SHELF DRILLING, LTD.

Form 10-Q Equivalent for the
quarter ended March 31, 2023 and 2022

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SHELF DRILLING, LTD.
THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Independent Auditor's Report

To the board of directors and shareholders of Shelf Drilling, Ltd.

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated interim financial information of Shelf Drilling, Ltd. and its subsidiaries (together, the "Company"), which comprise the condensed consolidated balance sheet as of March 31, 2023, and the related condensed consolidated statements of operations, equity and cash flows for the three-month periods ended March 31, 2023 and 2022 including the related notes (collectively referred to as the "condensed consolidated interim financial information").

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (US GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with US GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Condensed Consolidated Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the condensed consolidated interim financial information that is free from material misstatement, whether due to fraud or error.

Other Matter

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Shelf Drilling, Ltd. and it's subsidiaries as of December 31, 2022, and the related consolidated statements of operations, comprehensive loss, equity and cash flows for the year then ended (not presented herein), and in our report dated March 20, 2023, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2022, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai, United Arab Emirates
May 15, 2023

PricewaterhouseCoopers Limited Partnership Dubai Branch, License no. 102451
Emaar Square, Building 5, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

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

	Three months ended March 31,	
	2023	2022
Revenues		
Operating revenues	$ 168.1	$ 150.5
Other revenues	15.3	5.5
	183.4	156.0
Operating costs and expenses		
Operating and maintenance	129.2	85.5
Depreciation	19.0	14.4
Amortization of deferred costs	12.0	15.3
General and administrative	15.5	12.4
Loss / (gain) on disposal of assets	0.1	(0.3)
	175.8	127.3
Operating income	7.6	28.7
Other (expense) / income, net		
Interest income	0.7	—
Interest expense and financing charges	(34.1)	(26.7)
Other, net	0.1	0.1
	(33.3)	(26.6)
(Loss) / income before income taxes	(25.7)	2.1
Income tax expense	8.6	6.7
Net loss	(34.3)	(4.6)
Net loss attributable to non-controlling interest	(0.9)	—
Net loss attributable to controlling interest	$ (33.4)	$ (4.6)
Loss per common share - basic and diluted	$ (0.18)	$ (0.03)
Weighted average common shares - basic and diluted	187.9	137.1

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)

	March 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 143.6	$ 140.8
Accounts and other receivables, net	174.7	175.7
Other current assets	79.5	79.8
Total current assets	397.8	396.3
Property and equipment	2,130.4	2,087.9
Less: accumulated depreciation	629.8	611.5
Property and equipment, net	1,500.6	1,476.4
Deferred tax assets	2.7	4.8
Other long-term assets	189.9	168.8
Total assets	$ 2,091.0	$ 2,046.3
Liabilities and equity		
Accounts payable	$ 146.3	$ 114.3
Interest payable	33.0	38.3
Accrued income taxes	10.9	9.1
Other current liabilities	40.5	40.3
Total current liabilities	230.7	202.0
Long-term debt	1,439.0	1,436.7
Deferred tax liabilities	9.9	10.0
Other long-term liabilities	85.5	82.1
Total long-term liabilities	1,534.4	1,528.8
Commitments and contingencies (Note 8)	—	—
Common shares of $0.01 par value; 234.1 shares authorized as of both March 31, 2023 and December 31, 2022; 194.0 and 176.4 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	1.9	1.8
Additional paid-in capital	1,101.2	1,056.6
Accumulated losses	(856.2)	(822.8)
Total controlling interest shareholders' equity	246.9	235.6
Non-controlling interest	79.0	79.9
Total equity	325.9	315.5
Total liabilities and equity	$ 2,091.0	$ 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 March 31, 2023	Three months ended March 31, 2022
Number of common shares		
Balance, beginning of period	176.4	137.1
Issuance of common shares	17.6	—
Balance, end of period	194.0	137.1
Common shares		
Balance, beginning of period	$ 1.8	$ 1.4
Issuance of common shares	0.1	—
Balance, end of period	1.9	1.4
Additional paid-in-capital		
Balance, beginning of period	1,056.6	1,006.3
Issuance of common shares	44.0	—
Share-based compensation expense, net of forfeitures	0.6	0.6
Balance, end of period	1,101.2	1,006.9
Accumulated losses		
Balance, beginning of period	(822.8)	(794.0)
Net loss	(33.4)	(4.6)
Balance, end of period	(856.2)	(798.6)
Total controlling interest shareholders' equity		
Balance, beginning of period	235.6	213.7
Net loss	(33.4)	(4.6)
Issuance of common shares	44.1	—
Share-based compensation expense, net of forfeitures	0.6	0.6
Balance, end of period	246.9	209.7
Non-controlling interest		
Balance, beginning of period	79.9	—
Net loss	(0.9)	—
Balance, end of period	79.0	—
Total equity	$ 325.9	$ 209.7

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)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash flows from operating activities		
Net loss	$ (34.3)	$ (4.6)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	19.0	14.4
Reversal of provision of credit losses, net	(0.3)	—
Amortization of deferred revenue	(3.1)	(9.0)
Amortization of intangible liability	(3.6)	—
Share-based compensation expense, net of forfeitures	0.6	0.6
Amortization of debt issuance costs, premium and discounts	2.3	1.3
Loss / (gain) on disposal of assets	0.1	(0.3)
Deferred tax benefit, net	2.0	(0.2)
Changes in deferred costs, net*	(26.9)	(0.2)
Changes in operating assets and liabilities	17.7	(11.1)
Net cash used in operating activities	(26.5)	(9.1)
Cash flows from investing activities		
Additions to property and equipment*	(19.4)	(8.0)
Advance payment for property and equipment	(1.1)	—
Proceeds from disposal of assets	0.2	0.3
Net cash used in investing activities	(20.3)	(7.7)
Cash flows from financing activities		
Payment of debt issuance costs	(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	44.4	—
Net cash provided by financing activities	44.1	—
Net decrease in cash, cash equivalents and restricted cash	(2.7)	(16.8)
Cash, cash equivalents and restricted cash at beginning of period*	177.3	253.2
Cash, cash equivalents and restricted cash at end of period*	$ 174.6	$ 236.4

* See Note 11 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs and a reconciliation of cash, cash equivalents and restricted cash balances.

The accompanying notes are an integral part of these condensed consolidated 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 March 31, 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 months ended March 31, 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

See condensed consolidated statements of operations for the amounts of operating and other revenues. As of March 31, 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 October 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.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Lease revenue [(1)]	$ 9.9	$ —

(1) Recorded in the other revenues line item 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 March 31, 2023	As of December 31, 2022
Current contract liabilities	$ 10.7	$ 4.9
Non-current contract liabilities	9.9	3.5
	$ 20.6	$ 8.4

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Balance, beginning of period	$ 8.4	$ 30.8
Increase due to contractual additions	15.3	4.7
Decrease due to amortization of deferred revenue	(3.1)	(9.0)
Decrease due to application of customer deposits and other	—	(1.4)
Balance, end of period	$ 20.6	$ 25.1

Approximately $3.1 million and $8.2 million of revenues recognized during the three months ended March 31, 2023 and 2022, respectively, were included in the beginning contract liabilities balances.

Expected future amortization of contract liabilities, net recorded as of March 31, 2023 is as follows (in millions):

For the periods ending December 31,	
Remainder of 2023	$ 7.3
2024	9.1
2025	4.2
	$ 20.6

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Deferred contract costs

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

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

	As of	
	March 31, 2023	December 31, 2022
Current deferred contract costs	$ 20.7	$ 14.8
Non-current deferred contract costs	33.4	17.3
	$ 54.1	$ 32.1

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

	Three months ended March 31,	
	2023	2022
Balance, beginning of period	$ 32.1	$ 36.7
Increase due to contractual additions	26.8	6.7
Decrease due to amortization of deferred contract costs	(4.8)	(9.0)
Balance, end of period	$ 54.1	$ 34.4

Allowance for credit losses

Allowance for credit losses was $3.5 million and $3.8 million as of March 31, 2023 and December 31, 2022, respectively. Movements in allowance for credit losses were as follows (in millions):

	Three months ended March 31,	
	2023	2022
Balance, beginning of period / year	$ 3.8	$ 3.2
Reversal of provision of credit losses, net	(0.3)	—
Balance, end of period / year	$ 3.5	$ 3.2

Note 3 – Intangible Liability

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

	Three months ended March 31,	
	2023	2022
Amortization of intangible liability [(1)]	$ 3.6	$ —

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

SHELF DRILLING, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The gross carrying amount and the accumulated amortization of intangible liability is as follows (in millions):

	As of March 31, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of period	$ 43.1	$ (7.6)	$ 35.5
Amortization	—	(3.6)	(3.6)
Balance, end of period	$ 43.1	$ (11.2)	$ 31.9

	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

	As of	
	March 31, 2023	December 31, 2022
Intangible liability		
Current portion (1)	$ 1.0	$ 2.2
Non-current portion (2)	30.9	33.3
	$ 31.9	$ 35.5

(1) Recorded in other current liabilities line 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 March 31, 2023
Remainder of 2023	$ 10.6
2024	12.8
2025	7.5
2026	1.0
	$ 31.9
Weighted average life (in years)	2.4

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	
		March 31, 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 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 three months ended March 31, 2023 and 2022 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
March 31, 2023:						
Revenues	$ —	$ —	$ 7.9	$ —	$ 3.4	$ 11.3
Operating costs and expenses	$ 0.1	$ 0.1	$ 8.7	$ 1.5	$ 3.7	$ 14.1
March 31, 2022:						
Revenues	$ —	$ —	$ 7.8	$ —	$ 2.2	$ 10.0
Operating costs and expenses	$ 0.1	$ 0.1	$ 8.0	$ 1.2	$ 2.5	$ 11.9

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

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

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of March 31, 2023 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 0.3	$ 0.1	$ 1.0	$ 1.6
Accounts and other receivables, net	—	—	21.1	—	2.3	23.4
Other current assets	—	—	0.1	1.0	0.5	1.6
Total current assets	—	0.2	21.5	1.1	3.8	26.6
Property and equipment, net	—	—	2.1	—	—	2.1
Other long-term assets	—	0.1	2.9	0.3	—	3.3
Total non-current assets	—	0.1	5.0	0.3	—	5.4
Total assets	$ —	$ 0.3	$ 26.5	$ 1.4	$ 3.8	$ 32.0
Liabilities						
Accounts payable	$ —	$ —	$ 7.8	$ 0.2	$ 1.4	$ 9.4
Other current liabilities	0.1	0.1	3.4	0.6	0.2	4.4
Total current liabilities	0.1	0.1	11.2	0.8	1.6	13.8
Other long-term liabilities	0.1	0.1	0.1	0.7	0.2	1.2
Total long-term liabilities	0.1	0.1	0.1	0.7	0.2	1.2
Total liabilities	$ 0.2	$ 0.2	$ 11.3	$ 1.5	$ 1.8	$ 15.0
Carrying amount, net	$ (0.2)	$ 0.1	$ 15.2	$ (0.1)	$ 2.0	$ 17.0

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):

	Three months ended March 31,	
	2023	2022
Net carrying value	$ 0.4	$ 0.4
Net proceeds	$ 0.3	$ 0.7
(Loss) / gain on disposal of assets	$ (0.1)	$ 0.3

Acquisition

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.

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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 line item on the condensed consolidated balance sheets.
(2) See Note 3 – Intangible Liability for details.

Note 6 – Income Taxes

Income tax expense for the three months ended March 31, 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 months ended March 31, 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.

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

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

	Three months ended March 31,	
	2023	2022
Income tax expense	$ 8.6	$ 6.7
Effective tax rate	(33)%	322 %

Income tax expense for the three months ended March 31, 2023 was higher than for the same period in 2022 primarily due to an increase in revenues and an increase in deferred tax expense due to a new legislation in a certain jurisdiction which prohibits the use of net operating losses to offset certain taxable income for periods beginning after March 31, 2023.

Tax Returns and Examinations

The Company is currently challenging a tax assessment of $7.8 million related to one of the Company's operations. The Company is appealing the assessment and believes it is more likely than not that it will ultimately prevail. In January 2022, the Company began making required monthly tax deposits calculated over a six year period while the Company's appeal is being considered.

The Company may be subject to income tax examinations in various jurisdictions. If any tax authority successfully challenges the Company's tax positions, the Company's income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. As of March 31, 2023, the 2013 through 2022 income tax periods remain open for examination in many of the Company's taxable jurisdictions.

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Note 7 – Debt

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

	As of	
	March 31, 2023	December 31, 2022
8.875% Senior Secured First Lien Notes, due November 2024		
Principal amount	$ 310.0	$ 310.0
Unamortized debt issuance costs	(3.4)	(3.9)
Unamortized discount	(2.9)	(3.3)
Carrying value	303.7	302.8
8.25% Senior Unsecured Notes, due February 2025		
Principal amount	900.0	900.0
Unamortized debt issuance costs	(5.4)	(6.0)
Unamortized premium	1.0	1.1
Carrying value	895.6	895.1
10.25% Senior Secured Notes, due October 2025		
Principal amount	250.0	250.0
Unamortized debt issuance costs	(4.0)	(4.3)
Unamortized discount	(6.3)	(6.9)
Carrying value	239.7	238.8
Total	$ 1,439.0	$ 1,436.7

Following is a summary of scheduled long-term debt maturities by year as of March 31, 2023 (in millions):

	As of March 31, 2023
Remainder of 2023	$ 6.3
2024	322.5
2025	1,131.2
Total	$ 1,460.0

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.

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Surety Bonds and Other Bank Guarantees

It is customary in the Company's business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations. The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE, Nigeria and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations.

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

	As of	
	March 31, 2023	December 31, 2022
Total surety bonds facilities	$ 97.5	$ 99.2
Outstanding surety bond facilities	$ 55.4	$ 72.6

Other Contingencies

The Company received an assessment for withholding taxes for one of its subsidiaries related to multiple tax years under review. The total amount of the tax assessment plus estimated penalties and interest was $6.7 million and $8.3 million as of March 31, 2023 and December 31, 2022, respectively, and the Company will be indemnified for $6.6 million and $8.1 million, respectively, of this exposure from the third-party prior owner of the subsidiary. The Company does not believe that the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

Note 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 March 31, 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	$ 303.7	$ 310.1	$ 302.8	$ 304.2
8.25% Senior Unsecured Notes, due February 2025	895.6	804.6	895.1	782.4
10.25% Senior Secured Notes, due October 2025	239.7	250.9	238.8	247.5
	$ 1,439.0	$ 1,365.6	$ 1,436.7	$ 1,334.1

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

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Note 10 – Equity

As of March 31, 2023, 194.0 million shares were issued and outstanding, of which 173.1 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 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.

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):

	Three months ended March 31,	
	2023	2022
Regulatory and capital maintenance	$ 27.2	$ 16.1
Contract preparation	26.8	6.7
Fleet spares, transition costs and others	5.6	0.1
	$ 59.6	$ 22.9
Rig acquisitions	22.9	—
Total capital expenditures and deferred costs	$ 82.5	$ 22.9

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):

	Three months ended March 31,	
	2023	2022
Cash payments for additions to property and equipment	$ 19.4	$ 8.0
Net change in accrued but unpaid additions to property and equipment	24.2	(0.6)
Total capital expenditures	$ 43.6	$ 7.4
Changes in deferred costs, net	$ 26.9	$ 0.2
Add: Amortization of deferred costs	12.0	15.3
Total deferred costs	$ 38.9	$ 15.5
Total capital expenditures and deferred costs	$ 82.5	$ 22.9

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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	
	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 143.6	$ 140.8
Restricted cash included in other current assets	5.8	12.6
Restricted cash included in other long-term assets	25.2	23.9
Total cash, cash equivalents and restricted cash	$ 174.6	$ 177.3

Note 12 – Earnings / (Loss) Per Share

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

	Three months ended March 31,	
	2023	2022
Numerator for loss per share		
Net loss attributable to controlling interest	$ (33.4)	$ (4.6)
Denominator for loss per share		
Weighted average common shares:		
Weighted average common shares - basic and diluted	187.9	137.1
Loss per common share - basic and diluted	$ (0.18)	$ (0.03)

The following were dilutive common shares which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been antidilutive (in millions):

	Three months ended March 31,	
	2023	2022
Dilutive common shares	11.1	4.5

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):

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	Three months ended March 31,	
	2023	2022
Saudi Arabia	$ 55.2	$ 46.8
Thailand	21.0	35.8
India	20.7	27.9
Nigeria	15.7	13.7
Angola	11.9	11.8
Norway	9.9	—
Others (1)	45.4	20.0
	$ 179.8	$ 156.0
Amortization of intangible liability	3.6	—
Total revenues	$ 183.4	$ 156.0

(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	
	March 31, 2023	December 31, 2022
Thailand	$ 455.6	$ 463.1
United Arab Emirates	204.1	129.2
Saudi Arabia	186.4	189.3
Norway	166.8	167.9
Nigeria	166.4	87.6
United Kingdom	113.7	113.1
Others (1)	378.9	471.0
Total long-lived assets, net	$ 1,671.9	$ 1,621.2

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

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.

The Company recorded $0.3 million for the three months ended March 31, 2023 and 2022, respectively, of 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. The total liability recorded under accounts payable for such transactions was $0.3 million as of March 31, 2023 and December 31, 2022, respectively.

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 Company recorded immaterial and zero costs for the three months ended March 31, 2023 and 2022, respectively. The total liability recorded for these costs under accounts payable was immaterial as of March 31, 2023 and December 31, 2022, respectively.

Certain VIE related parties provided goods and services to drilling rigs owned by several of the Company's foreign subsidiaries. These goods and services totaled $0.7 million and $0.6 million during the three months ended March 31, 2023 and 2022, respectively. The total liability recorded under accounts payable for such transactions was $0.9 million and $0.8 million as of March 31, 2023 and December 31, 2022, respectively.

Lease with a related party

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The right-of-use asset was $0.8 million and $1.0 million as of March 31, 2023 and December 31, 2022, respectively. The corresponding operating lease liability was $1.6 million (current: $1.6 million; long-term: zero) as of March 31, 2023 and $2.0 million (current: $1.6 million; long-term: $0.4 million) as of December 31, 2022. The Company has recorded total lease expenses of $0.2 million and $0.3 million for the three months ended March 31, 2023 and 2022, respectively.

Note 15 – Subsequent Events

The Company has evaluated subsequent events through May 15, 2023, the date of issuance of the condensed consolidated financial statements.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q equivalent and the audited consolidated financial statements included in the Company's Form 10-K Equivalent for the year ended December 31, 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:

- expectations, trends and outlook regarding industry and market conditions, oil and gas production and market prices, demand for hydrocarbons, offshore activity and dayrates;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere;
- the decline in demand as oil and gas fossil fuels are replaced by sustainable/clean energy;
- future regulatory requirements or customer expectations to reduce carbon emissions;
- the effects of supply chain and vendor activity disruptions on availability of materials and equipment necessary to operate our fleet of rigs;
- 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 impact of variations in demand for our rigs, including the preferences of some of our customers for newer and/or higher specification rigs;
- the ability of our customers to obtain permits;
- our ability to renew or extend contracts, enter into new contracts when such contracts expire or are terminated, and negotiate the dayrates and other terms of such contracts;
- expectations, trends and outlook regarding operating revenues, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense and other matters with regard to outlook and future earnings;
- the effect of disproportionate changes in our costs compared to changes in operating revenues;
- complex and changing laws and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect the cost, manner or feasibility of doing business;
- the effects and results of our strategies;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs;
- the expected completion of shipyard projects including the timing of rig construction or reactivation and delivery and the return of idle rigs to operations;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;
- the cost and timing of acquisitions and integration of additional rigs;
- sufficiency and availability of funds and adequate liquidity for required capital expenditures and deferred costs, working capital, debt service and other business requirements;
- our ability to obtain financing and pursue other business opportunities may be limited by our debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies;
- the market value of our rigs and of any rigs we acquire in the future, which may decrease and/or be impaired as a result of Company specific, industry specific or market factors;
- the level of reserves for accounts receivable and other financial assets, as appropriate;
- the proceeds and timing of asset dispositions;
- litigation, investigations, claims, disputes and other contingent liabilities and their effects on our financial condition and results of operations;

- effects of accounting changes and adoption of accounting policies;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- the effect of changes in foreign currency exchange rates; and
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to United States ("U.S.") laws.

This Quarterly Report should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL"). Except where indicated, the condensed consolidated financial statements and the notes to the condensed consolidated financial statements are combined. References in this report to "Shelf Drilling", "SDL", the "Company", "we", "us", "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries, unless the context requires otherwise. When used in this Quarterly Report, the words "anticipate, " "believe, " "estimate, " "expect, " "intend, " "plan, " "project, " "could, " "may, " "might, " "should, " "will" and similar words or the negative of these terms are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in the Company's Form 10-K Equivalent for the year ended December 31, 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 March 31, 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 April 2023, the Company secured a short-term contract for the Adriatic I, which will commence in Nigeria in May 2023.

In April 2023, SDNS secured a contract for the Shelf Drilling Barsk, with planned start-up of operations between May and July 2024 and an estimated term of 270 days plus options for additional wells.

Drilling fleet

The following table summarizes the Company's offshore rigs:

	As of		
	March 31, 2023	December 31, 2022	March 31, 2022
Jack-up rigs	36	36	30

Outlook

Brent crude oil prices, the key driver in the demand for shallow water drilling activity, averaged $82 per barrel during the first four months of 2023. Prices fell during March due to concerns related to challenges in the banking sector but rallied in early April following the announcement from the OPEC+ group of further supply cuts. More recently oil prices eased following concerns on the contagion risk with large regional US Banks combined with a higher than expected oil supply due to an increase in Russian oil exports. Oil demand is projected to further increase in the second half of 2023, primarily due to the re-opening of the Chinese economy post the zero-covid policy. Prices remain at levels supportive of additional investment in shallow water projects. We maintain a very constructive multi-year outlook for offshore spending and activity.

The global number of contracted jack-up rigs increased from 354 in December 2021 to 394 in May 2023 and marketed utilization increased from 83% to 92% over the same period. The Middle East region was the primary driver of this activity increase, and we expect other markets, particularly Southeast Asia, India and West Africa, to contribute to higher rig demand levels in the second half of 2023. Following years of rig retirements and the recent surge in demand, the jack-up supply overhang from the last decade has been effectively eliminated. With marketed utilization rising and spare rig capacity declining, dayrates on new jack-up fixtures have accelerated across all regions, as evidenced by our recent contract awards in West Africa, and we expect this trend to continue in 2023.

As of March 31, 2023, our backlog was $2.8 billion, with 34 of our 36 rigs under contract. Of the two remaining jack-ups, one rig has recently been awarded a new contract, and the other is being actively marketed in multiple contract opportunities with start dates in late 2023. As anticipated, our operating results declined sequentially in the first quarter of 2023, and capital expenditures will remain elevated during the second quarter, as we complete the preparation of several rigs for new long-term contracts at attractive dayrate levels in multiple geographies. We expect significant growth in EBITDA in the second half of 2023 and deleveraging of our balance sheet following commencement of these contracts, as we work towards a refinancing of our debt obligations ahead of maturity dates in late 2024 and early 2025.

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		
	March 31, 2023	**December 31, 2022**	**March 31, 2022**
Total contract backlog (in millions)	$ 2,751	$ 2,682	$ 1,660
Weighted average backlog dayrate (in thousands)	$ 79.3	$ 78.6	$ 68.4
Average contract days per rig	1,021	974	867
Number of contracted rigs	34	35	28

	Three months ended		
	March 31, 2023	**December 31, 2022**	**March 31, 2022**
Average dayrate (in thousands)	$ 69.7	$ 66.7	$ 61.8
Effective utilization	75%	86%	85%
Average marketable rigs	34.0	33.8	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		
	March 31, 2023	December 31, 2022	March 31, 2022
Net (loss) / income	$ (34.3)	$ 3.2	$ (4.6)
Add back:			
Interest expense and financing charges, net of interest income	33.4	33.8	26.7
Income tax expense	8.6	8.8	6.7
Depreciation	19.0	18.7	14.4
Amortization of deferred costs	12.0	17.4	15.3
Loss / (gain) on disposal of assets	0.1	0.5	(0.3)
Amortization of intangible liability	(3.6)	(7.6)	—
EBITDA	$ 35.2	$ 74.8	$ 58.2
One-time corporate transaction costs (1)	0.8	0.8	—
Adjusted EBITDA	$ 36.0	$ 75.6	$ 58.2
Adjusted EBITDA Margin	20%	35%	37%

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

Our restricted subsidiaries accounted for 81%, 78% and 100% of our Adjusted EBITDA for the three months ended March 31, 2023, December 31, 2022 and March 31, 2022, respectively. Our restricted subsidiaries accounted for 75% and 75% of our assets as of March 31, 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 March 31, 2023 to the immediately preceding quarter ended December 31, 2022. 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			
	March 31, 2023	December 31, 2022	Change	% change
Revenues				
Operating revenues	$ 168.1	$ 203.7	$ (35.6)	(17%)
Other revenues	15.3	18.5	(3.2)	(17%)
	183.4	222.2	(38.8)	(17%)
Operating costs and expenses				
Operating and maintenance	129.2	122.3	6.9	6%
Depreciation	19.0	18.7	0.3	2%
Amortization of deferred costs	12.0	17.4	(5.4)	(31%)
General and administrative	15.5	17.5	(2.0)	(11%)
Loss on disposal of assets	0.1	0.5	(0.4)	(80%)
	175.8	176.4	(0.6)	—%
Operating income	7.6	45.8	(38.2)	(83%)
Other (expense) / income, net				
Interest income	0.7	0.3	0.4	133%
Interest expense and financing charges	(34.1)	(34.1)	—	—%
Other, net	0.1	—	0.1	n/m
	(33.3)	(33.8)	0.5	(1%)
(Loss) / Income before income taxes	(25.7)	12.0	(37.7)	(314%)
Income tax expense	8.6	8.8	(0.2)	(2%)
Net (loss) / income	$ (34.3)	$ 3.2	$ (37.5)	(1172%)

n/m - not meaningful

	Three months ended March 31, 2023	Three months ended March 31, 2022	Change	% change
Revenues				
Operating revenues	$ 168.1	$ 150.5	$ 17.6	12%
Other revenues	15.3	5.5	9.8	178%
	183.4	156.0	27.4	18%
Operating costs and expenses				
Operating and maintenance	129.2	85.5	43.7	51%
Depreciation	19.0	14.4	4.6	32%
Amortization of deferred costs	12.0	15.3	(3.3)	(22%)
General and administrative	15.5	12.4	3.1	25%
Loss / (gain) on disposal of assets	0.1	(0.3)	0.4	(133%)
	175.8	127.3	48.5	38%
Operating income	7.6	28.7	(21.1)	(74%)
Other (expense) / income, net				
Interest income	0.7	—	0.7	n/m
Interest expense and financing charges	(34.1)	(26.7)	(7.4)	28%
Other, net	0.1	0.1	—	—%
	(33.3)	(26.6)	(6.7)	25%
Income / (loss) before income taxes	(25.7)	2.1	(27.8)	(1324%)
Income tax expense	8.6	6.7	1.9	28%
Net loss	$ (34.3)	$ (4.6)	$ (29.7)	646%

n/m - not meaningful

Three months ended March 31, 2023 compared to the three months ended December 31, 2022 and the three months ended March 31, 2023 compared to the three months ended March 31, 2022

Revenues

Total revenues for the three months ended March 31, 2023 were $183.4 million compared to $222.2 million for the three months ended December 31, 2022. Revenues for the three months ended March 31, 2023 consisted of $168.1 million (92%) of operating revenues and $15.3 million (8%) of other revenues. For the three months ended December 31, 2022, the corresponding revenues were $203.7 million (92%) and $18.5 million (8%), respectively.

Total revenues for the three months ended March 31, 2023 decreased by $38.8 million compared to the three months ended December 31, 2022 primarily due to $23.6 million related to lower effective utilization across the fleet, as four fewer rigs were operating and $18.2 million from lower recharges, amortization of mobilization and capital upgrades and $4.0 million of amortization of intangible liability, partially offset by $7.0 million from higher average earned dayrates.

Total revenues for the three months ended March 31, 2023 were $183.4 million compared to $156.0 million for the same period in 2022. Revenues for the three months ended March 31, 2023 consisted of $168.1 million (92%) of operating revenues and $15.3 million (8%) of other revenues. For the three months ended March 31, 2022, the corresponding revenues were $150.5 million (96%) and $5.5 million (4%), respectively.

Total revenues for the three months ended March 31, 2023 increased by $27.4 million compared to the same period in 2022 primarily due to revenues from the recently acquired rigs.

Operating and maintenance

Total operating and maintenance expenses for the three months ended March 31, 2023 were $129.2 million, or 70% of total revenue, compared to $122.3 million, or 55% of total revenue, in the three months ended December 31, 2022. Operating and maintenance expenses in the three months ended March 31, 2023, consisted of $116.8 million rig-related expenses and $12.4 million shore-based expenses. In the three months ended December 31, 2022, these same expenses were $110.0 million and $12.3 million, respectively. The increase in total rig-related expenses of $6.8 million primarily consisted of $4.9 million higher maintenance and shipyard expenses mainly for three rigs preparing for new contracts and $2.4 million higher operating expenses for the recently acquired rigs, partially offset by $0.7 million in other rig cost savings. Shore-based expenses were relatively unchanged.

Total operating and maintenance expenses for the three months ended March 31, 2023 were $129.2 million, or 70% of total revenue, compared to $85.5 million, or 55% of total revenue, in the three months ended March 31, 2022. Operating and maintenance expenses in the three months ended March 31, 2023, consisted of $116.8 million rig-related expenses and $12.4 million shore-based expenses. In the three months ended March 31, 2022, these same expenses were $76.5 million and $9.0 million, respectively. The increase in total rig-related expenses of $40.3 million primarily consisted of $19.2 million higher operating expenses for the recently acquired rigs, $17.3 million higher maintenance and shipyard expenses and $4.4 million for rigs that were not operating for the full comparative period in 2022. Shore-based expenses increased by $3.4 million for the three months ended March 31, 2023 compared to the same period in 2022 primarily due to higher personnel costs and support costs associated with the recently acquired rigs.

Depreciation

Depreciation expense in the three months ended March 31, 2023 was relatively unchanged compared to the three months ended December 31, 2022. Depreciation expense in the three months ended March 31, 2023 was $19.0 million compared to $14.4 million for the same period in 2022. The $4.6 million increase in depreciation expense for the three month period primarily resulted from $4.3 million higher depreciation for the recently acquired rigs.

Amortization of deferred costs

The amortization of deferred costs in the three months ended March 31, 2023 was $12.0 million compared to $17.4 million for the three months ended December 31, 2022. The $5.4 million decrease was primarily related to lower amortization on drilling rigs which ended contracts in late 2022 and early 2023.

The amortization of deferred costs in the three months ended March 31, 2023 was $12.0 million compared to $15.3 million for the same period in 2022. The $3.3 million decrease in amortization was primarily related to lower amortization on drilling rigs which completed contracts in late 2022 or early 2023 and partially offset by higher amortization of contract preparation expenses for three rigs in India, Thailand and West Africa.

General and administrative

General and administrative expenses were $15.5 million in the three months ended March 31, 2023 compared to $17.5 million for the three months ended December 31, 2022. The $2.0 million decrease primarily resulted from lower compensation and benefit expenses as compared to the prior period.

General and administrative expenses were $15.5 million in the three months ended March 31, 2023 compared to $12.4 million for the same period in 2022. The $3.1 million increase primarily resulted from higher personnel costs and certain one-time costs incurred for the recently acquired rigs.

Loss / (gain) on disposal of assets

Loss on disposal of assets in the three months ended March 31, 2023 was relatively unchanged compared to the three months ended December 31, 2022 and March 31, 2022.

Other (expense) / income, net

Other (expense) / income, net, consisting of interest expense and finance charges, interest income and other, net was relatively unchanged in the three months ended March 31, 2023 as compared to the three months ended December 31, 2022. Other (expense) / income, net, in both periods consisted primarily of interest expense and financing charges.

Other (expense) / income, net, was an expense of $(33.3) million in the three months ended March 31, 2023 compared to expense of $(26.6) million for the same period in 2022. Other (expense) / income, net, in both periods consisted primarily of interest expense and financing charges. Interest expense and financing charges in the three months ended March 31, 2023 were $7.4 million higher compared to the three months ended March 31, 2022, primarily due to $7.3 million higher interest expense on the 10.25% Senior Secured Notes, due October 2025 (“10.25% Senior Secured Notes”) issued in September 2022.

Income tax expense

Income tax expense for the three months ended March 31, 2023 was $8.6 million compared to $8.8 million for the three months ended December 31, 2022. Income tax expense for the three months ended March 31, 2023 was $8.6 million compared to $6.7 million for the three months ended March 31, 2022.

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

Income tax expense for the three months ended March 31, 2023 was lower than for the three months ended December 31, 2022 primarily due to a reduction in revenues partially offset by an increase in deferred tax expense due to a new legislation in a certain jurisdiction which prohibits the use of net operating losses to offset certain taxable income for periods beginning after March 31, 2023.

Income tax expense for the three months ended March 31, 2023 was higher than for the same period in 2022 primarily due to an increase in revenues and an increase in deferred tax expense due to a new legislation in a certain jurisdiction which prohibits the use of net operating losses to offset certain taxable income for periods beginning after March 31, 2023.

Liquidity and Capital Resources

Sources and uses of liquidity

We had $143.6 million and $140.8 million in cash and cash equivalents as of March 31, 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 and 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. The net proceeds will be used for general corporate purposes, including capex requirements associated with multiple recent long-term contract awards.

Restricted cash consists of cash deposits held related to bank guarantees and are recorded according to the maturity date plus expected extensions and renewals as either other current assets or other long-term assets in the condensed consolidated balance sheets. As of March 31, 2023, we had restricted cash of $5.8 million and $25.2 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 March 31, 2023 as compared to December 31, 2022, was due to higher outstanding bank guarantees relating to ongoing projects as of December 31, 2022.

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. We may seek to extend our maturities and/or reduce the overall principal amount of our debt through liability management transactions, which may include exchange offers and/or recapitalizations. See also Material Cash Requirements below.

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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):

	Three months ended March 31	
	2023	**2022**
Net cash used in operating activities	$ (26.5)	$ (9.1)
Net cash used in investing activities	(20.3)	(7.7)
Net cash provided by financing activities	44.1	—
Net decrease in cash, cash equivalents and restricted cash	$ (2.7)	$ (16.8)

Net cash used in operating activities

Net cash used in operating activities totaled $26.5 million during the three months ended March 31, 2023 compared to $9.1 million during the three months ended March 31, 2022. The increase of $17.4 million in cash used in operations was primarily due to the increase in deferred cost expenditures for rigs undergoing contract preparation projects combined with a decrease in usage of cash for working capital, partially offset by an increase in revenues when compared to the prior year period.

During the three months ended March 31, 2023 and 2022, we made cash payments of $37.1 million each in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $3.9 million and $6.8 million in income taxes included in other operating assets and liabilities, net during the three months ended March 31, 2023 and 2022, respectively.

Net cash used in investing activities

Net cash used in investing activities totaled $20.3 million during the three months ended March 31, 2023 compared to $7.7 million during the three months ended March 31, 2022. The increase of $12.6 million in cash used in investing activities was primarily due to $11.4 million higher capital expenditures and $1.1 million advance payments for property and equipment in Q1 2023.

Net cash provided by financing activities

Net cash provided by financing activities was $44.1 million in the three months ended March 31, 2023 compared to cash provided of nil during the three months ended March 31, 2022. The increase in cash from financing activities was primarily due to the net proceeds from the issuance of common shares of $44.4 million during the three months ended March 31, 2023.

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):

	Three months ended March 31,			
	2023		2022	
Regulatory and capital maintenance (1)	$	27.2	$	16.1
Contract preparation (2)		26.8		6.7
Fleet spares, transition costs and other (3)		5.6		0.1
	$	59.6	$	22.9
Rig acquisitions (4)		22.9		—
Total capital expenditures and deferred costs	$	82.5	$	22.9

(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 Acquisition and the Shelf Drilling Victory acquisition and readiness projects.

Capital expenditures and deferred costs were $82.5 million and $22.9 million in the three months ended March 31, 2023 and 2022, respectively. The increase of $59.6 million was primarily due to $31.2 million higher regulatory, capital maintenance and contract preparation costs primarily for four rigs preparing for new contracts that are expected to commence in Q2/Q3 2023, $22.9 million higher rig acquisitions primarily related to the rig readiness expenditures for the Shelf Drilling Victory acquired in Q3 2022 and $5.5 million higher spending in fleet spares, transition costs and other.

Certain Financial Information of SDL and SDHL

The following tables present certain financial information for SDL, SDHL and SDNS for the three months ended March 31, 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 three months ended March 31, 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	$ 168.1	$ —	$ 168.1	$ 25.7	$ —	$ 142.4
Other revenues	15.3	—	15.3	11.1	—	4.2
	183.4	—	183.4	36.8	—	146.6
Operating costs and expenses						
Operating and maintenance	129.2	—	129.2	22.5	—	106.7
Depreciation	19.0	—	19.0	4.3	—	14.7
Amortization of deferred costs	12.0	—	12.0	—	—	12.0
General and administrative	15.5	(0.5)	15.0	4.6	—	10.4
Gain on disposal of assets	0.1	—	0.1	—	—	0.1
	175.8	(0.5)	175.3	31.4	—	143.9
Operating income	7.6	0.5	8.1	5.4	—	2.7
Other (expense) / income, net						
Interest income	0.7	—	0.7	0.2	—	0.5
Interest expense and financing charges	(34.1)	—	(34.1)	(7.3)	—	(26.8)
Other, net	0.1	—	0.1	(0.2)	—	0.3
	(33.3)	—	(33.3)	(7.3)	—	(26.0)
(Loss) / income before income taxes	(25.7)	0.5	(25.2)	(1.9)	—	(23.3)
Income tax expense	8.6	—	8.6	0.5	—	8.1
Net loss	$ (34.3)	$ 0.5	$ (33.8)	$ (2.4)	$ —	$ (31.4)
Net loss attributable to non-controlling interest (1)	(0.9)	—	(0.9)	—	0.9	—
Net (loss) / income attributable to controlling interest	$ (33.4)	$ 0.5	$ (32.9)	$ (2.4)	$ (0.9)	$ (31.4)

(1) The $0.9 million amount relates to the elimination of the non-controlling interest when computing the net loss attributable to controlling interest for SDHL excluding SDNS.

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Condensed Consolidated Balance Sheets as of March 31, 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	$ 143.6	$ (36.7)	$ 106.9	$ 62.9	$ —	$ 44.0
Accounts and other receivables, net [1]	174.7	4.1	178.8	25.5	0.9	154.2
Other current assets	79.5	—	79.5	0.4	—	79.1
Total current assets	397.8	(32.6)	365.2	88.8	0.9	277.3
Property and equipment	2,130.4	—	2,130.4	423.2	—	1,707.2
Less: accumulated depreciation	629.8	—	629.8	8.5	—	621.3
Property and equipment, net	1,500.6	—	1,500.6	414.7	—	1,085.9
Deferred tax assets	2.7	—	2.7	2.1	—	0.6
Other long-term assets [2]	189.9	—	189.9	6.7	120.0	303.2
Total assets	$ 2,091.0	$ (32.6)	$ 2,058.4	$ 512.3	$ 120.9	$ 1,667.0
Liabilities and equity						
Accounts payable	$ 146.3	$ (0.6)	$ 145.7	$ 17.6	$ —	$ 128.1
Accounts payable - related parties [3]	—	—	—	0.9	0.9	—
Interest payable	33.0	—	33.0	13.2	—	19.8
Accrued income taxes	10.9	—	10.9	1.0	—	9.9
Other current liabilities	40.5	—	40.5	3.1	—	37.4
Total current liabilities	230.7	(0.6)	230.1	35.8	0.9	195.2
Long-term debt	1,439.0	—	1,439.0	239.7	—	1,199.3
Deferred tax liabilities	9.9	—	9.9	2.3	—	7.6
Other long-term liabilities	85.5	—	85.5	32.3	—	53.2
Total long-term liabilities	1,534.4	—	1,534.4	274.3	—	1,260.1
Commitments and contingencies						
Common shares [4]	1.9	(1.9)	—	1.0	1.0	—
Additional paid-in capital [5]	1,101.2	(126.2)	975.0	194.3	194.3	975.0
Accumulated losses [6]	(856.2)	96.1	(760.1)	6.9	3.7	(763.3)
Total controlling interest shareholders' equity	246.9	(32.0)	214.9	202.2	199.0	211.7
Non-controlling interest [7]	79.0	—	79.0	—	(79.0)	—
Total equity	$ 325.9	$ (32.0)	$ 293.9	$ 202.2	$ 120.0	$ 211.7
Total liabilities and equity	$ 2,091.0	$ (32.6)	$ 2,058.4	$ 512.3	$ 120.9	$ 1,667.0

(1) The $4.1 million primarily relates to legal and accounting fees paid by SDHL on behalf of SDL. The $0.9 million relates to the elimination of the intercompany balance due to SDHL from SDNS.

(2) The $120.0 million relates to the investments in subsidiaries made by SDHL once SDNS has been removed from the consolidated SDHL level.

(3) The $0.9 million relates to the elimination of the intercompany balance due to SDHL by SDNS.

(4) The $1.9 million adjustment reflects the total number of SDL outstanding shares of 194.0 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 $126.2 million adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. ("SDIL") to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd. ("Midco") which is 100% directly owned by SDL. The $194.3 million relates to the elimination of common shares issued at SDNS that are eliminated at the consolidated SDHL level.

(6) The $96.1 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 $3.7 million relates to the non-controlling interest that is eliminated at the consolidated SDHL level.

(7) The $79.0 million adjustment relates to the non-controlling interest that is eliminated at the consolidated SDHL level.

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Condensed Consolidated Statements of Cash flows for the three months ended March 31, 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 loss	$ (34.3)	$ 0.5	$ (33.8)	$ (2.4)	$ —	$ (31.4)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities			—		—	—
Depreciation	19.0	—	19.0	4.3	—	14.7
Reversal of provision of credit losses, net	(0.3)	—	(0.3)	—	—	(0.3)
Amortization of deferred revenue	(3.1)	—	(3.1)		—	(3.1)
Amortization of intangible liability	(3.6)		(3.6)	(3.6)	—	—
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	0.6	(0.1)	0.5	—	—	0.5
Amortization of debt issue costs, premiums and discounts	2.3	—	2.3	0.9	—	1.4
Loss on disposal of assets	0.1	—	0.1	—	—	0.1
Deferred tax expense, net	2.0	—	2.0	0.2	—	1.8
Changes in deferred costs, net	(26.9)	—	(26.9)	(0.1)	—	(26.8)
Changes in operating assets and liabilities						
Intercompany receivables / payables	—	(0.5)	(0.5)	(0.7)	0.7	0.9
Other operating assets and liabilities, net	17.7	(0.2)	17.5	14.9	(0.7)	1.9
Net cash (used in) / provided by operating activities	(26.5)	(0.3)	(26.8)	13.5	—	(40.3)
Cash flows from investing activities						
Additions to property and equipment	(19.4)	—	(19.4)	(2.9)	—	(16.5)
Advance payments for property and	(1.1)	—	(1.1)	—	—	(1.1)
Proceeds from disposal of assets	0.2	—	0.2	—	—	0.2
Net cash used in investing activities	(20.3)	—	(20.3)	(2.9)	—	(17.4)
Cash flows from financing activities						
Payment of debt issuance costs	(0.2)	—	(0.2)	(0.2)	—	—
Payment of issuance costs for subsidiary shares issuance to non-controlling interest (1)	(0.1)	—	(0.1)	—	0.1	—
Capital contribution from Parent (2)	—	10.0	10.0	—	—	10.0
Proceeds from issuance of common shares, net of issuance costs (3)	44.4	(44.4)	—	(0.1)	(0.1)	—
Net cash provided by / (used in) financing activities	44.1	(34.4)	9.7	(0.3)	—	10.0
Net increase in cash, cash equivalents and	(2.7)	(34.7)	(37.4)	10.3	—	(47.7)
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	$ 174.6	$ (36.7)	$ 137.9	$ 67.4	$ —	$ 70.5

(1) 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.

(2) The $10.0 million adjustment relates to capital contribution to SDHL by SDL that was eliminated at SDL.

(3) 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 March 31, 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 March 31, 2023, we had a total principal amount of indebtedness of $1.5 billion which related to the 8.875% Senior Secured First Lien Notes, due November 2024 ("8.875% 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 begin in 2023 for the 10.25 % Senior Secured Notes. See Note 7 – Debt in "Item 1. Financial Statements" of "Part I. Financial Information".

As of March 31, 2023, we had operating lease obligations outstanding of $12.5 million.

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

The Company is currently challenging a tax assessment of $7.8 million related to one of the Company's operations. The Company is appealing the assessment and believes it is more likely than not that it will ultimately prevail. In January 2022, the Company began making required monthly tax deposits calculated over a six year period while the Company's appeal is being considered.

The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE, Nigeria and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations.

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

	As of	
	March 31, 2023	December 31, 2022
Total	$ 97.5	$ 99.2
Outstanding	$ 55.4	$ 72.6

Contingencies

As of March 31, 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 three months ended March 31, 2023, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

New Accounting Pronouncements

See "Item 1. Financial Statements" of "Part I. Financial Information".

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Liquidity risk

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

Interest Rate Risk

We are exposed to interest rate risk related to the fixed rate debt under the 8.875% Notes, 8.25% Senior Unsecured Notes and 10.25% Senior Secured Notes. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes us to changes in market interest rates if and when voluntary refinancing or refinancing of maturing debt with new debt occurs. We have in the past utilized interest rate swaps or other derivative instruments to manage interest rate risk.

Foreign Currency Risk

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

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

Credit Risk

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

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

We determine our expected credit losses for our pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations. Allowance for credit losses was $3.5 million and $3.8 million as of March 31, 2023 and December 31, 2022, respectively.

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.