SHELF DRILLING, LTD.

Form 10-Q Equivalent for the
nine months ended September 30, 2023 and 2022

TABLE OF CONTENTS

SHELF DRILLING, LTD.
NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SHELF DRILLING

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues				
Operating revenues	$ 250.1	$ 161.7	$ 618.8	$ 458.4
Other revenues	18.3	4.6	47.2	14.6
	268.4	166.3	666.0	473.0
Operating costs and expenses				
Operating and maintenance	128.9	88.9	378.0	263.4
Depreciation	21.7	14.6	61.5	43.5
Amortization of deferred costs	18.3	17.9	43.6	46.9
General and administrative	20.2	12.9	50.7	39.7
Loss on disposal of assets	0.5	2.9	0.3	2.8
	189.6	137.2	534.1	396.3
Operating income	78.8	29.1	131.9	76.7
Other (expense) / income, net				
Interest income	0.7	0.2	2.0	0.3
Interest expense and financing charges	(34.3)	(27.2)	(102.7)	(80.7)
Other, net	(0.3)	1.3	(3.9)	1.6
	(33.9)	(25.7)	(104.6)	(78.8)
Income / (loss) before income taxes	44.9	3.4	27.3	(2.1)
Income tax expense	6.5	9.4	23.3	25.3
Net income / (loss)	38.4	(6.0)	4.0	(27.4)
Net loss attributable to non-controlling interest	(2.5)	—	(5.2)	—
Net income / (loss) attributable to controlling interest	$ 40.9	$ (6.0)	$ 9.2	$ (27.4)
Net income / (loss) per common share - basic	$ 0.21	$ (0.03)	$ 0.05	$ (0.18)
Net income / (loss) per common share - diluted	$ 0.20	$ (0.03)	$ 0.05	$ (0.18)
Weighted average common shares - basic	194.4	175.5	192.2	151.0
Weighted average common shares - diluted	205.9	175.5	203.2	151.0

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

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

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 144.7	$ 140.8
Accounts and other receivables, net	239.0	175.7
Equity receivable	59.5	—
Other current assets	98.1	79.8
Total current assets	541.3	396.3
Property and equipment	2,160.8	2,087.9
Less: accumulated depreciation	670.2	611.5
Property and equipment, net	1,490.6	1,476.4
Deferred tax assets	8.6	4.8
Other long-term assets	201.1	168.8
Total assets	$ 2,241.6	$ 2,046.3
Liabilities and equity		
Accounts payable	$ 109.3	$ 114.3
Interest payable	30.6	38.3
Accrued income taxes	11.5	9.1
Current maturities of long-term debt	12.5	—
Other current liabilities	72.9	40.3
Total current liabilities	236.8	202.0
Long-term debt	1,431.3	1,436.7
Deferred tax liabilities	10.2	10.0
Other long-term liabilities	140.3	82.1
Total long-term liabilities	1,581.8	1,528.8
Commitments and contingencies (Note 8)	—	—
Common shares of $0.01 par value; 234.1 shares authorized as of both September 30, 2023 and December 31, 2022; 213.4 and 176.4 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	2.1	1.8
Additional paid-in capital	1,159.8	1,056.6
Accumulated losses	(813.6)	(822.8)
Total controlling interest shareholders' equity	348.3	235.6
Non-controlling interest	74.7	79.9
Total equity	423.0	315.5
Total liabilities and equity	$ 2,241.6	$ 2,046.3

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Number of common shares				
Balance, beginning of period	194.0	175.5	176.4	137.1
Issuance of common shares	19.4	—	37.0	38.4
Balance, end of period	213.4	175.5	213.4	175.5
Common shares				
Balance, beginning of period	$ 1.9	$ 1.8	$ 1.8	$ 1.4
Issuance of common shares	0.2	—	0.3	0.4
Balance, end of period	2.1	1.8	2.1	1.8
Additional paid-in-capital				
Balance, beginning of period	1,101.8	1,055.2	1,056.6	1,006.3
Issuance of common shares	57.4	—	101.4	47.7
Share-based compensation expense, net of forfeitures	0.6	0.6	1.8	1.8
Balance, end of period	1,159.8	1,055.8	1,159.8	1,055.8
Accumulated losses				
Balance, beginning of period	(854.5)	(815.4)	(822.8)	(794.0)
Net income / (loss)	40.9	(6.0)	9.2	(27.4)
Balance, end of period	(813.6)	(821.4)	(813.6)	(821.4)
Total controlling interest shareholders' equity				
Balance, beginning of period	249.2	241.6	235.6	213.7
Net income / (loss)	40.9	(6.0)	9.2	(27.4)
Issuance of common shares	57.6	—	101.7	48.1
Share-based compensation expense, net of forfeitures	0.6	0.6	1.8	1.8
Balance, end of period	348.3	236.2	348.3	236.2
Non-controlling interest				
Balance, beginning of period	77.2	—	79.9	—
Net loss	(2.5)	—	(5.2)	—
Balance, end of period	74.7	—	74.7	—
Total equity	$ 423.0	$ 236.2	$ 423.0	$ 236.2

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

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

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flows from operating activities		
Net income / (loss)	$ 4.0	$ (27.4)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities		
Depreciation	61.5	43.5
Provision for credit losses, net	5.3	0.2
Amortization of deferred revenue	(18.9)	(29.3)
Amortization of intangible liability	(11.0)	—
Share-based compensation expense, net of forfeitures	1.8	1.8
Amortization of debt issuance costs, premium and discounts	7.1	4.0
Loss on disposal of assets	0.3	2.8
Deferred tax (benefit) / expense, net	(3.6)	1.2
Changes in deferred costs, net*	(57.8)	(8.3)
Changes in operating assets and liabilities	52.4	(1.8)
Net cash provided by / (used in) operating activities	41.1	(13.3)
Cash flows from investing activities		
Additions to property and equipment*	(85.6)	(61.7)
Advance payment for property and equipment	—	(37.5)
Proceeds from disposal of assets	0.7	1.4
Net cash used in investing activities	(84.9)	(97.8)
Cash flows from financing activities		
Payment of debt issuance costs	(1.1)	(0.2)
Payment of issuance costs for the subsidiary shares issuance to non-controlling interest	(0.1)	—
Proceeds from issuance of common shares, net of issuance costs	44.3	48.3
Proceeds from debt issuance	—	242.5
Net cash provided by financing activities	43.1	290.6
Net (decrease) / increase in cash, cash equivalents and restricted cash	(0.7)	179.5
Cash, cash equivalents and restricted cash at beginning of period*	177.3	253.2
Cash, cash equivalents and restricted cash at end of period*	$ 176.6	$ 432.7

* See Note 11 – Supplemental Cash Flow Information for a reconciliation of cash payments 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 financial statements.

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

Note 1 – Business and Basis of Presentation

Business

Shelf Drilling, Ltd. ("SDL") was incorporated on August 14, 2012 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 500 feet and our fleet consists of 36 independent-leg cantilever ("ILC") jack-up rigs as of September 30, 2023. 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, West Africa and North Sea.

Basis of Presentation

The Company has prepared the accompanying condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by GAAP for complete financial statements. The condensed consolidated 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 and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or for any future period. The accompanying condensed consolidated 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, 2022. The amounts are presented in United States ("U.S.") dollar ("$") rounded to the nearest million, unless otherwise stated. The Company's significant accounting policies are included in the Company's Form 10-K equivalent for the year ended December 31, 2022.

Note 2 – Revenues

As of September 30, 2023, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through June 2031. See Note 13 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

Lease revenue

On October 5, 2022, a subsidiary of the Company signed a bareboat charter agreement with a Noble Corporation ("Noble") subsidiary for the Shelf Drilling Barsk rig that was acquired as part of the acquisition of five jack-up rigs, related contracts, support and infrastructure from Noble for $375.0 million (the "Acquisition"). See Note 5 – Property and Equipment for additional details. The Noble subsidiary is leasing the rig from the Company for the remaining term of its drilling contract with Equinor ASA, which is expected to end in November 2023. The Company receives payments of $2.0 million per month, which is trued up at periodic intervals for revenues and expenses per the terms of the agreement. The Company is accounting for this operating lease and these variable lease payments under Accounting Standards Codification ("ASC") 842 Leases. The lease payments are recognized as revenues over the lease term as use of the asset occurs.

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

Amounts recorded for lease revenues were as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Lease revenue [1]	$ 9.8	$ —	$ 27.3	$ —

(1) Recorded in the other revenues in the condensed consolidated statements of operations.

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 or 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 balance sheets.

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

	As of	
	September 30, 2023	December 31, 2022
Current contract liabilities	$ 44.2	$ 4.9
Non-current contract liabilities	66.0	3.5
	$ 110.2	$ 8.4

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

	Nine months ended September 30,	
	2023	2022
Balance, beginning of period	$ 8.4	$ 30.8
Increase due to contractual additions	132.5	21.2
Decrease due to amortization of deferred revenue	(18.9)	(29.3)
Decrease due to application of customer deposits and other	(11.8)	(2.3)
Balance, end of period	$ 110.2	$ 20.4

Revenues recognized were $4.3 million and $23.5 million during the nine months ended September 30, 2023 and 2022, respectively, were included in the beginning contract liabilities balances.

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

Expected future amortization of contract liabilities, net recorded as of September 30, 2023 is as follows (in millions):

	As of September 30, 2023
Remainder of 2023	$ 15.9
2024	35.7
2025	24.6
2026	16.7
2027	14.0
2028 and thereafter	3.3
	$ 110.2

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 millions):

	As of September 30, 2023	As of December 31, 2022
Current deferred contract costs	$ 35.9	$ 14.8
Non-current deferred contract costs	45.6	17.3
	$ 81.5	$ 32.1

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

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Balance, beginning of period	$ 32.1	$ 36.7
Increase due to contractual additions	69.9	25.1
Decrease due to amortization of deferred contract costs	(20.5)	(27.3)
Balance, end of period	$ 81.5	$ 34.5

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

Allowance for credit losses

Allowance for credit losses was as follows (in millions):

	As of September 30, 2023	As of December 31, 2022
Allowance for credit losses	$ 9.1	$ 3.8

Movements in allowance for credit losses were as follows (in millions):

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Balance, beginning of period	$ 3.8	$ 3.2
Provision for credit losses, net	5.3	0.2
Write-off of uncollectible amounts	—	(0.1)
Balance, end of period	$ 9.1	$ 3.3

Note 3 – Intangible Liability

Amounts recorded for amortization of intangible liability were as follows (in millions):

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Amortization of intangible liability [(1)]	$ 4.2	$ —	$ 11.0	$ —

(1) Recorded in the operating revenues in the condensed consolidated statements of operations.

The gross carrying amount and the accumulated amortization of intangible liability are as follows (in millions):

	As of September 30, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of period	$ 43.1	$ (7.6)	$ 35.5
Amortization	—	(11.0)	(11.0)
Balance, end of period	$ 43.1	$ (18.6)	$ 24.5

	As of December 31, 2022		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of year	$ —	$ —	$ —
Additions	43.1	—	43.1
Amortization	—	(7.6)	(7.6)
Balance, end of year	$ 43.1	$ (7.6)	$ 35.5

SHELF DRILLING

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

	As of	
	September 30, 2023	December 31, 2022
Intangible liability		
Current portion (1)	$ —	$ 2.2
Non-current portion (2)	24.5	33.3
	$ 24.5	$ 35.5

(1) Recorded in other current liabilities on the condensed consolidated balance sheets.
(2) Recorded in other long-term liabilities on the condensed consolidated balance sheets.

The estimated future amortization of the intangible liability is as follows (in millions):

	As of September 30, 2023
Remainder of 2023	$ 3.2
2024	12.8
2025	7.5
2026	1.0
	$ 24.5
Weighted average life (in years)	2.0

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 financial statements.

These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or commercially incompatible with local content requirements. To comply with such foreign ownership and/or local content restrictions, the Company and the relevant local third parties, described further below, have established these VIEs and have contractual arrangements to convey decision-making and economic rights to the Company.

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

	Third party country of incorporation	Third party ownership percentage	
		September 30, 2023	December 31, 2022
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

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

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 financial statements.

Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the nine months ended September 30, 2023 and 2022 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
September 30, 2023:						
Revenues	$ —	$ —	$ 50.0	$ —	$ 10.1	$ 60.1
Operating costs and expenses	$ 0.2	$ 0.3	$ 33.4	$ 4.3	$ 10.2	$ 48.4
September 30, 2022:						
Revenues	$ —	$ —	$ 29.8	$ —	$ 8.6	$ 38.4
Operating costs and expenses	$ 0.1	$ 0.2	$ 28.1	$ 4.1	$ 9.2	$ 41.7

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

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of September 30, 2023 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 4.4	$ 0.2	$ 1.9	$ 6.7
Accounts and other receivables, net	—	—	30.0	—	2.4	32.4
Other current assets	—	—	0.2	0.8	0.1	1.1
Total current assets	—	0.2	34.6	1.0	4.4	40.2
Property and equipment, net	—	—	2.0	—	—	2.0
Other long-term assets	—	0.1	1.8	0.4	—	2.3
Total non-current assets	—	0.1	3.8	0.4	—	4.3
Total assets	$ —	$ 0.3	$ 38.4	$ 1.4	$ 4.4	$ 44.5
Liabilities						
Accounts payable	$ —	$ —	$ 9.9	$ 0.1	$ 0.9	$ 10.9
Other current liabilities	0.1	0.1	5.2	0.6	0.4	6.4
Total current liabilities	0.1	0.1	15.1	0.7	1.3	17.3
Other long-term liabilities	0.1	0.2	0.1	0.5	0.2	1.1
Total long-term liabilities	0.1	0.2	0.1	0.5	0.2	1.1
Total liabilities	$ 0.2	$ 0.3	$ 15.2	$ 1.2	$ 1.5	$ 18.4
Carrying amount, net	$ (0.2)	$ —	$ 23.2	$ 0.2	$ 2.9	$ 26.1

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

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of December 31, 2022 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 0.2	$ —	$ 0.3	$ 0.7
Accounts and other receivables, net	—	—	19.6	—	2.9	22.5
Other current assets	—	—	0.3	1.1	—	1.4
Total current assets	—	0.2	20.1	1.1	3.2	24.6
Property and equipment, net	—	—	2.1	—	—	2.1
Other long-term assets	—	—	3.2	0.4	—	3.6
Total non-current assets	—	—	5.3	0.4	—	5.7
Total assets	$ —	$ 0.2	$ 25.4	$ 1.5	$ 3.2	$ 30.3
Liabilities						
Accounts payable	$ —	$ —	$ 8.1	$ 0.3	$ 1.0	$ 9.4
Other current liabilities	0.1	0.1	3.7	0.6	0.6	5.1
Total current liabilities	0.1	0.1	11.8	0.9	1.6	14.5
Other long-term liabilities	0.1	0.1	0.5	0.8	1.8	3.3
Total long-term liabilities	0.1	0.1	0.5	0.8	1.8	3.3
Total liabilities	$ 0.2	$ 0.2	$ 12.3	$ 1.7	$ 3.4	$ 17.8
Carrying amount, net	$ (0.2)	$ —	$ 13.1	$ (0.2)	$ (0.2)	$ 12.5

There are no material restrictions on distributions of the assets disclosed above, except for certain property and equipment which is pledged as collateral. Liability holders typically have recourse to the general credit of the Company when seeking to enforce settlement of liabilities. See Note 14 – Related Parties for additional discussion on the Company's transactions with its VIEs.

Note 5 – Property and Equipment

Sales and Disposals

Details of the sales and disposals of other property and equipment were as follows (in millions):

	Nine months ended September 30, 2023	2022
Net carrying value	$ 1.1	$ 4.1
Net proceeds	$ 0.8	$ 1.3
Loss on disposal of assets	$ 0.3	$ 2.8

Rig Acquisitions

On June 17, 2022, the Company entered into an asset purchase agreement to acquire one premium jack-up drilling rig from a third party for $30.0 million and the rig was delivered in July 2022.

On June 23, 2022, the Company entered into an agreement for the Acquisition. The Company raised net equity of $48.1 million in June 2022 for the Acquisition.

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

SDHL contributed $40.0 million in June 2022, $10.0 million in September 2022 and $70.0 million in October 2022 for a total of $120.0 million, prior to the completion of the Acquisition, into Shelf Drilling (North Sea), Ltd ("SDNS").

SDNS was initially a wholly-owned subsidiary of the Company. On October 3, 2022, SDNS completed a private placement of common shares for gross proceeds of $80.0 million and equity issuance costs of $4.7 million resulting in net proceeds of $75.3 million. As of October 3, 2022, SDNS is owned 60% by the Company and 40% by external investors. SDNS used equity proceeds along with new debt to fund the completion of the Acquisition on October 5, 2022. Since October 12, 2022, SDNS shares are listed on Euronext Growth Oslo Exchange under the ticker symbol SDNS.

In accordance with ASC 805 Business Combination, we determined substantially all of the fair value of the Acquisition was concentrated in the acquired jack-up rigs and therefore we accounted for the transaction as an asset acquisition. The Company used an independent third-party expert to determine the fair value of the assets acquired and liabilities assumed. The Company also incurred transaction costs of $0.6 million which were capitalized as an additional component of the cost of the assets and liabilities assumed.

The Company estimated the fair values of the jack-up rigs and the intangible liability by applying the income approach. The income approach is based on estimated projected cash flows expected to be realized from the use of the assets and the difference between the contracted and the market dayrates, at the date of the Acquisition, for the intangible liability. Fair value evaluations are, by nature, highly subjective. The critical estimates are significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions including but not limited to those such as projected rig utilization, dayrates, operating, overhead and major project costs, remaining useful life, salvage value and discount rates as well as inflation assumptions. The Company used rig utilization rates ranging from 90% to 98%, discount rate of 15% and dayrates ranging from slightly below $70 thousand to slightly above $400 thousand in determining the fair value. The Company estimated the fair values using significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

The following table presents the total cost of the acquisition and the allocation to assets and liabilities acquired based upon their relative fair value (in millions):

		As of October 5, 2022
Total consideration	$	375.0
Assets acquired and liabilities assumed		
Jack-up rigs (1)	$	417.7
Intangible liability, current (2)		(7.7)
Intangible liability, non-current (2)		(35.4)
Deferred tax asset		2.5
Deferred tax liability		(2.1)
Net assets acquired	$	375.0

(1) Recorded in property and equipment on the condensed consolidated balance sheets.
(2) See Note 3 – Intangible Liability for details.

Note 6 – Income Taxes

Income tax expense for the three and nine months ended September 30, 2023 and 2022, 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 and nine months ended September 30, 2023 and 2022, 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 2023 and 2022 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

The Company's income tax expense (in millions) and effective income tax rate were as follows:

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Income tax expense	$ 6.5	$ 9.4	$ 23.3	$ 25.3
Effective tax rate	14 %	276 %	85 %	(1,205)%

Income tax expense for the three months ended September 30, 2023 was lower than for the same period in 2022, primarily due to deferred tax benefit resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and more favorable currency fluctuations for prior period tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar, partially offset by an increase in tax expense due to higher revenues.

Income tax expense for the nine months ended September 30, 2023 was lower than for the same period in 2022 primarily due to deferred tax benefit resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and more favorable currency fluctuations for prior period tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar, partially offset by an increase in tax expense due to higher revenues and liabilities for uncertain tax positions.

Tax Returns and Examinations

The Company received a favorable court ruling related to a $7.6 million tax assessment, exclusive of interest and fees, related to one of the Company's operations. Approximately $3.1 million of tax deposits that the Company previously paid relating to this matter is expected to be refunded to the Company and is recorded as a receivable in other current assets.

The Company is engaged in ongoing income tax disputes and/or tax audits in various jurisdictions, including Egypt, India, Italy, Nigeria, Saudi Arabia, and Thailand. The Company is vigorously contesting all substantial assessments and has recorded tax reserves for all amounts that the Company deems more likely than not to ultimately be sustained in favor of the tax authorities upon final resolution. If the Company were to lose one or more tax disputes, income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. As of September 30, 2023, the 2013 through 2022 income tax periods remain open for examination in multiple jurisdictions.

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

Note 7 – Debt

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

	As of	
	September 30, 2023	December 31, 2022
8.875% Senior Secured First Lien Notes, due November 2024		
Principal amount	$ 310.0	$ 310.0
Unamortized debt issuance costs	(2.4)	(3.9)
Unamortized discount	(2.1)	(3.3)
Carrying value	305.5	302.8
8.25% Senior Unsecured Notes, due February 2025		
Principal amount	900.0	900.0
Unamortized debt issuance costs	(4.0)	(6.0)
Unamortized premium	0.8	1.1
Carrying value	896.8	895.1
10.25% Senior Secured Notes, due October 2025		
Principal amount	250.0	250.0
Unamortized debt issuance costs	(3.3)	(4.3)
Unamortized discount	(5.2)	(6.9)
Carrying value	241.5	238.8
Total carrying value	1,443.8	1,436.7

Following is a summary of scheduled debt principal payments (in millions):

	As of September 30, 2023
Twelve months ending September 30,	
2024	12.5
2025	1,222.5
2026	225.0
Total	1,460.0

See Note 15 – Subsequent Events for additional details related to debt.

Note 8 – 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.

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

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, Vietnam and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations.

The total and outstanding surety bond facilities were as follows (in millions):

	As of	
	September 30, 2023	December 31, 2022
Total surety bond facilities	$ 76.1	$ 99.2
Outstanding surety bonds	$ 56.3	$ 72.6

Other Contingencies

The Company is challenging an assessment for withholding taxes at one of its subsidiaries related to multiple tax years. The total amount of the tax assessment, including estimated penalties and interest, is $6.5 million as of September 30, 2023, of which up to $6.4 million would be reimbursable to the Company under an indemnity agreement with the third-party prior owner of the subsidiary. The Company does not believe the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

Note 9 – 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 millions):

	As of September 30, 2023		As of December 31, 2022	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.875% Senior Secured First Lien Notes, due November 2024	$ 305.5	$ 310.4	$ 302.8	$ 304.2
8.25% Senior Unsecured Notes, due February 2025	896.8	917.9	895.1	782.4
10.25% Senior Secured Notes, due October 2025	241.5	250.6	238.8	247.5
	$ 1,443.8	$ 1,478.9	$ 1,436.7	$ 1,334.1

The estimated fair value of the long-term debt was determined using quoted market prices or Level 1 inputs.

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

Note 10 – Equity

As of September 30, 2023, 213.4 million shares were issued and outstanding, of which 192.5 million 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.

Common Shares Issuance

On September 29, 2023, the Company issued 19.4 million common shares at $0.01 per share. The Company received gross proceeds of $0.2 million and $59.5 million on September 29, 2023 and October 2, 2023 respectively. The $59.5 million received on October 2, 2023 was recorded in equity receivable as of September 30, 2023. The equity issuance costs were $2.1 million resulting in net proceeds of $57.6 million.

On February 1, 2023, the Company issued 17.6 million common shares at $0.01 per share. The gross proceeds from the issuance were $46.1 million and equity issuance costs were $2.0 million resulting in net proceeds of $44.1 million.

On June 24, 2022, the Company issued 38.4 million common shares at $0.01 per share. The gross proceeds from the issuance were $50.4 million and equity issuance costs were $2.3 million resulting in net proceeds of $48.1 million. The Company used these proceeds for the Acquisition as discussed in Note 5 – Property and Equipment.

Note 11 – 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 millions):

	Nine months ended September 30,	
	2023	2022
Regulatory and capital maintenance	$ 62.4	$ 46.0
Contract preparation	69.9	25.1
Fleet spares, transition costs and others	17.9	10.0
	$ 150.2	$ 81.1
Rig acquisitions	28.0	34.8
Total capital expenditures and deferred costs	$ 178.2	$ 115.9

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 millions):

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

	Nine months ended September 30,	
	2023	2022
Cash payments for additions to property and equipment	$ 85.6	$ 61.7
Net change in advances and accrued but unpaid additions to property and equipment	(8.8)	(1.0)
Total capital expenditures	$ 76.8	$ 60.7
Changes in deferred costs, net	$ 57.8	$ 8.3
Add: Amortization of deferred costs	43.6	46.9
Total deferred costs	$ 101.4	$ 55.2
Total capital expenditures and deferred costs	$ 178.2	$ 115.9

The reconciliation of cash, cash equivalents and restricted cash reported in the condensed consolidated balance sheets to the total of such amounts reported in the condensed consolidated statements of cash flows was as follows (in millions):

	As of	
	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 144.7	$ 140.8
Restricted cash included in other current assets	7.7	12.6
Restricted cash included in other long-term assets	24.2	23.9
Total cash, cash equivalents and restricted cash	$ 176.6	$ 177.3

Note 12 – Net Income / (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Numerator for net income / (loss) per share				
Net income / (loss) attributable to controlling interest	$ 40.9	$ (6.0)	$ 9.2	$ (27.4)
Denominator for net income / (loss) per share				
Weighted average common shares:				
Weighted average common shares - basic	194.4	175.5	192.2	151.0
Weighted average common shares - diluted	205.9	175.5	203.2	151.0
Net income / (loss) per common share - basic	$ 0.21	$ (0.03)	$ 0.05	$ (0.18)
Net income / (loss) per common share - diluted	$ 0.20	$ (0.03)	$ 0.05	$ (0.18)

Dilutive shares for the three and nine months ended September 30, 2022 were not included as the effect would have been anti-dilutive. Dilutive shares were as follows (in millions):

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Dilutive common shares	11.5	8.7	11.0	7.8

Note 13 – 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.

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Saudi Arabia	$ 78.8	$ 53.0	$ 198.7	$ 147.6
Nigeria	64.0	23.0	108.2	54.4
India	32.6	38.8	88.3	95.5
Thailand	20.9	15.1	63.4	68.0
Angola	10.5	17.8	32.8	46.4
Italy	15.3	7.4	30.2	22.7
Others (1)	42.1	11.2	133.4	38.4
	$ 264.2	$ 166.3	$ 655.0	$ 473.0
Amortization of intangible liability	4.2	—	11.0	—
Total revenues	$ 268.4	$ 166.3	$ 666.0	$ 473.0

(1) Represents countries which are individually less than 5% of total revenues.

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 millions):

	As of September 30, 2023	As of December 31, 2022
Thailand	$ 444.7	$ 463.1
Saudi Arabia	304.6	189.3
Nigeria	176.8	87.6
Norway	163.9	167.9
United Kingdom	110.8	113.1
India	106.5	60.3
Italy	91.5	71.5
United Arab Emirates	67.9	129.2
Others (1)	223.9	339.2
Total long-lived assets, net	$ 1,690.6	$ 1,621.2

(1) Represents countries which are individually less than 5% of total long-lived assets.

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

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 14 – Related Parties

The Company's related parties include China Merchants, the Sponsors, independent SDL and SDNS directors, key management personnel, VIEs and entities controlled, jointly controlled or significantly influenced by such parties.

Sponsors and Directors

The Company recorded Sponsors' and SDL directors' costs. Sponsors' and SDL directors' costs include SDL directors' fees and reimbursement of costs incurred by Sponsors, and SDL directors for attendance at meetings relating to the management and governance of the Company. Sponsors' and SDL directors' costs also include share-based compensation expense. The amounts recorded were as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Sponsors and SDL directors costs	$ 0.8	$ 0.8	$ 2.5	$ 2.7

The total liability recorded under accounts payable for such transactions was as follows (in millions):

	As of	
	September 30, 2023	December 31, 2022
Accounts payable	$ 0.2	$ 0.3

The Company incurs costs for SDNS independent directors' fees and reimbursement of costs incurred for attendance at SDNS meetings relating to the management and governance of SDNS. The amounts recorded were as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
SDNS independent directors costs	$ 0.1	$ —	$ 0.1	$ —

The total liability recorded for these costs under accounts payable was immaterial as of September 30, 2023 and December 31, 2022, respectively.

VIEs

Certain VIE related parties provided goods and services to drilling rigs owned by several of the Company's foreign subsidiaries. The amounts recorded were as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
VIE related parties provided goods and services	$ 1.2	$ 0.7	$ 2.6	$ 2.1

The total liability recorded under accounts payable for such transactions was as follows (in millions):

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

	As of	
	September 30, 2023	December 31, 2022
Accounts payable	$ 1.4	$ 0.8

Lease

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 Company has recorded the following (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Lease expense	$ 0.1	$ 0.3	$ 0.5	$ 0.8

	As of	
	September 30, 2023	December 31, 2022
Right-of-use assets		
Other long-term assets	$ 0.1	$ 1.0
Lease liabilities		
Other current liabilities	$ 0.2	$ 1.6
Other long-term liabilities	—	0.4
	$ 0.2	$ 2.0

Note 15 – Subsequent Events

The Company has evaluated subsequent events through November 9, 2023, the date of issuance of the condensed consolidated financial statements.

8.875% Senior Secured First Lien Notes, due November 2024

On September 26, 2023, SDHL launched a cash tender offer to purchase any and all of the outstanding $310.0 million 8.875% senior secured first lien notes (“8.875% Senior Secured First Lien Notes”) and in parallel issued a notice for conditional full redemption of all of the 8.875% Senior Secured First Lien Notes outstanding following the settlement of the tender offer. The Company made payments of $217.2 million (in connection with the tender offer) and $92.8 million (in connection with the redemption), excluding accrued and unpaid interest, on October 13, 2023 and October 26, 2023, respectively, to repay the entire outstanding principal amount of the 8.875% Senior Secured First Lien Notes.

8.25% Senior Unsecured Notes, due February 2025

On September 26, 2023, SDHL launched a cash tender offer to purchase any and all of the outstanding $900.0 million 8.25% senior unsecured notes (“8.25% Senior Unsecured Notes”) and in parallel issued a notice for conditional full redemption of all of the 8.25% Senior Unsecured Notes outstanding following the settlement of the tender offer. The Company made payments of $605.2 million (in connection with the tender offer) and $294.8 million (in connection with the redemption), excluding accrued and unpaid interest and redemption premium, on October 13, 2023 and October 26, 2023, respectively, to repay the entire outstanding 8.25% Senior Unsecured Notes. Redemption premium for the 8.25% Senior Unsecured Notes was $18.6 million.

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

As of October 31, 2023, transaction costs for repayment of the 8.25% Senior Unsecured Notes and 8.875% Senior Secured First Lien Notes were approximately $1.1 million.

9.625% Senior Secured Notes, due April 2029

On October 13, 2023, SDHL completed the issuance of $1,095.0 million aggregate principal amount of 9.625% senior secured notes, due April 15, 2029 (the "9.625% Senior Secured Notes"). The 9.625% Senior Secured Notes were issued under an indenture among SDHL and Wilmington Trust, National Association, as trustee and Wilmington Trust (London) Limited, as security agent. The 9.625% Senior Secured Notes are guaranteed, on a senior unsecured basis, by the Company. Subject to certain agreed security principles and other exceptions, within 90 days of the date of issuance, the 9.625% Senior Secured Notes are expected to be jointly and severally guaranteed on a senior basis by the majority of SDHL's subsidiaries (the "Guarantors"), and secured on a first-priority basis on rigs (other than excluded rigs), capital stock of SDHL and Guarantors, and substantially all other assets of SDHL and the Guarantors. The indenture includes customary covenant restrictions such as those related to debt incurrence, dividend and other restricted payments, assets sales, incurring liens, transactions with affiliates, mergers and consolidations etc.

The 9.625% Senior Secured Notes were issued at 98.184% for a discount of $19.9 million. As of October 31, 2023, debt issuance costs were approximately $19.8 million resulting in net proceeds of $1,055.3 million. Interest on the 9.625% Senior Secured Notes will be paid semi-annually in cash in arrears on April 15 and October 15 of each year, commencing on April 15, 2024.

The 9.625% Senior Secured Notes require $37.5 million principal payment on April 15 and October 15 of each year, commencing on October 15, 2024. Any redemptions are subject to accrued and unpaid interest. Prior to October 15, 2025, SDHL may redeem all or portion of the 9.625% Senior Secured Notes at a redemption price equal to 100% of the principal amount of such notes plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of redemption, plus the applicable "make-whole" premium. Also, prior to October 15, 2025, SDHL may in each twelve month period redeem up to 10% of the aggregate principal amount of the 9.625% Senior Secured Notes at a redemption price equal to 103%. Additionally, prior to October 15, 2025, SDHL may redeem up to 40% of the aggregate principal amount of the 9.625% Senior Secured Notes with net cash proceeds from equity offerings at a redemption price equal to 109.625% (provided that at least 50% of the original aggregate principal amount of the 9.625% Senior Secured Notes (including any additional notes) remains outstanding after such redemption. On or after October 15, 2025, SDHL may redeem, in whole or in part, the 9.625% Senior Secured Notes as follows:

Period	Redemption Price
On and after October 15, 2025	104.813%
On and after October 15, 2026	102.406%
On and after October 15, 2027	100.000%

Revolving Credit Facility, due April 2028

On September 28, 2023, SDHL entered into a $125.0 million revolving credit facility, (the "Credit Facility"), which, following the satisfaction of customary conditions precedent, became available for drawing on October 13, 2023. The Credit Facility can be utilized by way of cash drawings or, subject to the satisfaction of contractual conditions set forth in the underlying credit agreement, may be utilized by way of the issuance of letters of credit and/or bank guarantees or via ancillary facilities. All borrowings under the Credit Facility mature on April 12, 2028. Subject to customary break costs (if any), the facility is cancellable by SDHL at any time with no penalty or premium. The Credit Facility is fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. Subject to certain guarantee and security principles, the Credit Facility will be fully and unconditionally, jointly and severally guaranteed on a senior secured basis by SDHL and the majority of its subsidiaries, which will also grant security over substantially all of their assets in favor of the creditors under the Credit Facility. The Credit Facility is subject to customary covenant restrictions such as those related to debt incurrence, dividend and other restricted payments, assets sales, incurring liens, transactions with affiliates, mergers and consolidations etc.

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

As of October 31, 2023, debt issuance costs were approximately $3.1 million. Interest is payable on the Credit Facility as follows:

1. The term secured overnight financing rate administrated by the CME Group Benchmark Administration; plus

2. Margin rate that is based on the consolidated net leverage ratio for the most recent quarter after the first complete financial quarter after closing of the Credit Facility as follows:

Consolidated net leverage ratio	Margin per annum
Greater than 3.50:1	3.25 %
Equal to or less than 3.50:1 but greater than 3.00:1	3.00 %
Equal to or less than 3.00:1 but greater than 2.50:1	2.75 %
Equal to or less than 2.50:1	2.50 %

Term Loan, due June 2024

On September 28, 2023, SDHL entered into a $50.0 million term loan facility, (the "Term Loan"), with Goldman Sachs Bank USA which, following the satisfaction of customary conditions precedent, became available for drawing on October 13, 2023 and was completely drawn the same day. The Term Loan matures on June 30, 2024. The term loan facility was issued under an agreement with Goldman Sachs Bank USA as lender and Wilmington Trust (London) Limited as agent and security agent. The Term Loan is fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. Subject to certain guarantee and security principles, the Term Loan will be fully and unconditionally, jointly and severally guaranteed on a senior secured basis by SDHL and the majority of its subsidiaries, which will also grant security over substantially all of their assets in favor of the creditors under the Term Loan. The Term Loan is subject to customary covenant restrictions such as those related to debt incurrence, dividend and other restricted payments, assets sales, incurring liens, transactions with affiliates, mergers and consolidations etc.

As of October 31, 2023, debt issuance costs were approximately $1.1 million. Interest is payable on the Term Loan on December 2023, March 2024 and June 2024 as follows:

1. The term secured overnight financing rate administrated by the CME Group Benchmark Administration; plus

2. Margin rate that is based on the consolidated net leverage ratio for the most recent quarter after the first complete financial quarter after closing of the Term Loan as follows:

Consolidated net leverage ratio	Margin per annum
Greater than 3.50:1	3.00 %
Equal to or less than 3.50:1 but greater than 3.00:1	2.75 %
Equal to or less than 3.00:1 but greater than 2.50:1	2.50 %
Equal to or less than 2.50:1	2.25 %

The Term Loan repayment schedule requires payments equal to 33.33% of the aggregate loan on December 30, 2023, 33.33% of the aggregate loan on March 31, 2024 and the remaining outstanding balance on June 30, 2024.

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 financial statements contained in this 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, 2022.

Forward-Looking Statements

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

- the impact of variations in oil and gas production, prices, and demand for hydrocarbons, which drives activity in resource exploration and drilling activity;
- 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;
- the effects of supply chain disruptions such as supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases;
- public health issues, including epidemics and pandemics such as COVID-19 and their 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;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild rigs;
- the demand for our rigs, including the preferences of some of our customers for newer and/or higher specification rigs;
- our and our customers' ability to obtain permits and approvals for operations;
- 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 and changing laws, treaties and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect our 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, share repurchases and debt service;

- our levels of indebtedness, covenant compliance, access to future capital, and liquidity sufficient to service our debt;;
- 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 and disputes 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 adverse changes in foreign currency exchange rates and currency convertibility; 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 Form 10-Q equivalent should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL"). Except where indicated, the condensed consolidated financial statements and the notes to the condensed consolidated financial statements are combined. References in this Form 10-Q equivalent 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 Form 10-Q equivalent, 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, 2022 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 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 500 feet and our fleet consists of 36 independent-leg cantilever ("ILC") jack-up rigs as of September 30, 2023, making us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange ("OSE") under the ticker symbol SHLF. Our website address is www.shelfdrilling.com.

Since our inception in 2012, 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.

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, West Africa and North Sea.

Recent events

In October 2023, SDHL successfully completed refinancing transactions consisting of (i) an offering of $1,095.0 million 9.625% Senior Secured Notes, (ii) the repayment and cancellation of 8.25% Senior Unsecured Notes and 8.875% Senior Secured First Lien Notes, (iii) entering into a $125.0 million Credit Facility, and (iv) entering into a $50.0 million Term Loan facility. In addition, SDL completed a private placement of 19.4 million common shares for gross proceeds of $59.7 million.

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.

Drilling fleet

The following table summarizes the Company's offshore rigs:

	As of		
	September 30, 2023	**June 30, 2023**	**September 30, 2022**
Jack-up rigs	36	36	31

Outlook

Brent crude oil prices, the key driver in the demand for shallow water drilling activity, averaged $83 per barrel during the first ten months of 2023. Following the continued supply discipline of OPEC producing countries, Brent recovered from the low $70s in the second quarter to the low $90s in late September. The recent Middle East conflict has added great uncertainty to the oil market resulting in higher daily volatility without setting a positive or negative price trend.

The global number of contracted jack-up rigs increased from 352 in December 2021 to 403 in November 2023, surpassing 400 for the first time since Q2 2015, and marketed utilization improved from 85% to 94% over the same period. The Middle East region was the primary driver of this growth in demand. Jack-up activity is expected to increase further as other markets, notably India and Southeast Asia, look to contract incremental rigs. Following this recent surge in demand and years of rig retirements, the jack-up supply overhang from the last decade has been effectively eliminated. Dayrates on new jack-up fixtures have accelerated across regions and asset classes, and we expect this trend to continue in the quarters ahead.

Our results in the first nine months of 2023 were impacted by a large number of contract preparation projects underway in multiple geographies in the first half of 2023 with higher capital spending and lower levels of effective utilization. With these projects now complete and rigs starting new contracts at attractive rates, we delivered significant EBITDA growth in Q3 2023. With strong underlying market fundamentals and the recent completion of our refinancing transactions in October, we believe we are well positioned to generate free cash flow and further de-lever our balance sheet in the coming quarters.

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 rigs under bareboat charter agreements, 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		
	September 30, 2023	**June 30, 2023**	**September 30, 2022**
Total contract backlog (in millions)	$ 2,525	$ 2,617	$ 1,723
Weighted average backlog dayrate (in thousands)	$ 83.1	$ 81.0	$ 68.7
Average contract days per rig	894	924	895
Number of contracted rigs	34	35	28

	Three months ended		
	September 30, 2023	**June 30, 2023**	**September 30, 2022**
Average dayrate (in thousands)	$ 81.5	$ 74.6	$ 62.0
Effective utilization	90%	82%	85%
Average marketable rigs	35.0	34.7	30.0

	Nine months ended	
	September 30, 2023	**September 30, 2022**
Average dayrate (in thousands)	$ 75.7	$ 62.1
Effective utilization	82%	83%
Average marketable rigs	34.6	30.0

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 total revenues excluding the amortization of intangible liability ("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 millions):

	Three months ended		
	September 30, 2023	June 30, 2023	September 30, 2022
Net income / (loss)	$ 38.4	$ (0.1)	$ (6.0)
Add back:			
Interest expense and financing charges, net of interest income	33.6	33.7	27.0
Income tax expense	6.5	8.2	9.4
Depreciation	21.7	20.8	14.6
Amortization of deferred costs	18.3	13.3	17.9
Loss / (gain) on disposal of assets	0.5	(0.3)	2.9
Amortization of intangible liability	(4.2)	(3.2)	—
EBITDA	$ 114.8	$ 72.4	$ 65.8
One-time corporate transaction costs [1]	—	0.3	—
Adjusted EBITDA	$ 114.8	$ 72.7	$ 65.8
Adjusted EBITDA Margin	43%	34%	40%

	Nine months ended	
	September 30, 2023	September 30, 2022
Net income / (loss)	$ 4.0	$ (27.4)
Add back:		
Interest expense and financing charges, net of interest income	100.7	80.4
Income tax expense	23.3	25.3
Depreciation	61.5	43.5
Amortization of deferred costs	43.6	46.9
Loss on disposal of assets	0.3	2.8
Amortization of intangible liability	(11.0)	—
EBITDA	$ 222.4	$ 171.5
One-time corporate transaction costs [1]	1.1	1.5
Adjusted EBITDA	$ 223.5	$ 173.0
Adjusted EBITDA Margin	34%	37%

(1) Represents certain one-time third-party professional services and certain costs related to acquisitions.

Our restricted subsidiaries accounted for 99% and 100% of our Adjusted EBITDA for the three months ended September 30, 2023 and 2022 and 95% and 100% for the nine months ended September 30, 2023 and 2022, respectively. Our restricted subsidiaries accounted for 71% and 75% of our assets as of September 30, 2023 and December 31, 2022, respectively.

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 September 30, 2023 to the immediately preceding quarter ended June 30, 2023. 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.

The following table sets forth information regarding our consolidated results of operations (in millions):

	Three months ended			
	September 30, 2023	**June 30, 2023**	**Change**	**% change**
Revenues				
Operating revenues	$ 250.1	$ 200.6	$ 49.5	25%
Other revenues	18.3	13.6	4.7	35%
	268.4	214.2	54.2	25%
Operating costs and expenses				
Operating and maintenance	128.9	119.9	9.0	8%
Depreciation	21.7	20.8	0.9	4%
Amortization of deferred costs	18.3	13.3	5.0	38%
General and administrative	20.2	15.0	5.2	35%
Loss / (gain) on disposal of assets	0.5	(0.3)	0.8	(267%)
	189.6	168.7	20.9	12%
Operating income	78.8	45.5	33.3	73%
Other (expense) / income, net				
Interest income	0.7	0.6	0.1	17%
Interest expense and financing charges	(34.3)	(34.3)	—	—%
Other, net	(0.3)	(3.7)	3.4	(92%)
	(33.9)	(37.4)	3.5	(9%)
Income before income taxes	44.9	8.1	36.8	454%
Income tax expense	6.5	8.2	(1.7)	(21%)
Net income / (loss)	$ 38.4	$ (0.1)	$ 38.5	n/m

n/m - not meaningful

	Nine months ended September 30,			
	2023	2022	Change	% change
Revenues				
Operating revenues	$ 618.8	$ 458.4	$ 160.4	35%
Other revenues	47.2	14.6	32.6	223%
	666.0	473.0	193.0	41%
Operating costs and expenses				
Operating and maintenance	378.0	263.4	114.6	44%
Depreciation	61.5	43.5	18.0	41%
Amortization of deferred costs	43.6	46.9	(3.3)	(7%)
General and administrative	50.7	39.7	11.0	28%
Loss on disposal of assets	0.3	2.8	(2.5)	(89%)
	534.1	396.3	137.8	35%
Operating income	131.9	76.7	55.2	72%
Other (expense) / income, net				
Interest income	2.0	0.3	1.7	567%
Interest expense and financing charges	(102.7)	(80.7)	(22.0)	27%
Other, net	(3.9)	1.6	(5.5)	(344%)
	(104.6)	(78.8)	(25.8)	33 %
Income / (loss) before income taxes	27.3	(2.1)	29.4	(1400)%
Income tax expense	23.3	25.3	(2.0)	(8%)
Net income / (loss)	$ 4.0	$ (27.4)	$ 31.4	(115%)

Three months ended September 30, 2023 compared to the three months ended June 30, 2023 and the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

Revenues

Total revenues for the three months ended September 30, 2023 increased by $54.2 million compared to the three months ended June 30, 2023 primarily due to $22.3 million from higher utilization, as eight rigs started new contracts or extensions in Q3 2023 and mid to late Q2 2023 in West Africa, Middle East and the Mediterranean and the North Sea, $19.7 million from higher average earned dayrate and $12.1 million due to higher recharges, amortization of mobilization, demobilization, capital upgrades and amortization of intangibles.

Total revenues for the nine months ended September 30, 2023 increased by $193.0 million compared to the same period in 2022 primarily due to revenues from the six rigs acquired in 2022 and two rigs which commenced contracts in late 2022 and 2023 and higher average earned dayrates mainly in Saudi Arabia and Nigeria during 2023, partially offset by the planned out of service for one rig in Italy that started contract in August 2023.

Operating and maintenance

Total operating and maintenance expenses for the three months ended September 30, 2023 were $128.9 million, or 48% of total revenue, compared to $119.9 million, or 56% of total revenue, in the three months ended June 30, 2023. Total operating and maintenance increased by $9.0 million primarily due to higher operating costs for three rigs in West Africa, Saudi Arabia and United Kingdom that commenced operations in Q3 2023 or mid to late Q2 2023, higher maintenance expenses for one rig in Denmark, 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 two rigs in India and Italy that commenced operations in May 2023 and August 2023, respectively.

Total operating and maintenance expenses for the nine months ended September 30, 2023 were $378.0 million, or 57% of total revenue, compared to $263.4 million, or 56% of total revenue, in the nine months ended September 30, 2022. Total operating and maintenance increased by $114.6 million primarily due to higher operating costs for the six rigs acquired in 2022 and higher maintenance and shipyard expenses mainly for eight rigs ahead of commencement of new contract or contract extensions in 2023.

Depreciation

Depreciation expense increased by $0.9 million in the three months ended September 30, 2023 compared to the three months ended June 30, 2023. Depreciation expense for the nine month period increased by $18.0 million primarily due to higher depreciation from rigs acquired in 2022.

Amortization of deferred costs

Total amortization of deferred costs increased by $5.0 million in the three months ended September 30, 2023 compared to the three months ended June 30, 2023 primarily related to higher amortization of contract preparation expenses.

The $3.3 million decrease in amortization of deferred costs in the nine months ended September 30, 2023 compared to the same period in 2022 was primarily related to lower amortization on rigs which completed contracts in late 2022 or early 2023, partially offset by higher amortization of contract preparation expenses for four rigs in West Africa, Saudi Arabia and Thailand in the 2023 period.

General and administrative

General and administrative expenses were increased by $5.2 million in the three months ended September 30, 2023 compared to the three months ended June 30, 2023 primarily due to a $5.7 million provision for credit losses recorded in the current period.

General and administrative expenses increased by $11.0 million in the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to increased provision for credit losses, higher personnel costs and professional fees for the recently acquired rigs in the current period.

Other (expense) / income, net

Other (expense) / income, net, in both periods consisted primarily of interest expense and financing charges and other, net. Interest expense and financing charges in the three months ended September 30, 2023 were relatively unchanged compared to the three months ended June 30, 2023. Other, net expense decreased by $3.4 million during the three months ended September 30, 2023 compared to the three months ended June 30, 2023, primarily due to lower foreign exchange loss in the current period as compared to the prior period.

Interest expense and financing charges in the nine months ended September 30, 2023 were $22.0 million higher compared to the same period in 2022, primarily due to $21.6 million higher interest expense on the 10.25% Senior Secured Notes, due October 2025 (“10.25% Senior Secured Notes”) issued in September 2022. Other, net expense increased by $5.5 million during the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to a $4.8 million foreign currency exchange loss in the current period.

Income tax expense

Income tax expense for the three months ended September 30, 2023 was lower than for the three months ended June 30, 2023 primarily due to higher deferred tax benefit resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes, partially offset by an increase in tax expense due to higher revenues, liabilities for uncertain tax positions and prior period adjustments.

Income tax expense for the nine months ended September 30, 2023 was lower than for the same period in 2022 primarily due to deferred tax benefit resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and more favorable currency fluctuations for prior period tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar, partially offset by an increase in tax expense due to higher revenues and liabilities for uncertain tax positions.

Liquidity and Capital Resources

Sources and uses of liquidity

We had $144.7 million and $140.8 million in cash and cash equivalents as of September 30, 2023 and December 31, 2022, 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 expenditures, costs related to equity and debt financing, debt servicing and income taxes.

In February 2023, the Company completed the issuance of 17.6 million common shares resulting in net proceeds of $44.1 million. In September 2023, the Company completed the issuance of 19.4 million common shares resulting in net proceeds of $57.6 million. In October 2023, these proceeds were received and used for debt refinancing and general corporate purposes .

Restricted cash generally 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 balance sheets. As of September 30, 2023, we had restricted cash of $7.7 million and $24.2 million in other current assets and other long-term assets, respectively. As of December 31, 2022, we had restricted cash of $12.6 million and $23.9 million in other current assets and other long-term assets, respectively. The decrease in restricted cash as of September 30, 2023 as compared to December 31, 2022, was primarily due to guarantee cancellations in India for completed contracts.

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

Going concern assumption as per Oslo Bors reporting requirements

As a result of our current financial position, the improvement in utilization, upward momentum in dayrates and our strong outlook, management believes that we have adequate liquidity to fund our operations for the next twelve months, and, therefore, our financial statements have been prepared under the going concern assumption. Additional capital and/or refinancing of our existing debt may be required in the future to meet evolving business needs.

Discussion of Cash flows

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

	Nine months ended September 30		
	2023	2022	Change
Net cash provided by / (used in) operating activities	$ 41.1	$ (13.3)	$ 54.4
Net cash used in investing activities	(84.9)	(97.8)	12.9
Net cash provided by financing activities	43.1	290.6	(247.5)
Net (decrease) / increase in cash, cash equivalents and restricted cash	$ (0.7)	$ 179.5	$ (180.2)

Net cash provided by / (used in) operating activities

Net cash provided by operating activities increased by $54.4 million during the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to an increase in revenues when compared to the prior year period combined with the receipt of mobilization fees in the current period, partially offset by an increase in deferred cost expenditures for rigs undergoing contract preparation projects.

During the nine months ended September 30, 2023 and 2022, we made cash payments of $103.2 million and $88.0 million, respectively, each in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $21.0 million and $20.2 million in income taxes included in other operating assets and liabilities, net during the nine months ended September 30, 2023 and 2022, respectively.

Net cash used in investing activities

Net cash used in investing activities decreased by $12.9 million during the nine months ended September 30, 2023 compared to the same period in 2022 primarily due to $37.5 million lower advance payments for the acquisition of the five jack-up rigs from Noble during the nine months ended September 30, 2022 partially offset by $23.9 million higher capital expenditures for reactivation and shipyard projects ahead of long-term contracts with customers during the nine months ended September 30, 2023.

Net cash provided by financing activities

Net cash provided by financing activities decreased by $247.5 million in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the $242.5 million in proceeds from issuance of the 10.25% Senior Secured Notes, net of discount in September 2022 and the net proceeds of $44.3 million mainly for the February 2023 issuance of common shares as compared to $48.3 million in June 2022.

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 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 millions):

	Nine months ended September 30,	
	2023	**2022**
Regulatory and capital maintenance (1)	$ 62.4	$ 46.0
Contract preparation (2)	69.9	25.1
Fleet spares, transition costs and other (3)	17.9	10.0
	$ 150.2	$ 81.1
Rig acquisitions (4)	28.0	34.8
Total capital expenditures and deferred costs	$ 178.2	$ 115.9

(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 Shelf Drilling Victory acquisition and readiness projects.

Capital expenditures and deferred costs were $178.2 million and $115.9 million in the nine months ended September 30, 2023 and 2022, respectively. The increase of $62.3 million was mainly due to $61.2 million higher regulatory, capital maintenance and contract preparation costs primarily for five rigs that commenced new contracts in Q2 2023 and Q3 2023, $7.9 million higher spending in fleet spares, transition costs and other partially offset by $6.8 million lower rig acquisition expenditures primarily related to the rig readiness expenditures for the Shelf Drilling Victory acquired in Q3 2022.

Certain Financial Information of SDL and SDHL

The following tables present certain financial information for SDL, SDHL and SDNS for the nine months ended September 30, 2023 and certain adjustments to show the differences in this financial information between SDL and SDHL and between SDHL and SDHL excluding SDNS for this period. The adjustments between SDL and SDHL 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. The adjustments between SDHL and SDHL excluding SDNS primarily reflect SDHL excluding the operations, assets, liabilities and cash flows of the five rigs acquired in the Acquisition (see Note 5 – Property and Equipment for details). This information is pursuant to the Indenture for our 8.25% Senior Unsecured Notes, due February 2025 ("8.25% Senior Unsecured Notes").

Condensed Consolidated Statements of Operations for the nine months ended September 30, 2023
(In millions)

	SDL	Adjustments	SDHL	SDNS	Other adjustments	SDHL excluding SDNS
	A	B	A+B=C	D	E	C-D+E
Revenues						
Operating revenues	$ 618.8	$ —	$ 618.8	$ 75.7	$ —	$ 543.1
Other revenues	47.2	—	47.2	30.9	—	16.3
	666.0	—	666.0	106.6	—	559.4
Operating costs and expenses						
Operating and maintenance	378.0	—	378.0	67.3	—	310.7
Depreciation	61.5	—	61.5	14.0	—	47.5
Amortization of deferred costs	43.6	—	43.6	—	—	43.6
General and administrative	50.7	(1.4)	49.3	16.0	—	33.3
Loss on disposal of assets	0.3	—	0.3	—	—	0.3
	534.1	(1.4)	532.7	97.3	—	435.4
Operating income	131.9	1.4	133.3	9.3	—	124.0
Other (expense) / income, net						
Interest income	2.0	—	2.0	0.9	—	1.1
Interest expense and financing charges	(102.7)	—	(102.7)	(22.0)	—	(80.7)
Other, net	(3.9)	—	(3.9)	(0.3)	—	(3.6)
	(104.6)	—	(104.6)	(21.4)	—	(83.2)
Income / (loss) before income taxes	27.3	1.4	28.7	(12.1)	—	40.8
Income tax expense	23.3	—	23.3	0.8	—	22.5
Net income / (loss)	4.0	1.4	5.4	(12.9)	—	18.3
Net loss attributable to non-controlling interest [(1)]	(5.2)	—	(5.2)	—	5.2	—
Net income / (loss) attributable to controlling interest	$ 9.2	$ 1.4	$ 10.6	$ (12.9)	$ (5.2)	$ 18.3

(1) The $5.2 million amount relates to the elimination of the non-controlling interest when computing the net loss attributable to controlling interest for SDHL excluding SDNS.

Condensed Consolidated Balance Sheets as of September 30, 2023
(In millions)

	SDL	Adjustments	SDHL	SDNS	Other adjustments	SDHL excluding SDNS
	A	B	A+B=C	D	E	C-D+E
Assets						
Cash and cash equivalents	$ 144.7	$ (21.9)	$ 122.8	$ 46.6	$ —	$ 76.2
Accounts and other receivables, net	239.0	—	239.0	28.9	—	210.1
Accounts and other receivables, net - related parties [(1)]	—	5.2	5.2	—	0.6	5.8
Equity receivable [(2)]	59.5	(59.5)	—	—	—	—
Other current assets	98.1	—	98.1	1.3	—	96.8
Total current assets	541.3	(76.2)	465.1	76.8	0.6	388.9
Property and equipment	2,160.8	—	2,160.8	425.4	$ 0.2	1,735.6
Less: accumulated depreciation	670.2	—	670.2	18.1	—	652.1
Property and equipment, net	1,490.6	—	1,490.6	407.3	0.2	1,083.5
Deferred tax assets	8.6	—	8.6	2.2	—	6.4
Other long-term assets [(3)]	201.1	—	201.1	7.5	119.8	313.4
Total assets	$ 2,241.6	$ (76.2)	$ 2,165.4	$ 493.8	$ 120.6	$ 1,792.2
Liabilities and equity						
Accounts payable [(2)]	$ 109.3	$ (2.3)	$ 107.0	$ 16.8	$ —	$ 90.2
Accounts payable - related parties	—	—	—	0.6	0.6	—
Interest payable	30.6	—	30.6	10.7	—	19.9
Accrued income taxes	11.5	—	11.5	1.2	—	10.3
Current maturities of long-term debt	12.5	—	12.5	12.5	—	—
Other current liabilities	72.9	—	72.9	2.8	—	70.1
Total current liabilities	236.8	(2.3)	234.5	44.6	0.6	190.5
Long-term debt	1,431.3	—	1,431.3	229.0	—	1,202.3
Deferred tax liabilities	10.2	—	10.2	2.5	—	7.7
Other long-term liabilities	140.3	—	140.3	26.0	—	114.3
Total long-term liabilities	1,581.8	—	1,581.8	257.5	—	1,324.3
Commitments and contingencies						
Common shares [(4)]	2.1	(2.1)	—	1.0	1.0	—
Additional paid-in capital [(5)]	1,159.8	(168.8)	991.0	194.3	194.3	991.0
Accumulated losses [(6)]	(813.6)	97.0	(716.6)	(3.6)	(0.6)	(713.6)
Total controlling interest shareholders' equity	348.3	(73.9)	274.4	191.7	194.7	277.4
Non-controlling interest [(7)]	74.7	—	74.7	—	(74.7)	—
Total equity	423.0	(73.9)	349.1	191.7	120.0	277.4
Total liabilities and equity	$ 2,241.6	$ (76.2)	$ 2,165.4	$ 493.8	$ 120.6	$ 1,792.2

(1) The $5.8 million primarily relates to the $5.2 million legal and accounting fees paid by SDHL on behalf of SDL and $0.6 million of intercompany balance due from SDNS.

(2) The $59.5 million relates to the gross equity proceeds received on October 2, 2023 for the 19.4 million issuance of common shares on September 29, 2023 at SDL level. The $2.3 million primarily relates to the accrual of the associated equity issuance costs recorded in accounts payable.

(3) The $119.8 million primarily relates to the investments in subsidiaries made by SDHL once SDNS has been removed from the consolidated SDHL level.

(4) The $2.1 million adjustment reflects the total number of SDL outstanding shares of 213.4 million with a par value of $0.01 per share. The $1.0 million reflects SDNS outstanding shares of 100.0 million with a par value of $0.01 per share that are eliminated at the consolidated SDHL level.

(5) The $168.8 million adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. (“SDIL”) to SDHL in 2012, preferred shares dividends at SDL and SDL common shares issuance, 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. The $194.3 million relates to the elimination of common shares issued at SDNS that are eliminated at the consolidated SDHL level.

(6) The $97.0 million adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividends at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL level. The $0.6 million relates to the non-controlling interest that is eliminated at the consolidated SDHL level.

(7) The $74.7 million adjustment relates to the non-controlling interest that is eliminated at the consolidated SDHL level.

Condensed Consolidated Statements of Cash flows for the nine months ended September 30, 2023
(In millions)

	SDL	Adjustments	SDHL	SDNS	Other adjustments	SDHL excluding SDNS
	A	B	A + B = C	D	E	C - D + E
Cash flows from operating activities						
Net income / (loss)	$ 4.0	$ 1.4	$ 5.4	$ (12.9)	$ —	$ 18.3
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities			—		—	—
Depreciation	61.5	—	61.5	14.0	—	47.5
Provision for credit losses, net	5.3	—	5.3	3.3	—	2.0
Amortization of deferred revenue	(18.9)	—	(18.9)	(0.1)	—	(18.8)
Amortization of intangible liability	(11.0)		(11.0)	(11.0)	—	—
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	1.8	(0.4)	1.4	—	—	1.4
Amortization of debt issue costs, premiums and discounts	7.1	—	7.1	2.7	—	4.4
Gain on disposal of assets	0.3	—	0.3	—	—	0.3
Deferred tax (benefit) / expense, net	(3.6)	—	(3.6)	0.3	—	(3.9)
Changes in deferred costs, net	(57.8)	—	(57.8)	(1.0)	—	(56.8)
Changes in operating assets and liabilities	52.4	(1.6)	50.8	3.9	—	46.9
Net cash provided by /(used in) operating activities	41.1	(0.6)	40.5	(0.8)	—	41.3
Cash flows from investing activities						
Additions to property and equipment [(1)]	(85.6)	—	(85.6)	(7.1)	(2.7)	(81.2)
Proceeds from disposal of assets [(1)]	0.7	—	0.7	2.3	2.7	1.1
Net cash used in investing activities	(84.9)	—	(84.9)	(4.8)	—	(80.1)
Cash flows from financing activities						
Payment of debt issuance costs	(1.1)	—	(1.1)	(0.2)	—	(0.9)
Payment of issuance costs for subsidiary shares issuance to non-controlling interest [(2)]	(0.1)	—	(0.1)	—	0.1	—
Capital contribution from Parent [(3)]	—	25.0	25.0	—	—	25.0
Proceeds from issuance of common shares, net of issuance costs [(4)]	44.3	(44.3)	—	(0.1)	(0.1)	—
Net cash provided by / (used in) financing activities	43.1	(19.3)	23.8	(0.3)	—	24.1
Net decrease in cash, cash equivalents and restricted cash	(0.7)	(19.9)	(20.6)	(5.9)	—	(14.7)
Cash, cash equivalents and restricted cash at beginning of period	177.3	(2.0)	175.3	57.1	—	118.2
Cash, cash equivalents and restricted cash at end of period	$ 176.6	$ (21.9)	$ 154.7	$ 51.2	$ —	$ 103.5

(1) The $2.7 million pertains to the $2.3 million intercompany asset transfers from SDNS and $0.4 million of asset transfers to SDNS.

(2) The $0.1 million adjustment relates to the payment of issuance costs of shares issued by SDNS to external investors that are eliminated once SDNS is removed.

(3) The $25.0 million adjustment relates to capital contribution to SDHL by SDL that was eliminated at SDL.

(4) The $0.1 million adjustment relates to the payments of issuance costs of SDNS common shares that were eliminated at SDHL.

Material Cash Requirements

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of September 30, 2023 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 September 30, 2023, we had a total principal amount of indebtedness of $1.5 billion which related to the 8.875% Senior Secured First Lien Notes, 8.25% Senior Unsecured Notes and 10.25% Senior Secured Notes. Interest related to each of these note issuances is payable semi-annually and principal payments began in October 2023 for the 10.25 % Senior Secured Notes. See Note 7 – Debt in "Item 1. Financial Statements" of "Part I. Financial Information".

As of September 30, 2023, we had operating lease obligations outstanding of $9.9 million.

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

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, Vietnam and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations.

The total and outstanding surety bond facilities were as follows (in millions):

	As of	
	September 30, 2023	December 31, 2022
Total	$ 76.1	$ 99.2
Outstanding	$ 56.3	$ 72.6

Contingencies

As of September 30, 2023, 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 8 – 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, 2022.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our condensed consolidated 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 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 financial statements.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated 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, 2022. 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, 2022 for a discussion of our significant accounting policies. During the nine months ended September 30, 2023, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

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. During the nine months ended September 30, 2023, there were no material changes to the Company’s qualitative and quantitative market risk..

For a complete discussion of these risks, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Form 10-K equivalent for the year ended December 31, 2022.

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 8 – 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, 2022.

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.