Philly Shipyard ASA (OSE: PHLY)
Q1 2022 Results

2 May 2022

Key Events and Highlights

- ✓ Continued progress on the National Security Multi-Mission Vessel (NSMV) and Subsea Rock Installation Vessel (SRIV) new build programs
- ✓ Order backlog of USD 1,132.2 million on 31 March 2022 with last delivery in 2024
- ✓ Total cash and cash equivalents of USD 184.7 million at 31 March 2022, excluding USD 44.5 million of restricted cash
- ✓ First quarter 2022 operating revenues of USD 71.8 million, compared to USD 20.7 million in the same period in 2021
- ✓ First quarter 2022 net income of USD 3.5 million, compared to net loss of USD 5.1 million in the same period in 2021

Subsequent Events and Highlights

- ✓ Received order for fifth and final NSMV with contract value of approximately USD 300 million, bringing the total order intake for the NSMV program to greater than USD 1.5 billion

Operations

Shipbuilding

Substantially all major equipment for the engine rooms, motor rooms, and auxiliary machinery spaces has been installed on NSMV 1. Philly Shipyard plans to launch NSMV 1 and lay NSMV 2's keel in Q3 2022. Pre-production activities on NSMVs 3 and 4 are ongoing. Philly Shipyard plans to start full production of NSMV 3 in Q3 2022.

Philly Shipyard continues to advance the engineering, procurement and planning work on the Subsea Rock Installation Vessel (SRIV) project in accordance with plan.

As of 31 March 2022, Philly Shipyard's workforce consisted of 1,152 employees and subcontractors. As production on the NSMV program continues to ramp up, Philly Shipyard will further increase its workforce, including through its reinvigorated apprenticeship program.

Industry Design Studies

Philly Shipyard concluded its work on the industry design studies supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and the U.S. Navy's Cable Ship T-ARC(X) replacement program.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.29 at the end of Q1 2022 compared to 0.00 at the end of Q1 2021. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA).

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.48 at the end of Q1 2022 compared to 0.89 at the end of Q1 2021. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

COVID-19

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. As the COVID-19 pandemic evolves around the world, including the emergence of variants, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions. The number of sick days taken by Philly Shipyard's production workers has subsided in Q1 2022 following an uptick towards year-end due to the Omicron variant.

Philly Shipyard strictly follows all applicable guidelines by federal, state and local authorities, including the Centers for Disease Control and Prevention (CDC), to minimize the risk of transmission of the coronavirus in its production facility as well as in its offices. Philly Shipyard also strongly encourages all of its workers to get vaccinated for COVID-19.

The COVID-19 pandemic continues to impede PSI's efforts to ramp-up its workforce in accordance with plan. The cost and schedule impacts due to the federal contractor vaccine mandate's effects on the available workforce are ongoing even though its enforcement was suspended in mid-December 2021. While it remains too soon to quantify the full extent of these impacts, Philly Shipyard has taken mitigating actions and is seeking relief, as appropriate, under its contracts.

The COVID-19 pandemic continues to significantly disrupt the global supply chain. Many of Philly Shipyard's suppliers are facing significant inflation and delays due to raw material shortages and other supply chain issues caused by the COVID-19 pandemic. Philly Shipyard is exploring mitigating actions to minimize the potential impact on its shipbuilding projects in terms of both cost and schedule. The steel cost escalation risk is passed on to the end customer for steel plates under the NSMV contract and all structural steel under the SRIV contract.

Financial Information

First Quarter 2022 Results

Operating revenues for Q1 2022 was USD 71.8 million compared to operating revenues of USD 20.7 million for Q1 2021. In Q1 2022, there was revenue from progress on the first four NSMV vessels (NSMVs 1-4), the one SRIV vessel (SRIV 1) and government design studies, whereas in Q1 2021 there was revenue from progress on NSMVs 1-4, ship repair and maintenance (R&M) work on the USNS *Charlton* and government design studies.

EBITDA[1] and Adjusted EBITDA[2] are considered other relevant earnings indicators for Philly Shipyard as they measure the operational performance of the shipyard. Please see page 11 for further details.

EBITDA for Q1 2022 was USD 0.9 million compared to EBITDA of negative USD 4.8 million for Q1 2021. EBITDA for Q1 2022 was driven primarily by the profit recognized on NSMVs 1-4 and government design studies, partially offset by under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects) and selling, general and administrative (SG&A) costs. Negative EBITDA for Q1 2021 was driven primarily by under-recovered overhead costs and SG&A costs, partially offset by the gross profit recognized on NSMVs 1-4, the USNS *Charlton* R&M project and government design studies.

Net income after tax for Q1 2022 was USD 3.5 million compared to net loss after tax of USD 5.1 million for Q1 2021. Net income after tax for Q1 2022 primarily consists of an income tax benefit of USD 4.0 million. Net loss after tax for Q1 2021 primarily consists of EBITDA of negative USD 4.8 million and depreciation expense of USD 1.4 million, partially offset by an income tax benefit of USD 1.0 million and financial income of USD 0.1 million.

Statement of Financial Position

Total assets were USD 373.4 million at 31 March 2022 compared to USD 437.0 million at 31 December 2021, with the decrease resulting primarily from a decrease of USD 70.3 million in cash and cash equivalents (unrestricted).

Cash and cash equivalents (unrestricted) were USD 184.7 million at 31 March 2022 compared to USD 255.0 million at 31 March 2020. The decrease of USD 70.3 million was due primarily to spending on materials and services related to the NSMV and SRIV projects, corresponding to a decrease of USD 55.9 million in customer advances, net on the four NSMV vessels and the one SRIV vessel and a decrease of USD 13.4 million in trade payables, accrued liabilities and provisions.

Total restricted cash as of 31 March 2022 amounted to USD 44.5 million, of which USD 43.1 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 1-4 and a reserve account for NSMVs 1-2, and USD 1.4 million (short-term) pertains to a holdback in escrow for claims related to the second Matson vessel. It is anticipated that the cash collateral for the bonds required for NSMVs 1-4 will be released in tranches following the delivery of each NSMV and the funds deposited into the reserve account for NSMVs 1-2 will be released in tranches upon the delivery of each NSMV. The timing of the release of the

[1] EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

[2] Adjusted EBITDA is defined as EBITDA plus under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects), plus one-time startup costs.

holdback for the second Matson vessel is uncertain and continues to be delayed due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing-out the underlying claims.

Total equity increased to USD 89.0 million at 31 March 2022 from USD 85.5 million at 31 December 2021 due to net income of USD 3.5 million.

Outlook

On 31 March 2022, Philly Shipyard had an order backlog of USD 1,132.2 million. With the award of NSMV 5 on 15 April 2022, Philly Shipyard now has six vessels, consisting of five NSMVs and one SRIV, in its order book. The SRIV will be constructed in between NSMVs 4 and 5. Great Lakes retains a right of first refusal for a second SRIV to follow NSMV 5.

Over the past several years, Philly Shipyard has pivoted toward a more diversified order backlog to maintain continuous shipbuilding activity and grow the Company’s profitability. Philly Shipyard continues to pursue prospects in the government and commercial new build markets and is presently targeting shipbuilding programs with building slots following NSMV 5.

In the government sector, Philly Shipyard remains focused on opportunities for commercial-like and auxiliary ships. In the commercial sector, Philly Shipyard is exploring a variety of opportunities for Jones Act ships.

Philly Shipyard continues to seek opportunities to replicate the NSMV contract model for other government shipbuilding programs. This approach enables Philly Shipyard to apply commercial best practices for design and construction to government vessels. Additionally, Philly Shipyard continues to promote variants based on existing ship designs as potential cost-effective solutions for both government and commercial customers.

Philly Shipyard recently concluded industry design studies for two government shipbuilding programs. Participating in the design phase is key if Philly Shipyard chooses to compete for the detail design and construction (DD&C) contract when requests for proposals (RFPs) are issued.

Philly Shipyard’s objective remains to secure a mix of government and commercial new build contracts, while also opportunistically pursuing ship repair and maintenance contracts and steel fabrication jobs that enable it to take advantage of periodic excess capacity in its drydocks and fabrication shops. A substantial capital investment would be required in order for the Company to dedicate a drydock full-time for future ship maintenance, repair, overhaul and conversion projects or significantly increase throughput.

Philly Shipyard expects to continue to improve profitability in 2022 compared to 2021 as it continues to ramp up production for the NSMV program. Despite the headwinds created by the COVID-19 pandemic, it is expected that operations at Philly Shipyard will reach full capacity in mid-2022.

Risks

Market risks

Philly Shipyard’s revenue is derived primarily from contracts awarded on a project-by-project basis. It is difficult to predict whether or when Philly Shipyard will be awarded a new contract due to, among other things, changes in existing or forecast market or political conditions, uncertainty regarding the timing and amount of budget appropriations, the complex bidding and selection processes, potential for contract award protests and challenges, and governmental regulations.

While Philly Shipyard now has an order backlog for ship new builds into 2026, it faces future risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs to follow its existing backlog.

Operational risks

Philly Shipyard faces risks related to construction of vessels. Philly Shipyard’s ability to meet budgets and schedules may be adversely affected by many factors, including changes in productivity, shortages of materials, equipment and labor, and changes in the cost of goods and services, both Philly Shipyard’s own and those charged by its suppliers. Philly Shipyard’s operations also depend on stable supplier networks and the availability of key vendors for design and procurement services. Philly Shipyard has fixed-price subcontracts for the detailed design for the NSMV and SRIV programs. Philly Shipyard has fixed-price subcontracts for the major equipment for the NSMV program and intends to secure fixed-price subcontracts for the major equipment for the SRIV program.

As is common in the shipbuilding industry, Philly Shipyard's projects are typically performed on a fixed-price basis. Under fixed-price contracts, Philly Shipyard receives the price fixed in the contract, subject to adjustment only for change-orders. In many cases, these vessels involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management. Management uses its best efforts to accurately estimate the costs to complete Philly Shipyard's project awards; however, Philly Shipyard's actual costs incurred to complete these projects could exceed its estimates. The NSMV and SRIV contracts are fixed-price contracts.

The federal COVID-19 vaccine mandates could materially adversely impact the Company's ability to attract and retain skilled workers at forecasted rates. Philly Shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers at forecasted rates. Until operations ramp-up to full capacity for the NSMV program, Philly Shipyard will not fully cover its overhead costs.

Given the NSMV and SRIV are prototype vessels, there is a higher technical design risk and a higher project execution risk compared to the construction of vessels based on a proven design, such as the series of product tankers built by Philly Shipyard. This prototype risk increases the current construction cost estimation uncertainty and the likelihood of occurrence of contract contingencies. In particular, failure to meet Philly Shipyard's performance obligations to deliver vessels on time and within the contract specifications can potentially lead to penalties and ultimately contract termination. The NSMV and SRIV contracts impose liquidated damages for late delivery.

The Company faces risk of significant financial, business and intelligence loss if there are cyber security breaches. Philly Shipyard has invested significant resources to provide a more secure computing environment over the last several years, resulting in improved security and business resiliency. Philly Shipyard maintains a continued high awareness of its risk profile regarding cyber security because new threats can emerge quickly.

Entry into, or further development of, lines of business in which the Company has not historically operated may expose Philly Shipyard to business and operational risks that are different from those it has experienced historically. For example, U.S. Government projects generally are subject to suspension, termination or a reduction in scope at the option of the customer, although the customer is typically required to pay for work performed and materials purchased through the date of termination. The NSMV contract has a termination for convenience clause at the option of the U.S. Government.

Financial risks

Philly Shipyard is dependent upon having access to construction financing facilities and other loans and debt facilities to the extent its own cash flow from operations and milestone payments from customers are insufficient to fund its operations and capital expenditures. In turn, Philly Shipyard must secure and maintain sufficient equity capital to support debt facilities. Additionally, Philly Shipyard may be required to obtain bonding capacity in case there is need for payment or performance bonds, or to furnish letters of credit, refund guarantees or other forms of security, to support major commercial or government shipbuilding programs. Philly Shipyard may not be able to obtain sufficient debt facilities or bonding capacity or furnish sufficient security if and when needed with favorable terms, if at all. No third-party financing is needed for the NSMV program or the SRIV program, and Philly Shipyard has furnished the bonds required to support NSMVs 1-4 and the security to support SRIV 1.

The Company is exposed to changes in prices of steel and other materials and duties, tariffs and other taxes imposed on goods imported from foreign (non-U.S.) countries. PSI attempts to mitigate its exposure with respect to steel and other material cost escalation and increased taxes on imported goods by attempting to pass these risks on to its end customers. The NSMV and SRIV contracts include price adjustment clauses for steel plates and all structural steel, respectively.

The Company is subject to exchange rate risk for purchases made in currencies other than the U.S. dollar. In order to mitigate exposure to this risk, Philly Shipyard will look to pass this risk on to its end customers or suppliers or secure foreign exchange forward contracts for its known requirements for foreign currency. Philly Shipyard has fixed-price subcontracts in U.S. dollars for the detailed design and major equipment for the NSMV program. Philly Shipyard has a fixed-price subcontract in U.S. dollars for the detailed design for the SRIV program. The SRIV contract includes an exchange rate adjustment clause for material and equipment purchases made in certain foreign currencies.

COVID-19 and other risks

The ongoing COVID-19 pandemic inherently increases many of the aforementioned risk factors. Markets become more uncertain, operations become more vulnerable to interruptions and policy makers around the world may gravitate towards stricter regulations impacting international trade.

The world continues to face new and emerging COVID-19 related risks. These risks include risks to human capital resources arising from vaccine mandates; supply chain constraints; labor and raw materials shortages; and inflation. These risks have caused, and could continue to cause, delays and increased costs with respect to the Company's shipbuilding projects.

The Russia-Ukraine military conflict, as well as the economic sanctions targeting Russia, could exacerbate the inflationary environment and supply-chain disruptions resulting from the COVID-19 pandemic. These conditions may further increase the risk of rising commodity prices, material shortages and transportation delays that could adversely impact Philly Shipyard's business.

For a further analysis of risks, please refer to the Company's 2021 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Note	Q1 Unaudited 2022	Q1 Unaudited 2021	Full Year Audited 2021 *
Operating revenues	11	71.8	20.7	214.1
Operating expenses		(70.9)	(25.5)	(221.1)
Operating income/(loss) before depreciation - EBITDA		**0.9**	**(4.8)**	**(7.0)**
Depreciation		(1.4)	(1.4)	(5.4)
Operating loss - EBIT		**(0.5)**	**(6.2)**	**(12.4)**
Net financial items		-	0.1	0.2
Loss before tax		**(0.5)**	**(6.1)**	**(12.2)**
Tax benefit	6	4.0	1.0	4.9
Income/(loss) after tax **		**3.5**	**(5.1)**	**(7.3)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted income/(loss) per share (USD)	7	**0.29**	**(0.43)**	**(0.61)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2022	Q1 Unaudited 2021	Full Year Audited 2021 *
Income/(loss) after tax	3.5	(5.1)	(7.3)
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income/(loss) for the period **	**3.5**	**(5.1)**	**(7.3)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 31 Mar. 2022	31 Dec. 2021 *
Assets			
Non-current assets			
Property, plant and equipment		37.8	36.0
Right-of-use assets		12.7	12.8
Restricted cash		43.1	43.1
Deferred tax asset long-term	6	21.0	13.1
Income tax receivable long-term	6	0.1	0.1
Other non-current assets		0.4	0.4
Total non-current assets		**115.1**	**105.5**
Current assets			
Cash and cash equivalents (unrestricted)		184.7	255.0
Prepayments and other receivables		58.6	61.2
Restricted cash		1.4	1.4
Income tax receivable short-term	6	13.6	13.6
Contract assets		-	0.3
Total current assets		**258.3**	**331.5**
Total assets		**373.4**	**437.0**
Equity and liabilities			
Total equity	7	**89.0**	**85.5**
Non-current liabilities			
Lease liability long-term		1.5	1.6
Income tax payable long-term	6	1.2	1.2
Other non-current liabilities		0.2	-
Total non-current liabilities		**2.9**	**2.8**
Current liabilities			
Customer advances, net	10	240.5	296.4
Trade payables, accrued liabilities and provisions		38.4	51.8
Lease liability short-term		0.3	0.3
Income tax payable short-term	6	2.3	0.2
Total current liabilities		**281.5**	**348.7**
Total liabilities		**284.4**	**351.5**
Total equity and liabilities		**373.4**	**437.0**

* Annual 2021 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	3 months ended 31 Mar. Unaudited 2022	2021 *
As of beginning of period	85.5	92.8
Total comprehensive income/(loss) for the period *	3.5	(5.1)
As of end of period	**89.0**	**87.7**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Note	3 months ended 31 Mar. Unaudited 2022	2021 *
Loss before tax		(0.5)	(6.1)
Add back depreciation		1.4	1.4
Taxes (paid)/refunded	6	(2.0)	0.1
Change in restricted cash		-	(8.0)
Change in prepayments and other receivables		2.6	(18.8)
Change in customer advances, net	10	(55.9)	148.1
Change in trade payables, accrued liabilities and provisions		(13.4)	4.5
Change in other working capital		0.6	0.1
Net cash (used in)/from operating activities		(67.2)	121.3
Investment in property, plant and equipment		(3.0)	(2.1)
Net cash used in investing activities		(3.0)	(2.1)
Repayment of lease liability		(0.1)	(0.1)
Net cash used in financing activities		(0.1)	(0.1)
Net change in cash and cash equivalents		**(70.3)**	**119.1**
Cash and cash equivalents at beginning of period		255.0	97.4
Cash and cash equivalents at end of period		**184.7**	**216.5**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the first quarter 2022

1. **Introduction – Philly Shipyard ASA**
   Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the three-month periods ended 31 March 2022 and 31 March 2021 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries (collectively referred to herein as the Group), including Philly Shipyard, Inc. (PSI).

   This interim report has not been subject to audit or review by independent auditors.

   The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2021, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. **Basis of preparation**
   These condensed interim consolidated financial statements reflect all adjustments, in the opinion of PHLY's management, that are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the three-month period are not necessarily indicative of the results that may be expected for any subsequent quarter or period.

   The going concern assumption
   These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the normal course of business.

   The world is continuing to be impacted by the COVID-19 pandemic, and how it will continue to unfold is uncertain. Philly Shipyard is continuing to take measures to mitigate substantial negative impact for the Company. However, in a worst-case scenario, the COVID-19 pandemic may have devastating effects for the world economy, including Philly Shipyard.

3. **Statement of compliance**
   These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2021.

4. **Significant accounting principles**
   The accounting policies applied by PHLY in these condensed interim consolidated financial statements are substantially the same as those applied by PHLY in its audited consolidated financial statements as of and for the year ended 31 December 2021.

   There have not been any new IFRS standards or interpretations which were effective 1 January 2022 that have had a significant impact for the year-to-date period ending 31 March 2022.

5. **Use of estimates**
   The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

   The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2021 unless described elsewhere in this report.

6. **Tax estimates**
   Income tax (expense)/benefit is recognized in each interim period based on the best estimate of the expected annual income tax rates. The Q1 2022 deferred tax benefit of USD 4.0 million was primarily driven by temporary differences regarding stranded overhead and the newly enacted research and development (R&D) expense capitalization rules.

Beginning in 2022, R&D expenses must be capitalized and amortized over 60 months, as required by the 2017 Tax Cuts and Jobs Act. The Company expects that the R&D costs incurred in 2022 and beyond could impact the amount of cash taxes owed in the near term. The Company is monitoring the legislative activity to defer the implementation of the capitalization provision within the U.S. tax law with retroactive effect.

Enacted by the U.S. Congress on 27 March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows for the carryback of net operating losses (NOL) arising in taxable years beginning after 31 December 2017, and before 1 January 2021, to the five taxable years preceding the loss year. This rule allows corporate taxpayers the opportunity to carry back NOLs to tax years as far back as 2013. As the Company had qualifying taxable losses in 2018, 2019 and 2020, these losses were carried back to previous tax years and resulted in an income tax receivable of USD 22.1 million at 31 December 2020.

The 2018 and 2019 refund claims are currently under examination by the Internal Revenue Service (IRS). The 2018 refund of USD 6.5 million has been received and, due to the backlog at the IRS, the 2019 and 2020 refunds are both expected in the fourth quarter of 2022.

7. Share capital and equity

At 31 March 2022 and 31 March 2021, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for the quarters ended 31 March 2022 and 31 March 2021. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters ended 31 March 2022 and 31 March 2021.

8. Interest-bearing debt

At 31 March 2022 and 31 March 2021, Philly Shipyard had no external debt.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 March 2022. Kristian Røkke, the Chairman of the Board of Directors of PHLY, is a board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 March 2022. TRG Holding AS is controlled by Kjell Inge Røkke through The Resource Group TRG AS.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial, insurance and administrative services. All payables under these agreements are paid within the normal course of business. Philly Shipyard believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

Related costs and financial statement amounts for the three-month period ending 31 March 2022 were USD 170 thousand (USD 30 thousand for the same period in 2021).

On 4 March 2022, PSI obtained a USD 25.0 million standby letter of credit from a bank. The standby letter of credit is secured by a first priority lien in the shares and material assets of PSI, subject to certain exclusions, has normal and customary fees, and accrues interest quarterly in arrears at 4.0% per annum. Aker Capital AS holds 50% of the commitment. As of 31 March 2022, Philly Shipyard has paid upfront fees of USD 250 thousand to Aker Capital AS.

10. Construction contracts

The order backlog of USD 1,132.2 million at 31 March 2022 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 1-4 and SRIV 1) that have not yet been produced for the Company's customers - TOTE Services and Great Lakes, respectively. Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. The order intake of negative USD 0.3 million at 31 March 2022 represents change orders on NSMVs 1-4. Order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD millions	Order backlog 31 Mar. 2022	Order intake 3 months to 31 Mar. 2022	Order backlog 31 Dec. 2021
	1,132.2	(0.3)	1,203.2

The recognized profit on long-term construction contracts in process (NSMVs 1-2, NSMVs 3-4 and SRIV 1) as of 31 March 2022 is as follows:

Amounts in USD millions	**31 Mar. 2022**
Construction contract revenue recognized to date	289.1
Less: construction contract expenses recognized to date	(275.9)
Recognized profit to date (NSMVs 1-4 and SRIV 1)	**13.2**
Construction contract costs incurred to date (NSMVs 1-4 and SRIV 1)	**275.9**

As of 31 March 2022, the Company has USD 55.2 million as prepayments to suppliers for materials and equipment for the construction of NSMVs 1-4 and SRIV 1, included in prepayments and other receivables on the statement of financial position.

Typical variable consideration elements identified in the Company's contracts with customers include liquidated damages, performance guarantees and warranties.

As of 31 March 2022, Philly Shipyard has two separate awards under one shipbuilding contract in place for the NSMV program. NSMVs 1-2 were awarded at contract signing in April 2020. NSMVs 3-4 were awarded upon the exercise of an option in January 2021. Therefore, the two awards are treated as two separate performance obligations that are being accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers*. PSI is building four NSMVs (NSMVs 1-4) for TOTE Services, with the first two vessels (NSMVs 1-2) scheduled for delivery in 2023 and the last two vessels (NSMVs 3-4) scheduled for delivery in 2024. As of 31 March 2022, the NSMV projects for NSMVs 1-2 and NSMVs 3-4 are 44.0% and 1.3% complete, respectively.

Philly Shipyard also has one additional shipbuilding contract in place for the Subsea Rock Installation Vessel (SRIV) program, which was awarded in November 2021. PSI is building one SRIV (SRIV 1) for Great Lakes Dredge & Dock Company, LLC, scheduled for delivery in 2024. As of 31 March 2022, SRIV 1 is 0.9% complete.

Customer advances, net as of 31 March 2022 and 31 December 2021 totaled USD 240.5 million and USD 296.4 million, respectively. Customer advances, net represents the difference between (i) cash advances received from customers and (ii) revenue recognized for NSMVs 1-4 and SRIV 1.

As of 31 March 2022, Philly Shipyard has USD 310.3 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for the construction of NSMVs 1-4 and SRIV 1.

11. Operating revenues

	Q1	
Amounts in USD millions	**2022**	**2021**
Shipbuilding	70.7	19.7
Government design studies	1.1	0.6
Ship repair and maintenance	-	0.4
Operating revenues	**71.8**	**20.7**

12. Financial instruments

As of 31 March 2022, the Company has no forward exchange contracts or other financial instruments.

13. Commitments and contingencies

Pursuant to the shipyard lease between PSI and Philadelphia Shipyard Development Corporation (PSDC), if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 75 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. PSI was in compliance with this lease condition as of 31 March 2022.

14. Subsequent events after 31 March 2022

On 15 April 2022, Philly Shipyard received an order for the construction of the fifth and final NSMV in the training ship series. The award is valued at approximately USD 300 million, bringing the total order intake under the contract for the five-ship program to approximately USD 1.5 billion. Construction of the new vessel (NSMV 5) is expected to commence in 2023. The contractual delivery date for NSMV 5 is set in 2026.

Alternative Performance Measures

	Q1	
	Unaudited	
Amounts in USD millions	**2022**	**2021**
EBITDA	0.9	(4.8)
Plus: under-recovered overhead costs	1.1	4.9
Plus: one-time startup costs	-	0.4
Adjusted EBITDA	**2.0**	**0.5**

Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with GAAP (i.e. IFRS).

The following financial measure may be considered a non-GAAP financial measure:

Adjusted EBITDA, which is defined as EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) plus under-recovered overhead costs, plus one-time startup costs.

The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations as if it had not had a shipbuilding stoppage and was allocating all overhead costs to projects as if the yard was operating at full capacity. Under-recovered overhead costs are overhead costs incurred and not allocated to projects. Overhead costs are costs not directly attributable to individual projects and exclude SG&A costs. One-time startup costs are costs related to the ramp-up of operations at the shipyard, consisting primarily of workforce training as the shipyard returns to operating at or near full capacity.

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