

PRESS RELEASE
SHELF DRILLING
REPORTS THIRD QUARTER 2023 RESULTS

Dubai, UAE, November 9, 2023 – Shelf Drilling, Ltd. (“Shelf Drilling” and, together with its subsidiaries, the “Company”, OSE: SHLF) announces results for the third quarter of 2023 ending September 30. The results highlights will be presented by audio conference call on November 9, 2023 at 6:00 pm Dubai time / 3:00 pm Oslo time. Dial-in details for the call are included in the press release posted on November 1, 2023 and on page 3 of this release.

David Mullen, Chief Executive Officer, commented: *“We continued to deliver strong performance across all facets of the business over the past quarter. With the benefit of new contract commencements and improving dayrates, our EBITDA improved to \$115 million in the third quarter of 2023, and we remain on track to deliver financial results for 2023 within the guidance range communicated at the beginning of this year.”*

Mullen added: *“In October 2023, we successfully concluded a major refinancing transaction, which will enhance our balance sheet and liquidity position, as well as provide additional flexibility to capitalize on the strong tailwinds in the global jack-up market. The outlook for our industry remains very constructive with the backdrop of robust oil and gas prices and shortage of rig capacity. As of September 30, 2023, our backlog was \$2.5 billion across 34 contracted rigs. We remain focused on delivering best-in-class operations to our customers and generating significant free cash flow into 2024 and beyond. We are very well positioned to create long-term value for all our stakeholders.”*

Third Quarter Highlights

- Q3 2023 adjusted revenues of \$264.2 million, a 25% sequential increase compared to Q2 2023, including \$32.1 million adjusted revenues from Shelf Drilling (North Sea), Ltd. (“SDNS”).
- Q3 2023 adjusted EBITDA of \$114.8 million, representing an adjusted EBITDA margin of 43%, including \$1.4 million adjusted EBITDA from SDNS.
- Q3 2023 net income attributable to controlling interest of \$40.9 million.
- Q3 2023 capital expenditures and deferred costs totaled \$34.8 million, including \$3.2 million at SDNS.
- The Company’s cash and cash equivalents balance at September 30, 2023 was \$144.7 million, including \$46.6 million at SDNS. Cash and cash equivalents, excluding SDNS, increased from \$89.0 million at June 30, 2023 to \$98.1 million at September 30, 2023.
- Contract backlog of \$2.5 billion at September 30, 2023 across 34 contracted rigs with weighted average dayrate of \$83.1 thousand.
- In October 2023, the Adriatic I and the Shelf Drilling Mentor commenced new contracts for operations offshore Nigeria for 16 months and 8 months, respectively. These rigs are now under contract until February 2025 and June 2024, respectively. In addition, the Baltic completed its contract in late September 2023 and is being marketed for multiple contract opportunities.
- In October 2023, Shelf Drilling successfully completed transactions for the refinancing of debt maturing in late 2024 and early 2025.
- Financial guidance for full year 2023 maintained; details are included on page 14 of the Q3 2023 results highlights presentation on our website.

Third Quarter Results

Adjusted revenues were \$264.2 million in Q3 2023 compared to \$211.0 million in Q2 2023. The \$53.2 million (25%) sequential increase in revenues was primarily due to higher effective utilization across the fleet, as seven more rigs were operating for the full quarter of Q3 2023, and higher average dayrates.

Effective utilization increased to 90% in Q3 2023 from 82% in Q2 2023, as two rigs commenced new contracts in Italy and UK in Q3 2023, and six rigs started operations in mid to late Q2 2023 in India, Saudi Arabia and West Africa. Average earned dayrate increased to \$81.5 thousand in Q3 2023 from \$74.6 thousand in Q2 2023 mainly due to five rigs in Italy, UK and Nigeria, starting new contracts or extensions.

Total operating and maintenance expenses increased by \$9.0 million (8%) in Q3 2023 to \$128.9 million compared to \$119.9 million in Q2 2023. The sequential increase was primarily due to higher operating costs for one rig in Saudi Arabia and one rig in West Africa that commenced operations in April 2023 and June 2023, respectively, higher shipyard expenses for planned out of service for one rig in India ahead of a long-term contract expected to start in March 2024 and higher demobilization costs for one rig in Nigeria that completed its contract in September 2023. This was partially offset by lower shipyard expenses mainly for one rig in Italy and one rig in India that commenced operations in August 2023 and May 2023, respectively.

General and administrative expenses increased by \$5.2 million in Q3 2023 to \$20.2 million as compared to \$15.0 million in Q2 2023. The sequential increase was primarily due to \$5.7 million of provision for credit losses recorded in the current period.

Adjusted EBITDA for Q3 2023 was \$114.8 million compared to \$72.7 million for Q2 2023. The adjusted EBITDA margin of 43% for Q3 2023 increased from 34% in Q2 2023. The significant increase in Adjusted EBITDA resulted from increased revenues due to higher effective utilization and dayrates, partially offset by increased costs as described above.

Capital expenditures and deferred costs of \$34.8 million in Q3 2023 decreased by \$26.1 million from \$60.9 million in Q2 2023. This decrease was primarily related to lower spending for three rigs in West Africa, one rig in Italy and two rigs in Saudi Arabia that commenced operations in Q2 2023 and Q3 2023. This was partially offset by increased spending on fleet spares.

Q3 2023 ending cash and cash equivalents balance of \$144.7 million was relatively unchanged as compared to \$141.9 million at the end of Q2 2023. The Q3 2023 ending cash and cash equivalents balance for SDNS was \$46.6 million, leaving \$98.1 million of cash and cash equivalents for SDL excluding SDNS. Strong EBITDA generation in Q3 2023 more than offset an increase in working capital during the quarter.

The Form 10-Q Equivalent, which includes the Condensed Consolidated Interim Financial Statements, and a corresponding slide presentation to address the results highlights for Q3 2023 are available on the Company's website.

For further queries, please contact:

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Dial in Details for the Audio Conference call

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

Online Registration: <https://register.vevent.com/register/B1f49dcd5566c04b57a569db65c19b5aec>

Participants must register for the call using online registration. Upon registering, each participant will be provided with call details.

About Shelf Drilling

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

Special Note Regarding Forward-Looking Statements

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

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

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

Financial Report for the Period Ended September 30, 2023

	Three months ended		Nine months ended		Twelve months ended
	September 30, 2023	June 30, 2023	September 30, 2023	September 30, 2022	September 30, 2023
Operating revenues – dayrate	\$ 235.2	\$ 193.2	\$ 589.4	\$ 420.9	\$ 766.9
Operating revenues – others	10.7	4.2	18.4	37.5	37.0
Other revenues	18.3	13.6	47.2	14.6	65.7
Adjusted revenues⁽¹⁾	\$ 264.2	\$ 211.0	\$ 655.0	\$ 473.0	\$ 869.6
Amortization of intangible liability ⁽²⁾	4.2	3.2	11.0	—	18.6
Revenues⁽³⁾	\$ 268.4	\$ 214.2	\$ 666.0	\$ 473.0	\$ 888.2
Rig operating expenses	\$ 117.0	\$ 107.6	\$ 341.4	\$ 236.5	\$ 451.4
Shore-based expenses	11.9	12.3	36.6	26.9	48.9
Operating and maintenance expenses⁽⁴⁾	\$ 128.9	\$ 119.9	\$ 378.0	\$ 263.4	\$ 500.3
Corporate G&A ⁽⁵⁾	\$ 13.9	\$ 14.2	\$ 42.5	\$ 36.1	\$ 58.0
Provision for / (Reversal of provision for) credit losses, net	5.7	(0.1)	5.3	0.2	5.8
Share-based compensation expense, net of forfeitures ⁽⁶⁾	0.6	0.6	1.8	1.9	2.5
One-time corporate transaction costs ⁽⁷⁾	—	0.3	1.1	1.5	1.9
General & administrative expenses	\$ 20.2	\$ 15.0	\$ 50.7	\$ 39.7	\$ 68.2
Other, net (expense) / income ⁽⁸⁾	(0.3)	(3.7)	(3.9)	1.6	(3.9)
EBITDA⁽⁹⁾	\$ 114.8	\$ 72.4	\$ 222.4	\$ 171.5	\$ 297.2
One-time corporate transaction costs ⁽⁷⁾	—	0.3	1.1	1.5	1.9
Adjusted EBITDA⁽⁹⁾	\$ 114.8	\$ 72.7	\$ 223.5	\$ 173.0	\$ 299.1
Adjusted EBITDA margin⁽⁹⁾	43%	34%	34%	37%	34%
Operating Data:					
Average marketable rigs ⁽¹⁰⁾	35.0	34.7	34.6	30.0	34.4
Average dayrate (in thousands) ⁽¹¹⁾	\$ 81.5	\$ 74.6	\$ 75.7	\$ 62.1	\$ 73.1
Effective utilization ⁽¹²⁾	90%	82%	82%	83%	83%
Capital expenditures and deferred costs:					
Regulatory and capital maintenance ⁽¹³⁾	\$ 13.9	\$ 21.3	\$ 62.4	\$ 46.0	\$ 82.5
Contract preparation ⁽¹⁴⁾	11.1	32.0	69.9	25.1	77.5
Marketable rigs	\$ 25.0	\$ 53.3	\$ 132.3	\$ 71.1	\$ 160.0
Fleet spares, transition costs and others ⁽¹⁵⁾	8.6	3.7	17.9	10.0	19.9
Sub-Total (excluding acquisitions)	\$ 33.6	\$ 57.0	\$ 150.2	\$ 81.1	\$ 179.9
Rig acquisitions ⁽¹⁶⁾	1.2	3.9	28.0	34.8	469.6
Capital expenditures and deferred costs	\$ 34.8	\$ 60.9	\$ 178.2	\$ 115.9	\$ 649.5
The following table reconciles the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs:					
Cash payments for additions to property and equipment	\$ 20.4	\$ 45.8	\$ 85.6	\$ 61.7	\$ 477.6
Non-cash increase to fair value of rigs in the acquisition	—	—	—	—	42.7
Net change in advances and accrued but unpaid additions to property and equipment	(6.7)	(26.3)	(8.8)	(1.0)	7.4
Capital expenditures	\$ 13.7	\$ 19.5	\$ 76.8	\$ 60.7	\$ 527.7
Changes in deferred costs, net	\$ 2.8	\$ 28.1	\$ 57.8	\$ 8.3	\$ 60.8
Add: Amortization of deferred costs	18.3	13.3	43.6	46.9	61.0
Deferred costs	\$ 21.1	\$ 41.4	\$ 101.4	\$ 55.2	\$ 121.8
Capital expenditures and deferred costs	\$ 34.8	\$ 60.9	\$ 178.2	\$ 115.9	\$ 649.5

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

GAAP and Non-GAAP Financial Measures

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

- (1) “Adjusted Revenues” as used herein is defined as revenues less the amortization of intangible liability. Adjusted revenues provide investors with a financial measure used in our industry to better evaluate our results without regard to non-cash amortization of intangible liability.
- (2) “Amortization of intangible liability” is defined as the amortization of the intangible liability related to existing drilling contracts for future contract drilling services in connection with the acquisition of five jack-up rigs from Noble. The terms of these contracts included fixed dayrates that were below the market dayrates that were estimated to be available for similar contracts as of the date of the acquisition of five jack-up rigs from Noble. This amortization is recorded in the operating revenues line item in the consolidated statements of operations.
- (3) “Revenues” includes all revenues earned over the period including: (a) integrated drilling service contract dayrates, (b) other operating revenues such as mobilization and contract preparation fees amortized over the firm contract term, demobilization, contract termination fees, contractual operational incentive bonus and revenue provisions and (c) others which mainly include recharge revenue for client requested services and materials and (d) amortization of intangible liability.
- (4) “Operating and maintenance expenses” consist of Rig “Personnel expenses”, “Maintenance expenses”, “Other operating expenses” and shore-based offices expenses. “Personnel expenses” include compensation, transportation, training and catering costs for rig crews. Such expenses vary from country to country reflecting the combination of expatriates and nationals, local market rates, unionized trade arrangements, local law requirements regarding social security, payroll charges and end of service benefit payments. “Maintenance expenses” relate to maintaining our rigs in operation, including the associated freight and customs duties, which are not capitalized nor deferred. Such expenses do not directly extend the rig life or increase the functionality of the rig. “Other operating expenses” include all remaining operating expenses such as insurance, professional services, equipment rental and other miscellaneous costs.
- (5) “Corporate G&A” as used herein includes general & administrative expenses, excluding the (reversal of provision for) / provision for credit losses, net, share-based compensation expense and certain one-time expenses related to cost saving and restructuring measures, third-party professional services and certain costs related to acquisitions.
- (6) “Share-based compensation expense, net of forfeitures” is recognized as general and administrative expense in the consolidated statements of operations under GAAP.
- (7) “One-time corporate transaction costs” represents certain one-time expenses related to cost saving and restructuring measures, third-party professional services and certain costs related to acquisitions.
- (8) “Other, net (income) expense” as used herein is composed primarily of currency exchange loss / (gain), tax indemnities and certain vendor discounts.
- (9) “EBITDA” as used herein represents revenue less: operating and maintenance expenses, Corporate G&A, (reversal of) / provision for credit losses, share-based compensation expense, net of forfeitures and other, net, and excludes amortization of intangible liability, interest expense and financing charges, interest income, income taxes, depreciation, amortization, loss on impairment of assets and (gain) / loss on disposal of assets. “Adjusted EBITDA” as used herein represents EBITDA as adjusted for the exclusion of amortization of acquired rig reactivation costs and one-time corporate transaction costs. “Adjusted EBITDA margin” as used herein represents Adjusted EBITDA divided by adjusted revenues. These terms, as we define them, may not be comparable to similarly titled measures employed by other companies and are not a measure of performance calculated in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or other income or cash flow statement data prepared in accordance with GAAP.
We believe that Adjusted Revenues, EBITDA and Adjusted EBITDA are useful because they are widely used by investors in our industry to measure a company’s operating performance without regard to items such as interest expense and financing charges, interest income, income tax expense (benefit), depreciation, amortization and non-recurring expenses (benefits), which can vary substantially from company to company. EBITDA and Adjusted EBITDA have significant limitations, such as not reflecting our cash requirements for capital expenditures and deferred costs, contractual commitments, working capital, taxes or debt service.
Our management uses Adjusted Revenues, EBITDA and Adjusted EBITDA for the reasons stated above. In addition, our management uses Adjusted EBITDA in presentations to our Board of Directors to provide a consistent basis to measure operating performance of management; as a measure for planning and forecasting overall expectations; for evaluation of actual results against such expectations; and in communications with equity holders, lenders, note holders, rating agencies and others concerning our financial performance.
- (10) “Marketable rigs” are defined as the total number of rigs that are operating or are available to operate, but excluding stacked rigs and rigs under contract for activities other than drilling or plug and abandonment services, as applicable.
- (11) “Average dayrate” is defined as 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.
- (12) “Effective utilization” is defined as the actual number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenues.
- (13) “Regulatory and capital maintenance” includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures.
- (14) “Contract preparation” includes specific upgrade, mobilization and preparation costs associated with a customer contract.
- (15) “Fleet Spares, transition costs and others” 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, (ii) costs related to recently acquired rigs and (ii) office and infrastructure expenditures.
- (16) “Rig acquisitions” primarily includes capital expenditures and deferred costs associated with the acquisition of five jack-up rigs from Noble and the Shelf Drilling Victory acquisition and readiness projects.