142)	12,253
Cash flows from investing activities		
Additions to property and equipment*	(8,032)	(14,091)
Proceeds from disposal of assets	340	62,130
Deposits related to rig sales, net	—	515
Net cash (used in) / provided by investing activities	(7,692)	48,554
Cash flows from financing activities		
Proceeds from issuance of debt	—	304,054
Repayments of long-term debt	—	(80,000)
Repayments of revolving credit facility	—	(55,000)
Payments of debt extinguishment and retirement costs	—	(4,285)
Payments of debt financing costs	—	(3,182)
Net cash provided by financing activities	—	161,587
Net (decrease) / increase in cash, cash equivalents and restricted cash	(16,834)	222,394
Cash, cash equivalents and restricted cash at beginning of period*	253,218	88,963
Cash, cash equivalents and restricted cash at end of period*	$ 236,384	$ 311,357

* See Note 13 – 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.

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

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 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 fleet consists of 30 independent-leg cantilever ("ILC") jack-up rigs as of March 31, 2022. 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"), Southeast Asia, India and West Africa.

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, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022 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 in the Company's Form 10-K Equivalent for the year ended December 31, 2021. 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 the Company's Form 10-K Equivalent for the year ended December 31, 2021.

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 does not anticipate that this standard, if implemented, will have a material affect on the Company.

SHELF DRILLING

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. As of March 31, 2022, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through June 2031. See Note 15 – 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 invoice an amount which is greater than the revenues allocated to the related performance obligations for goods and services transferred to a customer. Contract liabilities may include fees for contract preparation, capital upgrades, mobilization and advance payments from customers for future services which 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, 2022	December 31, 2021
Current contract liabilities	$ 24,269	$ 29,036
Non-current contract liabilities	795	1,757
	$ 25,064	$ 30,793

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

	Three months ended March 31,	
	2022	2021
Balance, beginning of year	$ 30,793	$ 14,965
Increase due to contractual additions	4,730	6,912
Decrease due to amortization of deferred revenue	(9,034)	(4,265)
Decrease due to application of customer deposits and other	(1,425)	—
Balance, end of period	$ 25,064	$ 17,612

Approximately $8.2 million and $3.2 million of revenues recognized during the three months ended March 31, 2022 and 2021, respectively, were included in the beginning contract liabilities balances.

Expected future amortization of contract liabilities, net recorded as of March 31, 2022 is as follows (in thousands):

For the periods ending December 31,	
Remainder of 2022	$ 22,699
2023	1,946
2024	411
2025	8
	$ 25,064

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

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.

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

	March 31, 2022	December 31, 2021
Current deferred contract costs	$ 23,212	$ 23,563
Non-current deferred contract costs	11,157	13,127
	$ 34,369	$ 36,690

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Balance, beginning of year	$ 36,690	$ 25,876
Increase due to contractual additions	6,660	3,650
Decrease due to amortization of deferred contract costs	(8,981)	(4,603)
Balance, end of period	$ 34,369	$ 24,923

Allowance for credit losses

Allowance for credit losses was $3.2 million as of both March 31, 2022 and December 31, 2021, respectively. Movements in allowance for credit losses were as follows (in thousands):

	Three months ended March 31, 2022	Three months ended March 31, 2021
Balance, beginning of year	$ 3,186	$ 2,639
Provision for / (reversal of provision for) credit losses, net	33	(1,820)
Write-off of uncollectible amounts	—	(128)
Foreign exchange and other	(2)	1
Balance, end of period	$ 3,217	$ 692

Note 4 – Variable Interest Entities

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of variable interest entities ("VIEs") providing services which are Shelf Drilling Ventures (Malaysia) Sdn. Bhd. ("SDVM"), PT. Hitek Nusantara Offshore Drilling ("PT Hitek"), Shelf Drilling (Nigeria) Limited ("SDNL"), Shelf Drilling Offshore Services Limited ("SDOSL") and Shelf Drilling (Angola), Limitada ("SDAL") and which are included in these condensed consolidated interim financial statements. In June 2021, the Company entered into a contract for drilling services in Angola, and as a result in September 2021, the Company exercised its existing contractual right to transfer legal ownership of 49% of the shares in SDAL for which it is the primary beneficiary.

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.

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

Following is the information about the third-party interests in the VIEs:

	Third party country of incorporation	Third party ownership percentage	
		March 31, 2022	December 31, 2021
SDVM	Malaysia	60%	60%
PT Hitek	Indonesia	20%	20%
SDNL	Nigeria	51%	51%
SDOSL	Nigeria	20%	20%
SDAL	Angola	51%	51%

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 and/or losses. The Company is the primary beneficiary as it has the power to direct the operating and marketing activities, which are the activities that most significantly impact each entity's economic performance, and has the obligation to absorb losses and the right to receive a majority of the benefits of the VIEs. Therefore, the 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, 2022 and 2021 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
March 31, 2022:						
Revenues	$ —	$ —	$ 7,848	$ —	$ 2,175	$ 10,023
Operating costs and expenses	83	88	7,975	1,218	2,556	11,920
March 31, 2021:						
Revenues	$ —	$ —	$ 4,648	$ —	$ —	$ 4,648
Operating costs and expenses	$ 55	$ 91	$ 5,859	$ 1,289	$ —	$ 7,294

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.

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 March 31, 2022 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ 7	$ 102	$ 712	$ 40	$ 1,179	$ 2,040
Accounts and other receivables, net	—	156	9,785	—	1,055	10,996
Other current assets	—	—	206	996	135	1,337
Total current assets	7	258	10,703	1,036	2,369	14,373
Property and equipment, net	—	—	2,107	—	11	2,118
Other long-term assets	7	44	3,590	753	112	4,506
Total non-current assets	7	44	5,697	753	123	6,624
Total assets	$ 14	$ 302	$ 16,400	$ 1,789	$ 2,492	$ 20,997
Liabilities						
Accounts payable	$ 72	$ 121	$ 5,053	$ 154	$ 1,054	$ 6,454
Other current liabilities	24	75	3,214	527	312	4,152
Total current liabilities	96	196	8,267	681	1,366	10,606
Other long-term liabilities	221	163	1,812	527	24	2,747
Total long-term liabilities	221	163	1,812	527	24	2,747
Total liabilities	317	359	10,079	1,208	1,390	13,353
Carrying amount, net	$ (303)	$ (57)	$ 6,321	$ 581	$ 1,102	$ 7,644

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, 2021 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ 9	$ 98	$ 268	$ 15	$ 47	$ 437
Accounts and other receivables, net	—	155	10,860	—	—	11,015
Other current assets	—	—	241	710	—	951
Total current assets	9	253	11,369	725	47	12,403
Property and equipment, net	—	—	2,120	—	16	2,136
Other long-term assets	7	53	3,785	900	136	4,881
Total non-current assets	7	53	5,905	900	152	7,017
Total assets	$ 16	$ 306	$ 17,274	$ 1,625	$ 199	$ 19,420
Liabilities						
Accounts payable	$ 71	$ 146	$ 4,565	$ 84	$ 228	$ 5,094
Other current liabilities	53	88	3,477	599	117	4,334
Total current liabilities	124	234	8,042	683	345	9,428
Other long-term liabilities	220	202	2,063	569	69	3,123
Total long-term liabilities	220	202	2,063	569	69	3,123
Total liabilities	344	436	10,105	1,252	414	12,551
Carrying amount, net	$ (328)	$ (130)	$ 7,169	$ 373	$ (215)	$ 6,869

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 7 – Debt. Liability holders typically have recourse to the general credit of the Company when seeking to enforce settlement of liabilities. See Note 16 – Related Parties for additional discussion on the Company's transactions with its VIEs.

Note 5 – Property and Equipment and Asset Sales and Disposals

Useful Lives of Property and Equipment

On December 31, 2021, the Company had a change in accounting estimate, which resulted in a change in the useful lives of 12 rigs. As a result, depreciation for the year ended December 31, 2022 will be less than it would have been without this change in accounting estimate. During the three months ended March 31, 2022, the change in accounting estimate resulted in a $2.5 million lower depreciation on drilling rigs and equipment and a $0.02 higher basic and diluted earnings per share,

Sales and Disposals

No rigs were sold during the three months ended March 31, 2022. During the three months ended March 31, 2021, the Company completed the sale of 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.

Sales and disposals of other property and equipment with a net carrying value of $0.4 million and $0.3 million during the three months ended March 31, 2022 and 2021, respectively, were concluded for net proceeds of $0.7 million and $0.6 million, respectively, which resulted in a gain on disposal of assets of $0.3 million in both periods.

Note 6 – 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 Company’s effective income tax rate was 322.0% and (39.6)% for the three months ended March 31, 2022 and 2021, respectively.

Income Tax Expense

Income tax expense for the three months ended March 31, 2022 and 2021, 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 operations for the three months ended March 31, 2022 and 2021, 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 2022 and 2021 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 $6.7 million for the three months ended March 31, 2022, compared to $4.6 million for the three months ended March 31, 2021. Income tax expense for the three months ended March 31, 2022 was higher than for the same period in 2021 primarily due to an increase in revenues.

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, 2022 and December 31, 2021 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.

The Company is currently challenging a tax assessment of $19.6 million, inclusive of interest, penalties and fees, related to one of the Company's operations. The Company has appealed the assessment and believes it is more likely than not that it will ultimately prevail. In January 2022, the Company began making required monthly tax deposits calculated over a six year period related to this assessment while the Company's appeal is being considered.

Note 7 – Debt

The principal amounts and carrying values of debt are as follows (in thousands):

	March 31, 2022	December 31, 2021
8.875% Senior Secured First Lien Notes, due November 2024		
Principal amount	$ 310,000	$ 310,000
Unamortized debt issuance costs	(5,269)	(5,702)
Unamortized discount	(4,501)	(4,872)
Carrying value	$ 300,230	$ 299,426
8.25% Senior Unsecured Notes, due February 2025		
Principal amount	$ 900,000	$ 900,000
Unamortized debt issuance costs	(7,907)	(8,511)
Unamortized premium	1,499	1,614
Carrying value	$ 893,592	$ 893,103
Total	$ 1,193,822	$ 1,192,529

Following is a summary of scheduled long-term debt maturities by year as of March 31, 2022 (in thousands):

Years ending December 31,	
Remainder of 2022	$ —
2023	—
2024	310,000
2025	900,000
2026 and thereafter	—
Total debt	$ 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.

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

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.

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 $7.0 million of fees and expenses as debt issuance costs, which are being amortized over the life of the debt. The resulting $297.1 million net proceeds were used to repay and terminate the SDHL Revolver, cash collateralize bank guarantees issued under the SDHL Revolver, redeem and repurchase all of the outstanding 8.75% Senior Secured Notes and for general corporate purposes.

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 10.28%.

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.

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%

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

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

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.

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, 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.

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;

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

- 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, 2022 and December 31, 2021.

Note 8 – Shore-Based Retention Plans

The Company has various shore-based retention plans for which associated payouts are typically made upon vesting, provided the participant is still employed by the Company. The retention plans consist of awards granted for certain employees that generally vest over a period ranging from one to four years. The Company recorded total expense for retention plans of $2.3 million and $1.0 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, $2.8 million in additional cash payments are expected to be made for the remainder of 2022 related to the Company's retention plans. The Company recorded obligations of $3.4 million and $0.7 million in other current liabilities and other long-term liabilities, respectively, on the condensed consolidated interim balance sheets as of March 31, 2022 and $2.9 million and $1.4 million in other current liabilities and other long-term liabilities, respectively, on the condensed consolidated balance sheets as of December 31, 2021. The Company recorded assets for retention plans paid in advance of $2.9 million and $3.6 million in other current assets and other long-term assets, respectively, on the condensed consolidated interim balance sheets as of March 31, 2022 and $2.9 million and $4.3 million in other current assets and other long-term assets, respectively, on the condensed consolidated balance sheets as of December 31, 2021.

In November 2020, the Company granted a retention plan with payments in 2021 and 2022, 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 granted in 2019 and 2020. This retention plan had a maximum cash payout of $4.5 million. In August 2021, the Company amended this retention plan after the cancellation of the associated share-based compensation awards. The amended plan has fixed cash payments totaling $3.8 million, with half payable each in 2021 and 2022. See Note 12 – Share-based Compensation for additional discussion of the Company's share-based compensation plans.

In May 2021, the Company granted a new cash retention bonus plan for certain employees for a total of $9.0 million, which is expensed over the vesting period through June 30, 2024. The total amount of $9.0 million was paid in the year ended December 31, 2021. 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 9 – 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.

Surety Bonds and Other Bank Guarantees

It is customary in the Company's 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, Nigeria and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of March 31, 2022, the Company's total surety bond facilities totaled $56.7 million, of which $45.1 million was outstanding. As of December 31, 2021, the Company's total surety bond facilities totaled $68.0 million, of which $43.6 million was outstanding.

Other Contingencies

The Company received an assessment for withholding taxes for one of its subsidiaries related to multiple tax years under review. The total amount of the tax assessment plus estimated penalties and interest was $11.0 million as of March 31, 2022, and the Company is indemnified for $10.8 million of this exposure from the third-party prior owner of the subsidiary. The Company does not believe that the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

Note 10 – 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 carrying value and estimated fair value of long-term debt (in thousands):

	March 31, 2022		December 31, 2021	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.875% Senior Secured First Lien Notes, due November 2024	$ 300,230	$ 315,558	$ 299,426	$ 319,142
8.25% Senior Unsecured Notes, due February 2025	893,592	750,213	893,103	656,253
	$ 1,193,822	$ 1,065,771	$ 1,192,529	$ 975,395

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 exclude unamortized debt issuance costs, discounts and premiums, as applicable. See also Note 7 – Debt.

Note 11 – Shareholders' Equity

Authorized share capital and issued and outstanding shares

As of March 31, 2022 and December 31, 2021 the Company had authorized common shares of 184,063,473 with a par value of $0.01 per share. As of March 31, 2022, 137,115,793 of the Company's authorized common shares were outstanding and 2,645,268 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 12 – Share-based Compensation. The Board of Directors may amend or alter the number of shares reserved for such purposes in future periods.

As of March 31, 2022, 103,815,090 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, 2022 or 2021. Certain of the Company's debt agreements contain covenants that limit the payment of dividends. See Note 7 – Debt.

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

Note 12 – Share-based Compensation

2017 Long-Term Incentive Plan

The Company's 2017 LTIP provides for the issuance of share options, restricted shares, deferred shares, share units, unrestricted shares and cash-based awards (the "awards") to certain officers, non-employee directors and key employees who are in a position to contribute significantly to the Company's long-term performance and growth. In August 2021, the Board of Directors amended the 2017 LTIP to increase the maximum number of shares to be granted under the plan to 18.4 million shares from 14.4 million shares.

Nonqualified Stock Options ("NQSOs")

NQSOs are contractual rights to purchase shares in the future at a predetermined price known as the option price or strike price provided the specific vesting condition is met. During the requisite service period, the NQSOs may not be sold or transferred and are subject to forfeiture. The option holder does not have the right to receive dividends until the NQSOs are vested and exercised.

There were no NQSOs granted, exercised or forfeited during the three months ended March 31, 2022 or 2021.

During the three months ended September 30, 2021, 13.7 million NQSOs were granted to key employees with an exercise price of 4.60 NOK ($0.51) per share and which vest in February 2025 and expire in February 2030. Concurrently with the grant of the NQSOs, the Company cancelled unvested time based restricted stock units ("TBRSUs") and performance based restricted stock units ("PBRSUs") subject to the achievement of the market condition of total shareholder return against a predetermined peer group ("TSR share units") and the performance condition of return on capital employed ("ROCE share units") which were awarded in 2019 and 2020. Therefore, this grant and cancellation were accounted for as a modification. The $4.4 million total unamortized compensation expense for the cancelled awards at the modification date plus the $2.3 million incremental fair value of the NQSOs over the cancelled awards totals $6.7 million, which were pooled and will be expensed on a straight line basis over the vesting period of the replacement awards.

The NQSOs granted in 2021 were measured on the grant date using the Black-Scholes-Merton 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 grant date fair value of the NQSOs granted in 2021 of $0.27 was determined based on several inputs and assumptions, including the market price of the shares on the date of grant of $0.51 and additional assumptions, as follows:

Valuation assumptions:	
Expected term	6.05 years
Risk free interest rate	1.02%
Expected volatility	56.90%
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 the historical volatility of the Company's share price and other factors.

Restricted Share Units ("RSUs")

RSUs are contractual rights to receive shares in the future provided the specific vesting condition is met. 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. The RSUs awarded by the Company consisted of TBRSUs and PBRSUs.

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

The TBRSUs granted to key employees typically vest in one-third increments over a three-year period and to non-employee directors typically vest at the end of one year from the grant date, subject to acceleration provisions following a change in control. The fair value of TBRSUs is based on the market price of the shares on the date of grant.

During the three months ended March 31, 2022, no TBRSUs were granted, vested or forfeited. During the three months ended March 31, 2021, no TBRSUs were granted, 467,632 common shares were issued related to an equal number of vested TBRSUs and 42,422 TBRSUs were forfeited.

The PBRSUs awarded by the Company were historically subject to the achievement of specified performance goals, such as a market condition for the TSR share units, and a performance condition for the ROCE share units. The total PBRSUs that may be earned ranged from 0% to 200% of the granted units depending on performance.

During the three months ended March 31, 2022 no PBRSUs were awarded, vested or forfeited. During the three months ended March 31, 2021, no PBRSUs were awarded or vested and 47,725 TSR share units and 15,908 ROCE share units were forfeited.

Note 13 – 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 Company's capital expenditures and deferred costs were as follows (in thousands):

	Three months ended March 31,	
	2022	2021
Regulatory and capital maintenance	$ 16,074	$ 7,589
Contract preparation	6,659	3,650
Fleet spares and others	186	4,179
	$ 22,919	$ 15,418
Rig acquisitions	—	1,196
Total capital expenditures and deferred costs	$ 22,919	$ 16,614

The reconciliation of the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs was as follows (in thousands):

	Three months ended March 31,	
	2022	2021
Cash payments for additions to property and equipment	$ 8,032	$ 14,091
Net change in accrued but unpaid additions to property and equipment	(582)	(6,578)
Total capital expenditures	$ 7,450	$ 7,513
Changes in deferred costs, net	$ 192	$ (157)
Add: Amortization of deferred costs	15,277	9,258
Total deferred costs	$ 15,469	$ 9,101
Total capital expenditures and deferred costs	$ 22,919	$ 16,614

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

The 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 was as follows (in thousands):

	March 31, 2022	December 31, 2021
Cash and cash equivalents	$ 214,388	$ 232,315
Restricted cash included in other current assets	6,074	2,803
Restricted cash included in other long-term assets	15,922	18,100
Total cash, cash equivalents and restricted cash	$ 236,384	$ 253,218

Note 14 – Earnings / (Loss) Per Share

The computation of basic and diluted earnings / (loss) per share is as follows (in thousands, except per share data):

	Three months ended March 31,	
	2022	2021
Numerator for loss per share		
Net loss and net loss attributable to common shares	$ (4,626)	$ (16,374)
Denominator for loss per share		
Weighted average common shares:		
Basic and diluted outstanding common shares	137,116	136,472
Basic and diluted loss per common share	$ (0.03)	$ (0.12)

The NQSOs awarded in 2021 do not contain rights to dividends, and therefore are not considered participating securities for purposes of computing earnings per share. The RSUs awarded in 2020 and 2019, which were outstanding during the three months ended March 31, 2021, contain forfeitable rights to dividends, and therefore were not considered participating securities for purposes of computing earnings per share. The NQSOs do not represent common shares outstanding until they are vested and exercised and the RSUs do not represent common shares outstanding until they are vested and converted into common shares. See Note 12 – Share-based Compensation.

For the three months ended March 31, 2022 and 2021, there were 4,471 thousand and 108 thousand dilutive common shares 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 15 – 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 Services, which reflects how the Company manages its business, and the fact that the Company's fleet is dependent upon the worldwide oil and natural gas 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, 2022	Three months ended March 31, 2021
Saudi Arabia	$ 46,769	$ 31,350
Thailand	35,788	40,977
India	27,859	25,013
Nigeria	13,693	7,567
Angola	11,766	—
Others	20,145	24,830
	$ 156,020	$ 129,737

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 as of the balance sheet date were as follows (in thousands):

	March 31, 2022	December 31, 2021
Thailand	$ 543,664	$ 546,608
Saudi Arabia	198,916	203,793
Nigeria	101,938	100,468
Angola (1)	85,529	87,349
India	75,947	74,081
United Arab Emirates	52,574	55,754
Others	98,991	97,641
	$ 1,157,559	$ 1,165,694

(1) Rig was in international waters in process of mobilization to the listed location as of December 31, 2021.

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.

Note 16 – Related Parties

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

The Company recorded $0.3 million and $0.1 million for the three months ended March 31, 2022 and 2021, respectively, of Sponsors' and Directors' costs. Sponsors' and Directors' costs include directors' fees and reimbursement of costs incurred by Sponsors, 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 $0.1 million as of both March 31, 2022 and December 31, 2021.

Certain VIE related parties provided goods and services to drilling rigs owned by several of the Company's foreign subsidiaries. These goods and services totaled $0.6 million and $0.3 million during the three months ended March 31, 2022 and 2021, respectively. The total liability recorded under accounts payable for such transactions was $0.5 million and $0.4 million as of March 31, 2022 and December 31, 2021, respectively.

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

Lease with a related party

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 $1.6 million and $1.9 million as of March 31, 2022 and December 31, 2021, respectively. The corresponding operating lease liability was $3.2 million (current: $1.6 million; long-term: $1.6 million) as of March 31, 2022 and $3.6 million (current: $1.6 million; long-term: $1.9 million) as of December 31, 2021. The Company has recorded total lease expense of $0.3 million for both the three months ended March 31, 2022 and 2021.

Note 17 – Subsequent Events

The Company has evaluated subsequent events through May 12, 2022, 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 the Company's Form 10-K Equivalent for the year ended December 31, 2021.

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:

- expectations, trends and outlook regarding industry and market conditions, oil and gas production and market prices, demand for hydrocarbons, offshore 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 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, our financial condition, results of operations and cash flows;
- 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 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 receivable 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 "anticipate, " "believe, " "estimate, " "expect, " "intend, " "plan, " "project, " "could, " "may, " "might, " "should, " "will" and similar words or the negative of these terms 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 the Company's Form 10-K Equivalent for the year ended December 31, 2021 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" or "our") is a leading international shallow water offshore 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 fleet consists of 30 independent-leg cantilever ("ILC") jack-up rigs as of March 31, 2022, 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.

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"), Southeast Asia, India and West Africa.

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 purchase, build or upgrade rigs are 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 natural gas companies, who contract our rigs for varying durations.

Recent events

In March 2022, the Company received a contract award for the Shelf Drilling Mentor which is expected to commence in Nigeria in the second quarter of 2022, with an estimated term of 225 days plus options for additional wells.

Drilling fleet

The following table summarizes the Company's offshore rigs:

	As of		
	March 31, 2022	December 31, 2021	March 31, 2021
Jack-up rigs	30	30	35

Outlook

Brent crude oil prices improved from an average of $71 per barrel in 2021 to $100 per barrel in January through May of 2022. Prices increased to over $100 per barrel in late February 2022, largely resulting from concerns over Russian oil due to the conflict in Ukraine. Natural gas prices are at or approaching all-time highs in many regions across the globe. This followed an increase in demand for oil and natural gas which began in 2021 and continued into 2022 due to the easing of COVID-19 lockdowns, combined with a strong economic recovery and a rebound of the travel industry and the threat of austere sanctions on both oil and gas against Russia following the attack on Ukraine. Brent crude prices rose from over $90 per barrel in January 2022 up to $128 per barrel in March 2022 and then reducing slightly to approximately $110 in May. Industry forecasts, including a recent forecast from the World Bank, indicate that oil and natural gas prices are expected to remain elevated during 2022 and into 2023 and 2024.

The global number of contracted jack-up rigs increased from 350 in January 2022 to 362 in May 2022 and marketed utilization increased from 83% to 86% over the same period. We expect shallow water activity to show a significant increase in 2022, driven by rising oil prices and demand, as discussed above, and we are beginning to see upward dayrate momentum on new contracts.

During the first quarter of 2022, our EBITDA increased 34% sequentially, primarily due to higher revenues driven by an improvement in our effective utilization from 74% in the three months ended December 31, 2021 to 85% in the three months ended March 31, 2022. Our backlog was $1.7 billion as of March 31, 2022 and recent contract wins in West Africa, Middle East and Southeast Asia in April and early May reinforced our backlog. Our liquidity position remains strong with cash and cash equivalents of $214.4 million as of March 31, 2022, with no debt maturities until 2024.

Given the strength in the price and demand outlook for oil and natural gas, we continue to have an optimistic outlook for the industry in 2022, and believe we are well positioned to fulfill the needs of our customers as they strive to meet the global demand for energy and address concerns on security of supply.

Operational measures

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

- *Contract backlog* is the maximum contract dayrate revenues that can be earned from firm commitments for contract 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 for the use of our rigs such as bareboat charters or as 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 reduced dayrates for rig movements, adverse weather and equipment downtime, among other factors. Actual dayrates may also include contractual adjustments based on market factors, such as Brent crude oil or natural gas 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 rigs currently operating under a contract and rigs preparing for an upcoming contract.
- *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 all of our rigs that are operating or are available to operate, but excluding stacked rigs, rigs under contract for activities other than drilling, plug and abandonment or associated services, as applicable.

- *Effective utilization* 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 revenues. Effective utilization measures the dayrate revenue efficiency of our marketable rigs. 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 the calculation of effective utilization.

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

	As of		
	March 31, 2022	**December 31, 2021**	**March 31, 2021**
Total contract backlog (in millions)	$ 1,660	$ 1,679	$ 1,284
Weighted average backlog dayrate (in thousands)	$ 68.4	$ 67.7	$ 69.8
Average contract days per rig	867	885	681
Number of contracted rigs	28	28	27
Marketable rigs	30	30	31

	Three months ended		
	March 31, 2022	**December 31, 2021**	**March 31, 2021**
Average dayrate (in thousands)	$ 61.8	$ 62.9	$ 56.3
Effective utilization	85%	74%	77%

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 were as follows (in thousands):

	Three months ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Net loss	$ (4,626)	$ (17,235)	$ (16,374)
Add back:			
Interest expense and financing charges, net of interest income (1)	26,725	26,688	33,062
Income tax expense	6,710	5,089	4,644
Depreciation	14,415	16,922	16,126
Amortization of deferred costs	15,277	11,340	9,258
(Gain) / loss on disposal of assets	(328)	698	(774)
EBITDA	$ 58,173	$ 43,502	$ 45,942
One-time corporate transaction costs (2)	—	—	577
Adjusted EBITDA	$ 58,173	$ 43,502	$ 46,519
Adjusted EBITDA Margin	37.3%	32.0%	35.9%

(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 in the three months ended March 31, 2021.

(2) 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, 2022, December 31, 2021 and March 31, 2021; our restricted subsidiaries accounted for 100% of our assets as of March 31, 2022 and December 31, 2021.

Operating Results

Management believes the comparison of the most recently completed quarter to the immediately preceding quarter provides more relevant information needed to understand the operating results. We have therefore elected to discuss and analyze material changes in our operating results by comparing our most recently completed quarter ended March 31, 2022 to the immediately preceding quarter ended December 31, 2021. We also continue to discuss and analyze any material changes in our operating results for the year-to-date most recently completed quarter compared to the corresponding year-to-date quarter of the preceding year, as required under the applicable SEC rules.

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

	Three months ended			
	March 31, 2022	**December 31, 2021**	**Change**	**% change**
Revenues				
Operating revenues	$ 150,548	$ 132,890	$ 17,658	13%
Other revenues	5,472	3,168	2,304	73%
	156,020	136,058	19,962	15%
Operating costs and expenses				
Operating and maintenance	85,481	83,492	1,989	2%
Depreciation	14,415	16,922	(2,507)	(15%)
Amortization of deferred costs	15,277	11,340	3,937	35%
General and administrative	12,504	10,191	2,313	23%
(Gain) / loss on disposal of assets	(328)	698	(1,026)	(147%)
	127,349	122,643	4,706	4%
Operating income	28,671	13,415	15,256	114%
Other (expense) / income, net				
Interest income	8	11	(3)	(27%)
Interest expense and financing charges	(26,733)	(26,699)	(34)	—%
Other, net	138	1,127	(989)	(88%)
	(26,587)	(25,561)	(1,026)	(4%)
Income / (loss) before income taxes	2,084	(12,146)	14,230	117%
Income tax expense	6,710	5,089	1,621	32%
Net loss	$ (4,626)	$ (17,235)	$ 12,609	73%

	Three months ended March 31, 2022	Three months ended March 31, 2021	Change	% change
Revenues				
Operating revenues	$ 150,548	$ 127,360	$ 23,188	18%
Other revenues	5,472	2,377	3,095	130%
	156,020	129,737	26,283	20%
Operating costs and expenses				
Operating and maintenance	85,481	74,287	11,194	15%
Depreciation	14,415	16,126	(1,711)	(11%)
Amortization of deferred costs	15,277	9,258	6,019	65%
General and administrative	12,504	9,642	2,862	30%
Gain on disposal of assets	(328)	(774)	446	58%
	127,349	108,539	18,810	17%
Operating income	28,671	21,198	7,473	35%
Other (expense) / income, net				
Interest income	8	15	(7)	(47%)
Interest expense and financing charges	(26,733)	(33,077)	6,344	19%
Other, net	138	134	4	3%
	(26,587)	(32,928)	6,341	19%
Income / (loss) before income taxes	2,084	(11,730)	13,814	118%
Income tax expense	6,710	4,644	2,066	44%
Net loss	$ (4,626)	$ (16,374)	$ 11,748	72%

Three months ended March 31, 2022 compared to the three months ended December 31, 2021 and the three months ended March 31, 2022 compared to the three months ended March 31, 2021

Revenues

Total revenues for the three months ended March 31, 2022 were $156.0 million compared to $136.1 million for the three months ended December 31, 2021. Revenues for the three months ended March 31, 2022 consisted of $150.5 million (96.5%) of operating revenues and $5.5 million (3.5%) of other revenues. For the three months ended December 31, 2021, the corresponding revenues were $132.9 million (97.7%) and $3.2 million (2.3%), respectively.

Total revenues for the three months ended March 31, 2022 increased by $20.0 million compared to the three months ended December 31, 2021 primarily due to $14.9 million related to higher effective utilization across the fleet, as three additional rigs were operating in the 2022 period as compared to the three months ended December 31, 2021 and $7.6 million from higher recharges and amortization of mobilization revenue, partially offset by $2.5 million from lower average earned dayrates.

Total revenues for the three months ended March 31, 2022 were $156.0 million compared to $129.7 million for the same period in 2021. Revenues for the three months ended March 31, 2022 consisted of $150.5 million (96.5%) of operating revenues and $5.5 million (3.5%) of other revenues. For the three months ended March 31, 2021, the corresponding revenues were $127.4 million (98.2%) and $2.4 million (1.8%), respectively.

Total revenues for the three months ended March 31, 2022 increased by $26.3 million compared to the same period in 2021 primarily due to $12.4 million from higher average earned dayrates and $7.7 million related to higher effective utilization across the fleet, mostly due to the start of operations for one rig each in Angola and Congo in January 2022 and operations for the full first quarter of 2022 for the two rigs in Saudi Arabia as compared to operating in only part of the comparative period and $6.3 million from higher recharges and amortization of mobilization revenue.

Operating and maintenance

Total operating and maintenance expenses for the three months ended March 31, 2022 were $85.5 million, or 54.8% of total revenue, compared to $83.5 million, or 61.4% of total revenue, in the three months ended December 31, 2021. Operating and maintenance expenses in the three months ended March 31, 2022, consisted of $76.5 million rig-related expenses and $9.0 million shore-based expenses. In the three months ended December 31, 2021, these same expenses were $75.7 million and $7.8 million, respectively. The increase in total rig-related expenses of $0.9 million primarily consisted of $1.4 million in increased expenses for rigs that were not operating for the full comparative periods in 2021 and $2.5 million in other rig cost increases, partially offset by $3.1 million in lower maintenance and shipyard expenses. Shore-based expenses increased by $1.1 million for the three months ended March 31, 2022 compared to the three months ended December 31, 2021.

Total operating and maintenance expenses for the three months ended March 31, 2022 were $85.5 million, or 54.8% of total revenue, compared to $74.3 million, or 57.3% of total revenue, in the three months ended March 31, 2021. Operating and maintenance expenses in the three months ended March 31, 2022, consisted of $76.5 million rig-related expenses and $9.0 million shore-based expenses. In the three months ended March 31, 2021, these same expenses were $65.5 million and $8.8 million, respectively. The increase in total rig-related expenses of $11.0 million primarily consisted of $7.4 million higher expenses for rigs that were not operating for the full comparative period in 2021, $4.6 million higher maintenance and shipyard expenses and $2.2 million in other rig cost increases. This was partially offset by $3.4 million in lower expenses for rigs divested in prior periods. Shore-based expenses increased by $0.2 million for the three months ended March 31, 2022 compared to the same period in 2021.

Depreciation expense

Depreciation expense in the three months ended March 31, 2022 was $14.4 million compared to $16.9 million for the three months ended December 31, 2021. Depreciation expense in the three months ended March 31, 2022 was $14.4 million compared to $16.1 million for the same period in 2021. Depreciation expense in the first quarter of 2022 was impacted by lower depreciation on drilling rigs and equipment of $2.5 million due to a change in accounting estimate related to the remaining useful lives of certain rigs.

Amortization of deferred costs

The amortization of deferred costs in the three months ended March 31, 2022 was $15.3 million compared to $11.3 million for the three months ended December 31, 2021. The $3.9 million increase was primarily related to increased amortization on drilling rigs which started new contracts in late 2021 and 2022.

The amortization of deferred costs in the three months ended March 31, 2022 was $15.3 million compared to $9.3 million for the same period in 2021. The $6.0 million increase in amortization was primarily related to increased amortization on drilling rigs which started new contracts in late 2021 and 2022 and higher amortization of shipyard costs for four Saudi rigs .

General and administrative expenses

General and administrative expenses were $12.5 million in the three months ended March 31, 2022 compared to $10.2 million for the three months ended December 31, 2021. The $2.3 million increase primarily resulted from an increase in compensation and benefit expenses over the prior year period.

General and administrative expenses were $12.5 million in the three months ended March 31, 2022 compared to $9.6 million for the same period in 2021. The $2.9 million increase primarily resulted from an increase in compensation and benefits expenses over the prior year period and a release of provision for doubtful accounts in 2021 following a collection of aged receivables.

Loss (gain) on disposal of assets

Gain on disposal of assets was $(0.3) million in the three months ended March 31, 2022, compared to a loss of $0.7 million for the three months ended December 31, 2021. Gain on disposal of assets was $(0.3) million in the three months ended March 31, 2022 compared to a gain of $(0.8) million for the same period in 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 $(26.6) million in the three months ended March 31, 2022 compared to $(25.6) million for the three months ended December 31, 2021. Other (expense) / income, net, in both periods consisted primarily of interest expense and financing charges.

Other (expense) / income, net, was an expense of $(26.6) million in the three months ended March 31, 2022 compared to $(32.9) million for the same period in 2021. Other (expense) / income, net, in both periods consisted primarily of interest expense and financing charges. Interest expense and financing charges in the three months ended March 31, 2022 were $6.3 million lower compared to the three months ended March 31, 2021, primarily due to $10.1 million loss on debt extinguishment and $1.8 million lower interest expense in the three months ended March 31, 2021, related to the termination of the revolving credit facility, due April 2023 ("SDHL Revolver") and the 8.75% Senior Secured Notes, due November 15, 2024 (the "8.75% Senior Secured Notes"). This was partially offset by $7.3 million of higher interest expense on the 8.875% Senior Secured First Lien Notes, due November 15, 2024 (the "8.875% Notes") issued during three months ended March 31, 2021.

Income tax expense

Income tax expense for the three months ended March 31, 2022 was $6.7 million compared to $5.1 million for the three months ended December 31, 2021. Income tax expense for the three months ended March 31, 2022 was $6.7 million compared to $4.6 million for the three months ended March 31, 2021.

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, 2022 was higher than for the three months ended December 31, 2021 primarily due to an increase in revenues.

Income tax expense for the three months ended March 31, 2022 was higher than for the same period in 2021 primarily due to an increase in revenues and a new tax exposure related to uncertain tax positions recorded in 2022 with no corresponding tax exposure booked for the same period in 2021, partially offset by a deferred tax benefit recognized in one of the Company's subsidiaries.

Liquidity and Capital Resources

Sources and uses of liquidity

We had $214.4 million and $232.3 million in cash and cash equivalents as of March 31, 2022 and December 31, 2021, 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.

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, 2022, we had restricted cash of $6.1 million and $15.9 million in other current assets and other long-term assets, respectively. As of December 31, 2021, we had restricted cash of $2.8 million and $18.1 million in other current assets and other long-term assets, respectively.

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 or seek to raise funds through equity offerings. 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

As of March 31, 2022, we have adequate cash reserves, and we are continuously managing our cash flows and cash forecasts. As a result, 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.

Discussion of Cash flows

Certain information regarding our cash flows is as follows (in thousands):

	Three months ended March 31	
	2022	2021
Net cash (used in) / provided by operating activities	$ (9,142)	$ 12,253
Net cash (used in) / provided by investing activities	(7,692)	48,554
Net cash provided by financing activities	—	161,587
Net (decrease) / increase in cash and cash equivalents	$ (16,834)	$ 222,394

Net cash (used in) / provided by operating activities

Net cash used in operating activities totaled $9.1 million during the three months ended March 31, 2022 compared to cash provided of $12.3 million during the three months ended March 31, 2021. The decrease of $21.4 million in cash from operations was primarily due to an increase in usage of cash for working capital when compared to the prior year period.

During the three months ended March 31, 2022 and 2021, we made cash payments of $37.1 million and $41.4 million, respectively, in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $6.8 million and $2.8 million in income taxes included in other operating assets and liabilities, net during the three months ended March 31, 2022 and 2021, respectively.

Net cash (used in) / provided by investing activities

Net cash used in investing activities totaled $7.7 million during the three months ended March 31, 2022 compared to cash provided of $48.6 million during the three months ended March 31, 2021.

The net proceeds from disposal of assets totaled $0.3 million and $62.1 million during the three months ended March 31, 2022 and 2021, respectively. The $61.8 million decrease was primarily related to the receipt of the remaining proceeds for the sale of the Shelf Drilling Journey in 2021. Cash used for capital expenditures totaled $8.0 million and $14.1 million during the three months ended March 31, 2022 and 2021, respectively.

Net cash provided by financing activities

Net cash provided by financing activities was zero in the three months ended March 31, 2022 compared to cash provided of $161.6 million during the three months ended March 31, 2021.

The decrease in cash from financing activities was primarily due to significant debt financing activities that took place in 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.

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.

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 (in thousands):

	Three months ended March 31,	
	2022	2021
Regulatory and capital maintenance [1]	$ 16,074	$ 7,589
Contract preparation [2]	6,659	3,650
Fleet spares and other [3]	186	4,179
	$ 22,919	$ 15,418
Rig acquisitions [4]	—	1,196
Total capital expenditures and deferred costs	$ 22,919	$ 16,614

(1) Includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures.

(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 expenditures.

(4) Includes capital expenditures and deferred costs associated with the acquisition and readiness projects for Shelf Drilling Enterprise acquired in January 2020.

Capital expenditures and deferred costs were $22.9 million and $16.6 million in the three months ended March 31, 2022 and 2021, respectively. The increase of $6.3 million was primarily due to $11.5 million higher regulatory, capital maintenance and contract preparation costs primarily for one rig mobilizing to India and expected to commence its contract in June 2022 and one rig in Angola which started operation in January 2022. This was partly offset by $4.0 million lower spending in fleet spares and other in 2022 and $1.2 million lower expenditures related to the operation readiness of the Shelf Drilling Enterprise in the prior period.

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, 2022 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, 2022
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	$ 150,548	$ —	$ 150,548
Other revenues	5,472	—	5,472
	156,020	—	156,020
Operating costs and expenses			
Operating and maintenance	85,481	—	85,481
Depreciation	14,415	—	14,415
Amortization of deferred costs	15,277	—	15,277
General and administrative	12,504	(566)	11,938
Gain on disposal of assets	(328)	—	(328)
	127,349	(566)	126,783
Operating income	28,671	566	29,237
Other (expense) / income, net			
Interest income	8	—	8
Interest expense and financing charges	(26,733)	—	(26,733)
Other, net	138	—	138
	(26,587)	—	(26,587)
Income before income taxes	2,084	566	2,650
Income tax expense	6,710	—	6,710
Net loss and net loss attributable to common shares	$ (4,626)	$ 566	$ (4,060)

SHELF DRILLING

Condensed Consolidated Interim Balance Sheets as of March 31, 2022
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents	$ 214,388	$ (3,503)	$ 210,885
Accounts and other receivables, net (1)	125,614	2,093	127,707
Other current assets	77,391	—	77,391
Total current assets	417,393	(1,410)	415,983
Property and equipment	1,594,233	—	1,594,233
Less: accumulated depreciation	569,468	—	569,468
Property and equipment, net	1,024,765	—	1,024,765
Deferred tax assets	4,065	—	4,065
Other long-term assets	144,504	—	144,504
Total assets	$ 1,590,727	$ (1,410)	$ 1,589,317
Liabilities and equity			
Accounts payable	$ 63,534	$ (85)	$ 63,449
Interest payable	19,881	—	19,881
Accrued income taxes	6,234	—	6,234
Other current liabilities	46,516	—	46,516
Total current liabilities	136,165	(85)	136,080
Long-term debt	1,193,822	—	1,193,822
Deferred tax liabilities	8,092	—	8,092
Other long-term liabilities	42,979	—	42,979
Total long-term liabilities	1,244,893	—	1,244,893
Commitments and contingencies	—		—
Common shares (2)	1,371	(1,371)	—
Additional paid-in capital (3)	1,006,874	(93,815)	913,059
Accumulated losses (4)	(798,576)	93,861	(704,715)
Total equity	209,669	(1,325)	208,344
Total liabilities and equity	$ 1,590,727	$ (1,410)	$ 1,589,317

(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 137,115,793 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.

SHELF DRILLING

Condensed Consolidated Interim Statements of Cash flows for the three months ended March 31, 2022
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Cash flows from operating activities			
Net loss	$ (4,626)	$ 566	$ (4,060)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	14,415	—	14,415
Provision for doubtful accounts, net	33	—	33
Amortization of deferred revenue	(9,034)	—	(9,034)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	624	(152)	472
Amortization of debt issue costs, premiums and discounts	1,293	—	1,293
Gain on disposal of assets	(328)	—	(328)
Deferred tax expense, net	(201)	—	(201)
Changes in deferred costs, net	(192)	—	(192)
Changes in operating assets and liabilities			
Intercompany receivables	—	(477)	(477)
Other operating assets and liabilities, net	(11,126)	63	(11,063)
Net cash used in operating activities	(9,142)	—	(9,142)
Cash flows from investing activities			
Additions to property and equipment	(8,032)	—	(8,032)
Proceeds from disposal of assets	340	—	340
Net cash used in investing activities	(7,692)	—	(7,692)
Cash flows from financing activities			
Net cash provided by financing activities	—	—	—
Net decrease in cash, cash equivalents and restricted cash	(16,834)	—	(16,834)
Cash, cash equivalents and restricted cash at beginning of period	253,218	(3,503)	249,715
Cash, cash equivalents and restricted cash at end of period	$ 236,384	$ (3,503)	$ 232,881

Material Cash Requirements

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of March 31, 2022 our anticipated material cash requirements consisted primarily of payments related to debt servicing and repayments, operating costs and expenses, operating lease obligations, capital expenditures and deferred costs and income taxes.

As of March 31, 2022, we had a total indebtedness of $1.2 billion which related to the 8.25% Senior Unsecured Notes and 8.875% Notes. Interest related to each of these note issuances is payable semi-annually and principal payments begin in 2024. See Note 7 – Debt in "Item 1. Financial Statements" of "Part I. Financial Information".

As of March 31, 2022, we had operating lease obligations outstanding of $14.2 million.

We routinely have material spending on capital expenditures and deferred costs to support our business and we expect this will continue. Although certain custom equipment may have long lead times, we do not typically commit to significant capital purchases in advance.

We are currently challenging a tax assessment of $19.6 million, inclusive of interest, penalties and fees, related to one of the Company's operations. We have appealed the assessment and believe it is more likely than not that we will ultimately prevail. In January 2022, we began making required monthly tax deposits calculated over a six year period related to this assessment.

The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE, Nigeria and Thailand, and which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of March 31, 2022, the Company's total surety bond facilities totaled $56.7 million, of which $45.1 million was outstanding. As of December 31, 2021, the Company's total surety bond facilities totaled $68.0 million, of which $43.6 million was outstanding.

Contingencies

As of March 31, 2022, 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 6 – Income Taxes" and "Note 9 – 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, 2021.

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 in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities and 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, 2021. See also "Note 2 – Significant Accounting Policies" in "Item 15. Exhibits" in Part II. of our Form 10-K Equivalent for the year ended December 31, 2021 for a discussion of our significant accounting policies. During the three months ended March 31, 2022, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

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 voluntary refinancing or refinancing of maturing debt with new debt occurs. We have in the past utilized interest rate swaps or other derivative instruments to manage interest rate risk.

Foreign Currency Risk

Our international operations expose us to currency exchange rate risk. This risk is primarily associated with the compensation costs of our employees and purchasing costs from suppliers in currencies other than the U.S. dollar.

Our primary currency exchange rate risk management strategy involves customer contracts that provide for partial payment in U.S. dollars and partial payment in local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term and local statutory requirements. 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. We have in the past utilized foreign currency forward exchange contracts ("forex contracts") to manage a portion of our foreign currency risk.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, which are generally maintained at commercial banks with acceptable credit ratings, and accounts and other receivables which primarily consist of trade receivables.

The market for our services is the offshore oil and natural gas industry. Our customers primarily consist of government owned or controlled energy companies, publicly listed global integrated oil companies or independent exploration and production companies. Periodic credit evaluations of the Company's customers are performed and the Company generally does not require material collateral from its customers. However, the Company may from time-to-time require its customers to make advance payment or issue a bank guarantee/letter of credit in its favor to mitigate the risk of non-payment.

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 $3.2 million as of both March 31, 2022 and December 31, 2021.

Item 4. Controls and Procedures

We are not required to report this Item.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in "Note 9 – 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, 2021.

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

Not applicable.

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.