SHELF DRILLING

Annual Report
2023

> We believe that our highly centralized approach to managing the business has delivered consistent and reliable operating performance throughout the cycles.

Ernie Danner
Chairman

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What's Inside

Important Notice: All information in the Annual Report is as at March 4, 2024 or earlier if explicitly stated. As such, the Annual Report does not reflect any Company events or changes after March 4, 2024.

Forward-looking statements

Some of the information in this report may contain forward-looking statements, which include statements regarding the Company's expected financial position and results of operations, business plans and prospects, etc. They are generally identified by forward-looking words, such as "believe", "plan", "anticipate", "continue", "estimate", "expect", "may", "will", or other similar words. Forward-looking statements are dependent on assumptions or the basis underlying such statements. We have chosen these assumptions or basis in good faith, and we believe that they are reasonable in all material respects. However, we caution that the actual results, performances or achievements could differ materially from those expressed or implied in such forward- looking statements. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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About the Cover

Shelf Drilling Barsk, a CJ-70 design, world's largest jack-up rig.

Our Vision

To be the international jack-up contractor of choice

Our Priorities

Focus
Jack-up operations are our sole focus.

Reliability
With safety and operational performance at the forefront of everything we do, we strive to create an environment where no one gets hurt.

Relationships
Our goal is to develop long-term, mutually beneficial relationships with customers and suppliers. We provide development for our people to support their long-term career goals.

Our Values

Protect
Protect yourself, your team, your asset and our environment.

Lead
We conduct business ethically, with responsibility and accountability.

Execute
We consistently deliver outstanding performance for our customers, owners and other stakeholders.

Shelf Drilling is a leading international shallow water offshore drilling contractor with rig operations across the Middle East, Southeast Asia, India, West Africa, Mediterranean and the North Sea.

Our strategy is to maintain a sole focus on shallow water drilling and workover services and leverage decades of industry experience and an outstanding track-record to provide best-in-class operations for our customers.

Who We Are

Key Highlights

0.12
TRIR for 2023
Consistently lower than IADC average

98.8%
Uptime for 2023
> 98.5% since inception

US$311Mn
Adjusted EBITDA
for 2023

>30%
Adjusted EBITDA Margin every year since inception

~US$10Bn
of **New Contract Awards** since inception

97%
Marketed Utilization
at year end 2023

~4,200
Employees
57 Nationalities

32%
Females Onshore[1]

89%[2]
National Content Offshore

~60,000
Tonnes CO_2 prevented through circularity

Grade B+
ESG100 Rating 2023

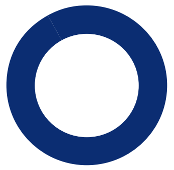
Grade B-
CDP Climate Change Rating 2023

[1] Excludes Corporate employees.
[2] Excludes Norway and Qatar employees, and UAE and Singapore project teams.

Jack-up Fleet

97% Contracted Utilization Across 36 Jack-ups[1]

13x Premium



100%

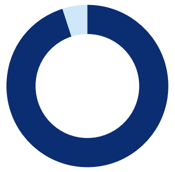
Utilization

Demonstrated ability to invest and deploy

Benign Environment Premium Rigs : 9

Harsh Environment Rigs at SDNS[2]: 4

22x Standard



95%

Utilization

Cost efficient and well suited for brownfield activity

Middle East, Med. & West Africa: 11

India & Egypt: 11

Note (1): As of December 31, 2023; Baltic was the only rig available.
Note (2): Excluding Shelf Drilling Barsk, a CJ70.

"Right Assets in Right Locations"

Blend of premium & standard jack-ups provide ideal match to customer requirements

Shelf Drilling Barsk

World's Largest Jack-up Rig

Uniquely suited for Norwegian operating environment

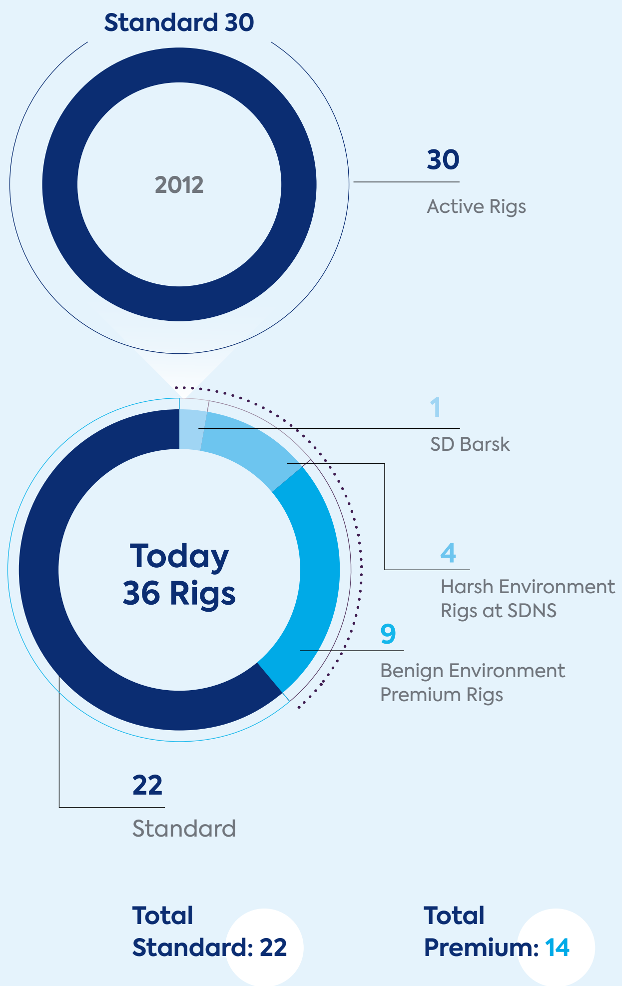
Size enables deeper water depths than other rigs

Successfully integrated all five SDNS harsh and ultra harsh-environment jack-up rigs

We completed deployment of our streamlined systems and centralized processes to the 4 rigs in the UK, Denmark, and Qatar and their shore-based support in early 2023, followed by the transition of the SD Barsk in Norway at year-end 2023 upon completion of its bareboat charter.

Four rigs operated by Shelf Drilling for the full year 2023 achieved a TRIR of 0.18 and uptime of 98.7%, on par with performance by rest of our fleet, demonstrating the speed and effectiveness at which these rigs were integrated into the Shelf Drilling operating platform.

Strategic Evolution and Transformation of Jack-up Fleet



Investment Highlights

Fit-For-Purpose Strategy

Since our inception in 2012, we have applied our "fit-for-purpose" strategy centered around three key pillars to improve our business performance. The strategy capitalizes on our sole focus on the shallow water segment and our team's extensive experience of working with our customers, rigs and the markets we serve.

Execution of strategy has resulted in superior performance and returns throughout the cycle

- Right Assets in the Right Locations
- Right-sized Organization
- High National Content

Fit for Purpose Strategy

- Differentiated strategy encompassing quality and positioning of fleet, performance of our people and processes and strong relationships with customers and markets where we operate
- Strategy drives alignment across key sustainability issues for all stakeholders

Leading Position in Key Markets

- Critical mass and significant market share in all core geographic regions
- Core operating regions – activity comparatively stable, low lifting cost and low emissions
- Predominantly NOC exposure

World Class Jack-up Contractor

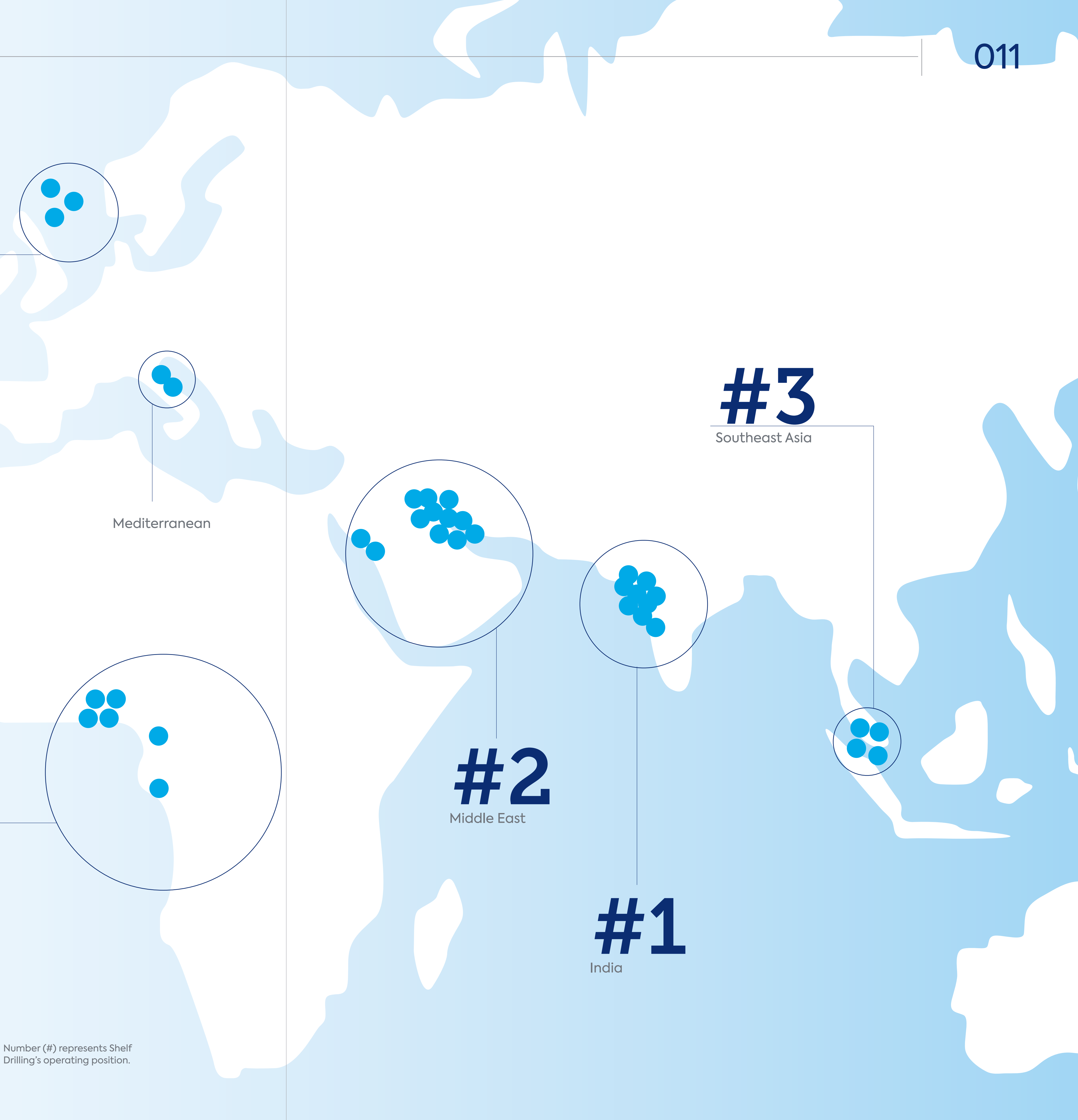
- Best-in-class operating platform and low-cost structure
- Proven track record of securing contracts and building backlog through the cycle
- Sustained performance and technical innovation creates differentiation

Returns Focus

- Full cycle track record of resilient margins and free cash flow generation
- Adapted capital investment strategy to changes in market dynamics
- Fleet transformation in recent years through creative, cost-effective transactions
- Well positioned to generate significant free cash flow in the coming years

Where We Operate

Operating with scale in the most attractive shallow water markets



Number of rigs in operations across the globe

MENAM	14
INDIA	9
WEST AFRICA	6
NORTH SEA	3
SOUTHEAST ASIA	4

Number (#) represents Shelf Drilling's operating position.

Chairman's Statement

Ernie Danner
Chairman

The favorable industry trends resulted in a continued improvement in the demand for jack-up rig services throughout the year helping drive improvements in dayrate and utilization.

US$311 Mn

Adjusted EBITDA 2023

2023 saw a further escalation in regional conflicts, with the tragic events in the Middle East adding to the protracted war in Ukraine. Against this backdrop of geopolitical challenges, we continued to see a notable improvement in the business environment for our industry. This positive shift can be attributed, in part, to the proactive intervention by OPEC+ to curtail supply, combined with a steady improvement in demand for oil and gas throughout the year.

We successfully completed the transition of the five rigs acquired from Noble in 2022 into Shelf Drilling's highly centralized processes and systems. We were further pleased to welcome into the Company the crews and management team from the Shelf Drilling Barsk in Norway upon the completion of the bareboat charter agreement in December. We look forward to a successful start-up of this rig for Equinor in the second quarter of 2024.

The Board was particularly pleased to note the exceptional safety performance delivered by our rig crews and management teams in 2023, especially against the backdrop of a heightened activity environment. Achieving a Total Recordable Incident Rate (TRIR) of 0.12 marks a significant milestone, representing the best safety performance in the company's history. This accomplishment is particularly remarkable considering the improved demand for talent within our industry and the integration of crews from the Noble transaction onto our platform.

The favorable industry trends resulted in a continued improvement in the demand for jack-up rig services throughout the year helping drive improvements in dayrate and utilization. In 2023, Shelf Drilling secured several key contracts at higher dayrates, supported by our outstanding operational performance and proven ability to work closely with our customers in meeting their requirements and exceeding expectations.

Our financial performance improved significantly in the second half of the year, as we brought rigs back into operation following completion of their major projects. Combined with our proactive cost management in the face of supply chain challenges, we delivered full year 2023 Adjusted EBITDA of US$311 million, in line with our guidance provided at the beginning of the year and marking a 25% increase over 2022.

We were especially pleased to complete a comprehensive refinancing of our capital structure in the fourth quarter. The support we received from our stakeholders, and their confidence in our management team to deliver, were critical in achieving this outstanding result for the Company.

COP28 in the UAE brought this region and our industry into sharp focus. It remains clear that the oil and gas industry will play an essential role in the world meeting its energy needs for the foreseeable future. The Middle East will play an increasingly important role in the decades to come which further supports our strategic focus on growing our business across the region over the last few years.

The landscape for sustainability reporting has evolved significantly since our first report in 2020. We continue to adapt our reporting platform in line with changing stakeholder requirements, and we are committed to achieving compliance with the European Union's Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS). This year's sustainability report is a step in this direction, and we intend to publish a fully compliant report in Q1 2025.

As announced earlier this year, Shelf Drilling will undergo strategic leadership changes in 2024. Effective August this year, David Mullen will transition to the role of Executive Chairman, while Greg O'Brien will assume the position of Chief Executive Officer, succeeding him. Consequently, I will transition to the role of Lead Independent Director on the Board. Over the next few months, the management team will ensure a seamless transition and effective transfer of responsibilities.

This leadership transition aligns with Shelf Drilling's commitment to management continuity, which is very unique for our industry. It provides the next generation of leadership with the opportunity to drive further growth and development for our company and employees. We are fortunate to have an internal candidate of Greg's caliber, as this ensures continuity and preserves the culture that underpins our unique operating platform, core values, and the philosophy of "One Team One Goal."

We remain confident that our industry will see a multi-year upcycle and our improving results in 2023 will continue in 2024 and beyond. We look forward to returning value to our shareholders as our business performance continues to improve.

On behalf of the Board, I would like to thank all our stakeholders for their continued support of Shelf Drilling and to all of our employees for their commitment to the Company's success.

Ernie Danner
Chairman

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CEO's Statement

David Mullen
Chief Executive Officer

Our diligent cost management, combined with an improving market outlook, enabled us to successfully complete a comprehensive refinancing of our capital structure in the latter half of 2023

0.12

TRIR for 2023 - the best since Company inception

In 2023 we witnessed sustained growth in the demand for oil despite the myriad of economic challenges posed by an escalating interest rate environment, heightened regional instability in the Middle East and the ongoing war in Ukraine. Brent oil price averaged US$82 in 2023 versus nearly US$100 in 2022 a decline of 17%. The year-over-year decline in oil price was due to higher production volumes from onshore US, offshore Guyana and Brazil more than offsetting the demand growth and the self-imposed decline in OPEC production quota. Oil price is one of the key drivers for our activity and despite the year over year decline remains within a constructive range for our business. As a result, we experienced improving market conditions across most of our operating regions, extending the recovery that began in 2022.

We delivered an outstanding safety performance with a TRIR of 0.12, the best since Company inception and a meaningful improvement over our already industry-leading track record. Our focus on rigorous planning, relative stability of our crews and driving engagement through our "Make It Safer Today" (MIST) program have been key elements to achieving this result. In 2024, we plan to take this further by expanding our "One Team, One Goal" philosophy which is intended to drive engagement of all stakeholders in the planning and execution of our customers' objectives safely and efficiently at all times.

In 2023, we undertook the most intense period of major out of service projects in the Company's history with eight major projects completed, in aggregate on time and on budget. This was despite the significant challenges faced by our supply chain and our industry as a whole, which clearly demonstrates the effectiveness of our unique project management approach and collaborative customer engagement during these projects. In some cases we eliminated or significantly reduced the out-of-service time required to complete projects through a combination of utilizing batch process in the well construction and technology to facilitate prefabrication of piping work.

We achieved an uptime performance of 98.8%, demonstrating the effectiveness of our operating platform to seamlessly integrate the harsh environment rigs acquired in 2022 and our ability to manage the diverse technical capabilities within our fleet.

Throughout 2023, rig demand improved across all our operating regions, culminating in 35 out of our 36 rigs contracted and a backlog of US$2.34 billion at year-end. The average dayrate in our year-end backlog increased from US$78.6k in 2022 to US$83.4k in 2023, a clear indication of the market's positive trajectory. We believe we have a good blend of contracted days and open capacity from 2024 through to 2026, which positions us well to capitalize on the improving market and deliver greater returns to our shareholders.

We were especially pleased with the contract award for the Shelf Drilling Barsk with Equinor in Norway, achieved through a competitive tender process, showcasing our team's capabilities. Furthermore, we are adapting to changing market dynamics by redeploying the Shelf Drilling Perseverance (SDP) from the North Sea to Vietnam for a 16-month contract scheduled to start by mid-2024. This strategic move primarily stems from the North Sea's relatively weaker demand following the imposition of the UK windfall tax in late 2022 combined with lower gas prices in the region. The move also aligns with our strategy of having "the right rigs in the right locations" while maintaining critical mass in each operational region.

Our 2023 Adjusted EBITDA was US$311 million, within the lower end of our guidance range. The shortfall from the upper end of guidance was substantially due the slowing of the North Sea market and the early termination of the SDP as a result of customer's financial challenges.

The unprecedented increase in jack-up rig demand, stemming primarily from the Middle East through 2022 and 2023 created significant pressure on our supply chain and human resources. Shelf Drilling successfully navigated this challenging period, thanks in part to our strong relationships with key vendors, our centralized maintenance and procurement processes, and the significant pool of fleet spares that we have built over the past 5 years, demonstrating the effectiveness of the Shelf Drilling operating platform.

Our enduring commitment to fostering long-term employee engagement emphasizing nationalization and employee development within a fair and inclusive environment, proved invaluable in retaining our key employees. Despite industry-wide talent shortages, these efforts ensured that our attrition rates remained consistent with the previous year.

Our diligent cost management, combined with an improving market outlook, enabled us to successfully complete a comprehensive refinancing of our capital structure in the latter half of 2023. This multi-faceted transaction extended our parent company's debt maturities until 2029 whilst providing flexibility to manage potential working capital needs. We reduced our total debt using cash on hand and a significantly oversubscribed equity raise that demonstrates strong investor interest in the Company's future. Furthermore, we will continue to deleverage our balance sheet on an annual basis through scheduled principal repayments in our new senior secured notes.

We made progress in measuring our engine performance and fuel consumption more accurately by way of several successful pilot tests; these modification kits will be rolled out to our fleet in 2024. While we did not achieve our annual Scope 1 emissions reduction goal for 2023, we are developing activity-based metrics to drive down emissions over time, in partnership with our customers. Our progress on the actions related to Human Rights as outlined in the Transparency Act statement published in June 2023, and the efforts to achieve compliance with the EU CSRD and ESRS requirements are further detailed in our Sustainability Report.

Earlier this year, Saudi Aramco announced a directive from the Ministry of Energy, halting plans to expand their maximum sustainable production capacity from 12 to 13 million barrels per day, a decision that has prompted industry speculation regarding the potential impact on near-term rig requirements. While the full extent of the effects remains uncertain, we are confident that the long-term demand for jack-up rigs in the Kingdom will remain strong due to a continuing shift towards offshore activity to compensate for declining onshore liquids production. Further, the agility of our fleet, our commitment to operational excellence and our unique operating platform gives us confidence in our ability to adapt to evolving market changes and efficiently redeploy any released rig capacity to capitalize on opportunities globally.

As announced earlier, effective August this year, I will transition to the role of Executive Chairman, and Greg O'Brien will replace me as CEO. Our current Chairman, Ernie Danner, will remain a member of the board of directors as Lead Independent Director. As Executive Chairman, one of my key responsibilities will be to ensure a successful transition to the new leadership and I look forward to supporting Greg and the entire management team with this change.

Looking ahead to 2024, our focus remains on delivering outstanding service to our customers through our "One Team, One Goal" mindset and improving financial results as we realize the potential of our contracted fleet. We are also committed to addressing short-term challenges within Shelf Drilling North Sea (SDNS) and leveraging improving markets both within and outside of the North Sea. We have a strong pipeline of marketing opportunities across our geographic footprint that should afford us opportunities to drive dayrates and margins higher into 2025 and beyond.

I would like to thank all our stakeholders, and particularly our dedicated employees, for their outstanding support of Shelf Drilling in 2023.

David Mullen
Chief Executive Officer

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Our Journey

2012-13

- Establishment of Shelf Drilling
- Fleet achieves substantial independence, majority of rigs transferred to Shelf Drilling operational control

2014

- Signing of 5-year contracts with Chevron Thailand for two newbuild jack-up rigs – Shelf Drilling Chaophraya and Shelf Drilling Krathong

2017-18

- Equity raise on Norwegian OTC list to acquire 3 premium jack-ups
- Listing on Oslo Børs and redemption of Preferred Equity

2019-20

- Signing of transaction with China Merchants to acquire two newbuild CJ46 jack-ups
- Publication of first standalone Sustainability Report, reviewing performance for the full year 2019

2021

- Opportunistic sale of one newbuild CJ46 rig
- US$310 million principal amount of high yield bond offering to create multi-year liquidity runway through pandemic-driven downturn

2022

- Acquisition of 5 premium harsh environment jack-ups from Noble Corporation, related private placement and debt financing
- Expansion of geographic footprint in North Sea and Qatar
- Listing of Shelf Drilling North Sea on Euronext Growth Oslo

2023

- Significantly improved balance sheet with issuance of US$1.095 billion principal amount of new Senior Secured Notes due 2029, new US$50 million Term Loan due 2024, US$125 million Revolving Credit Facility and US$102 million of equity private placements
- Redeemed all outstanding US$310 million Senior Secured Notes due 2024 and US$900 million Senior Unsecured Notes due 2025

- Completed transition for all 5 SDNS rigs
- 14 out-of-service rig projects completed, highest concentration in company history
- Shelf Drilling Scepter awarded two-year firm contract plus one year option by Chevron in Nigeria
- Shelf Drilling Barsk awarded two-well firm contract plus two optional wells by Equinor in Norway
- Shelf Drilling Perseverance awarded 16-month firm contract by PVEP in Vietnam
- Published our inaugural Norwegian Transparency Act Statement outlining the results of 2022 Human Rights Saliency Assessment

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Board of Directors' Report & Financial Statements

Market Review

Brent Oil Price

In 2023, Brent crude prices stayed largely within a US$10 range around an average of US$82 per barrel. The stability was achieved amidst a complex interplay of factors including higher inflation, rising interest rates, ongoing geopolitical conflicts in Eastern Europe, escalating conflicts in the Middle East, global demand-side uncertainties and supply-side interventions by OPEC+. During the same year, natural gas prices, particularly in Europe, gradually normalized from 2022's peak to levels observed in 2019. This was facilitated by the establishment of alternative supply routes which alleviated the strain on the market. Despite the occasional volatility in Brent prices, the underlying demand dynamics for crude and its derivatives continue to exhibit resilience. Projections for demand growth remain optimistic, encouraging sustained investments in E&P activities across both new and mature reservoirs.

Brent Crude Price (US$/bbl)

Source: Bloomberg, March 4, 2024

Supply & Demand Dynamics and Outlook

World oil demand grew by

2.3 million barrels per day (mbpd)

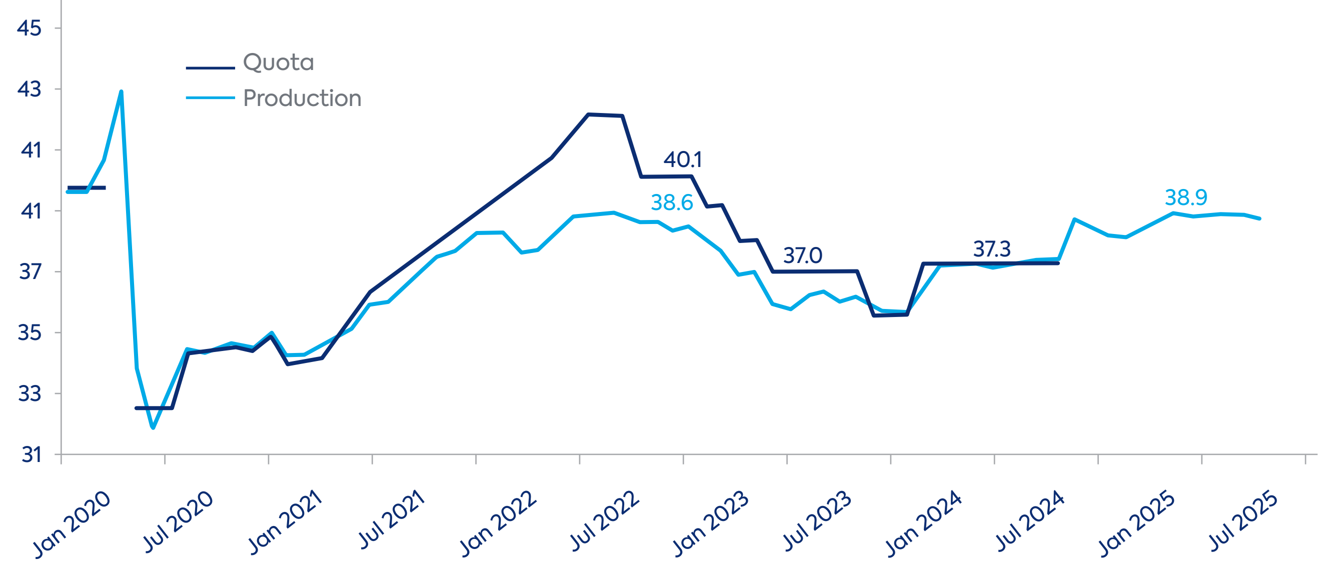
in 2023

In 2023, global oil demand grew by 2.3 million barrels per day (mbpd), primarily driven by China's resurgence after lifting pandemic restrictions and expanding its petrochemical sector, accounting for 78% of the growth. However, Europe experienced a slowdown in demand growth, particularly evident in Q4 2023, due to manufacturing and industrial challenges. According to the International Energy Agency (IEA), oil demand growth in 2024 is expected to ease to 1.2 mbpd, attributed partially to macroeconomic factors, but against a normalized baseline free of Covid-19 distortions.

Throughout 2023, OPEC+ member states maintained discipline in managing crude supply, with the majority strictly adhering to or falling short of reduced production quotas. Notably, Saudi Arabia and Russia took proactive measures in April 2023 by announcing a voluntary and temporary reduction of 1.3 mbpd in output, which was extended through the year's end. This decision, announced in September 2023, led to a surge in Brent prices surpassing US$90 per barrel. However, non-OPEC+ producers like United States, Brazil, Iran, and Guyana witnessed record-setting supply expansions, offsetting OPEC+ cuts and market share relinquishment.

Responding to the evolving global oil supply landscape and concerns over slowing demand, a subset of OPEC+ members announced an additional voluntary cut of 2.2 mbpd in November 2023. The move effectively balanced the increased non-OPEC+ supply, mitigating the risk of significant crude inventory buildup.

OPEC+ Actual Production vs. Quota (Million bbl per day)

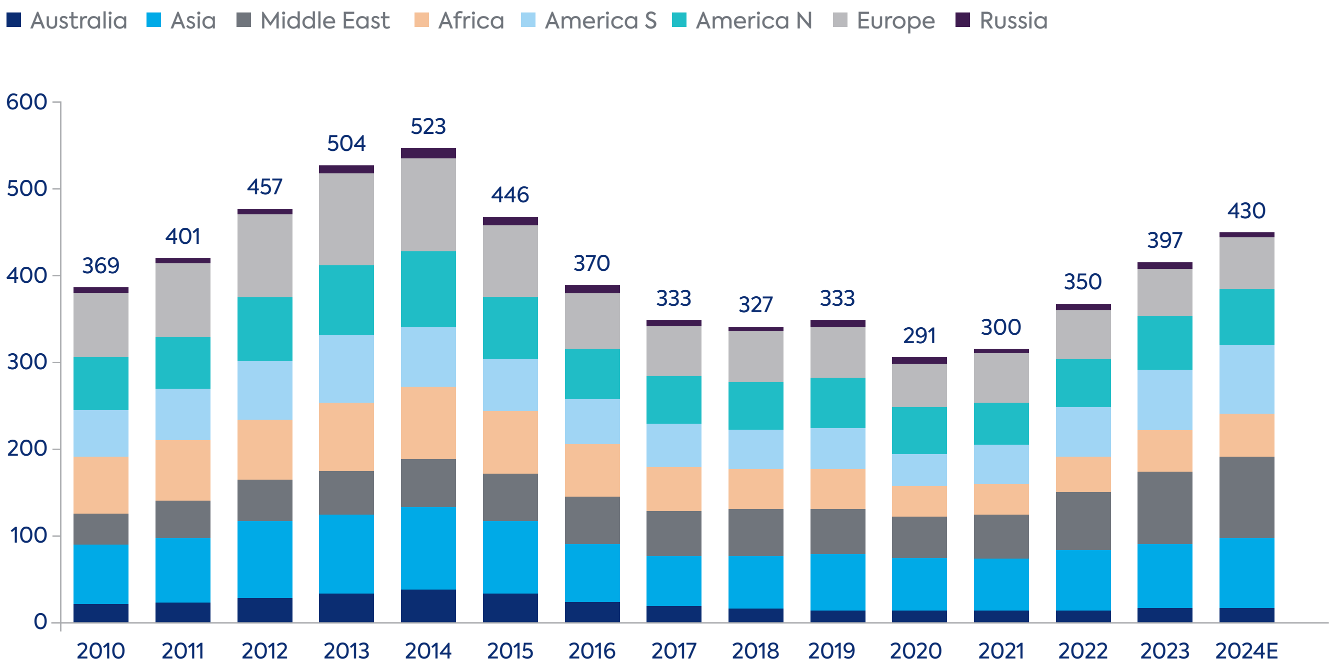


Source: Rystad Energy, January 2024
Note: Excludes countries exempted from production cuts from 2020 onwards (i.e., Iran, Venezuela, Libya, and Mexico).

Despite forecasts indicating a slowdown in oil demand growth, national oil companies (NOCs) in the Middle East have maintained their capital expenditure programs throughout 2023. These initiatives are crucial for strengthening productive capacity in offshore basins, offsetting declining onshore production, and are expected to persist in the medium term. NOCs elsewhere, namely in Asia, South America, and Norway, have prioritized investments in brownfield activities to address energy security concerns and capitalize on favorable energy prices.

Similarly, International oil companies (IOCs) have ramped up investments across various regions to meet growing demand, particularly in the short term due to reduced output from core OPEC exporters. Overall upstream capex offshore, particularly in shallow water projects, has steadily risen since 2020, reaching a multi-year high in 2023, reminiscent of pre-2015 levels. This upward spending trend is expected to continue into 2024 and beyond, reflecting a concerted effort to enhance production capabilities in response to evolving market dynamics.

Total E&P Offshore Expenditures to Reach Decade High in 2024 (US$ billions)



Source: Rystad Energy, January 2024

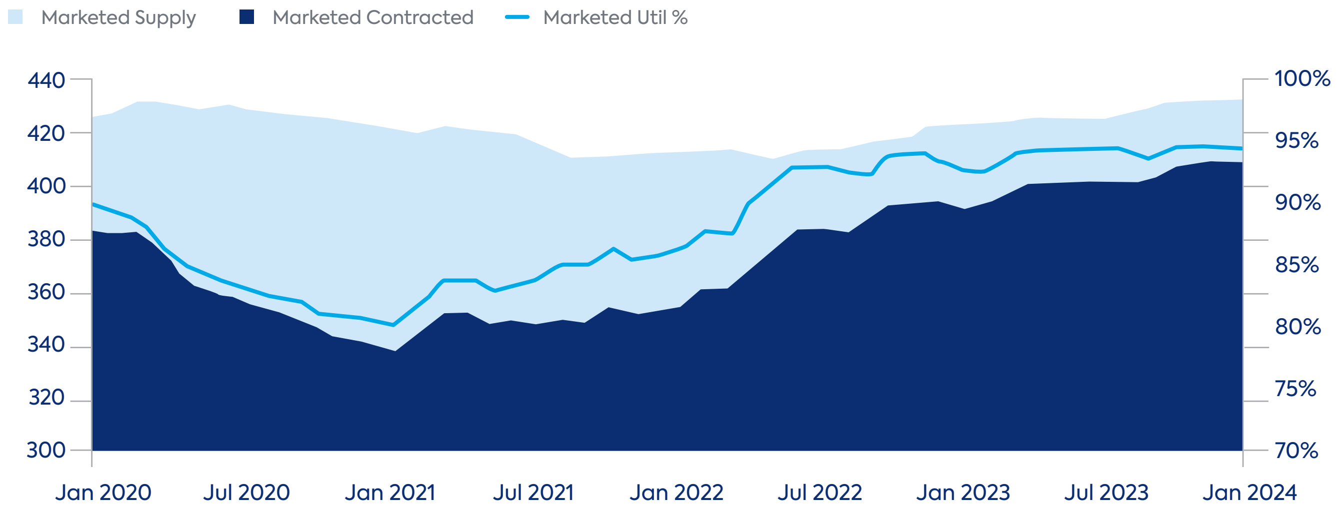
Jack-up Market Review and Outlook

In 2023, the global jack-up rig market witnessed robust activity, with the contracted fleet of 394 rigs at the beginning of the year expanding to 409 rigs by December, surpassing the 400-rig count unseen since 2015. Marketed utilization for jack-up rigs increased 2 percentage point to 95% during the same period.

In the Middle East, NOCs shifted their focus from rapid rig acquisition in 2022 to deploying the influx of more than 50 incremental rigs to work in 2023. Meanwhile NOCs and IOCs in most other regions competed over the limited remaining available rig capacity, actively tendering for programs expected to commence in 2024 and 2025.

The heightened demand for rigs led to no jack-up retirements in 2023, and 6 newbuilds were delivered instead. Additionally, previously converted or stacked units in operable conditions are being reactivated to meet the rising demand, further augmenting the global jack-up fleet.

Jack-up Rigs Marketed Supply, Demand & Utilization

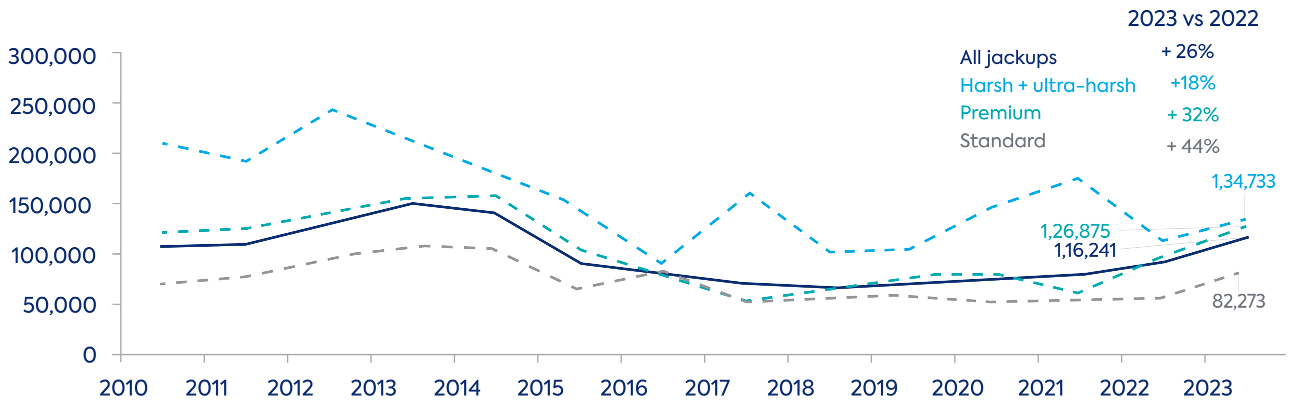


Source: IHS Petrodata, March 4, 2024

In 2023, dayrates on new fixtures for both standard and premium jack-ups experienced further uplifts. Particularly in India and West Africa, dayrates for standard rigs increased due to limited participation in tender rounds, occasionally reaching levels comparable to premium rigs due to specific operational requirements. Activity in Southeast Asia is now catching up to other benign shallow water regions, with dayrates on new contract awards doubling compared to recent years.

Despite the robust momentum in dayrates, we remain cautious about the justification for commissioning newbuilds given the prevailing rates. While prominent jack-up regions continue to exhibit tight market, with many rigs secured under long term contracts awarded in the past two years, the economics in investing in newbuilds with a reasonable payback period may not be viable at present. Therefore, we anticipate these regions will maintain their tightness in the near term.

Average Dayrates on New Contract Fixtures by Jack-up Class (US$ Thousands)



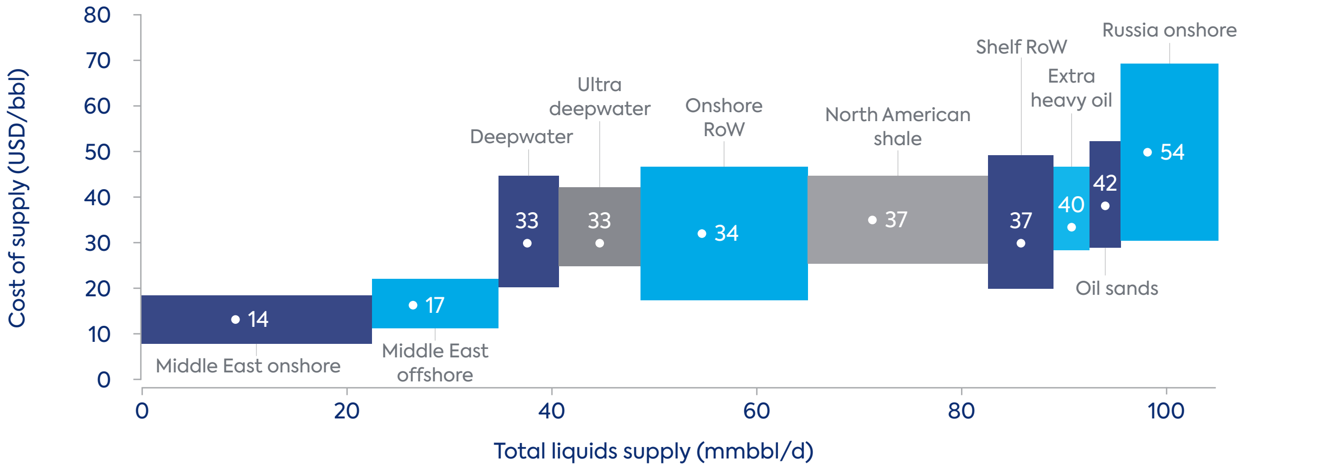
Source: Rystad Energy, February 2024

Where We Work

Sole focus on shallow water

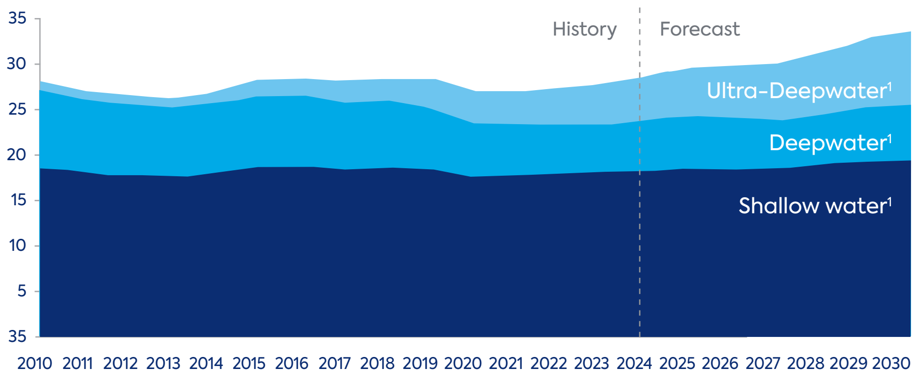
Shallow water basins are a key source for global crude production, representing 18% of total global and 65% of total offshore production in 2023. Low breakeven price and short lead time to production makes shallow water an attractive source as both traditional onshore and the most productive shale producing fields show signs of decline. Notably, greenfield drilling activities, representing 39% of global jack-up activity, are on the rise. Moreover, lower-risk and resilient brownfield workover projects, comprising 58% of the global fleet's workload, are also located in shallow water, according to Rystad Energy. As E&P companies increasingly commit to decarbonization initiatives, the decommissioning or plug & abandonment (P&A) of depleted wells, alongside their repurposing for carbon capture and storage, are anticipated to gain momentum in mature shallow water basins where we operate.

2030 Global Liquids Cost Curve[1] (Million bbl per day)



Source: Rystad Energy, January 2024
[1]Breakeven calculated as of the current year. All historical cash flow are sunk, 10% discount rate. The vertical range illustrates an 80% confidence interval for the breakeven prices. Includes producing fields, ongoing development projects, discoveries and exploration assets

Offshore Crude Production by Water Depth (Million bbl per day)



Average share of liquids production

	2023	2024-2030
Ultra-Deepwater	15.8%	20.7%
Deepwater	19.2%	18.5%
Shallow water	65.1%	60.9%

Source: Rystad Energy, January 2024
[1]Shallow water: water <125m, Deepwater: 125-1500m, Ultra deepwater: >1500m.

Our core operating regions are among the lowest cost and lowest emission supply sources globally. E&P companies in these regions, predominantly NOCs joined by independents and IOCs, have a proven track record of maintaining a sustainable level of activity throughout commodity price cycles, and following through their plans to expand production that began in the prior years. The unprecedented volume of contracts awarded in 2022 had made sustaining a similar level of performance in 2023 challenging, but we had a good degree of contracting successes in driving dayrates higher outside the Middle East.

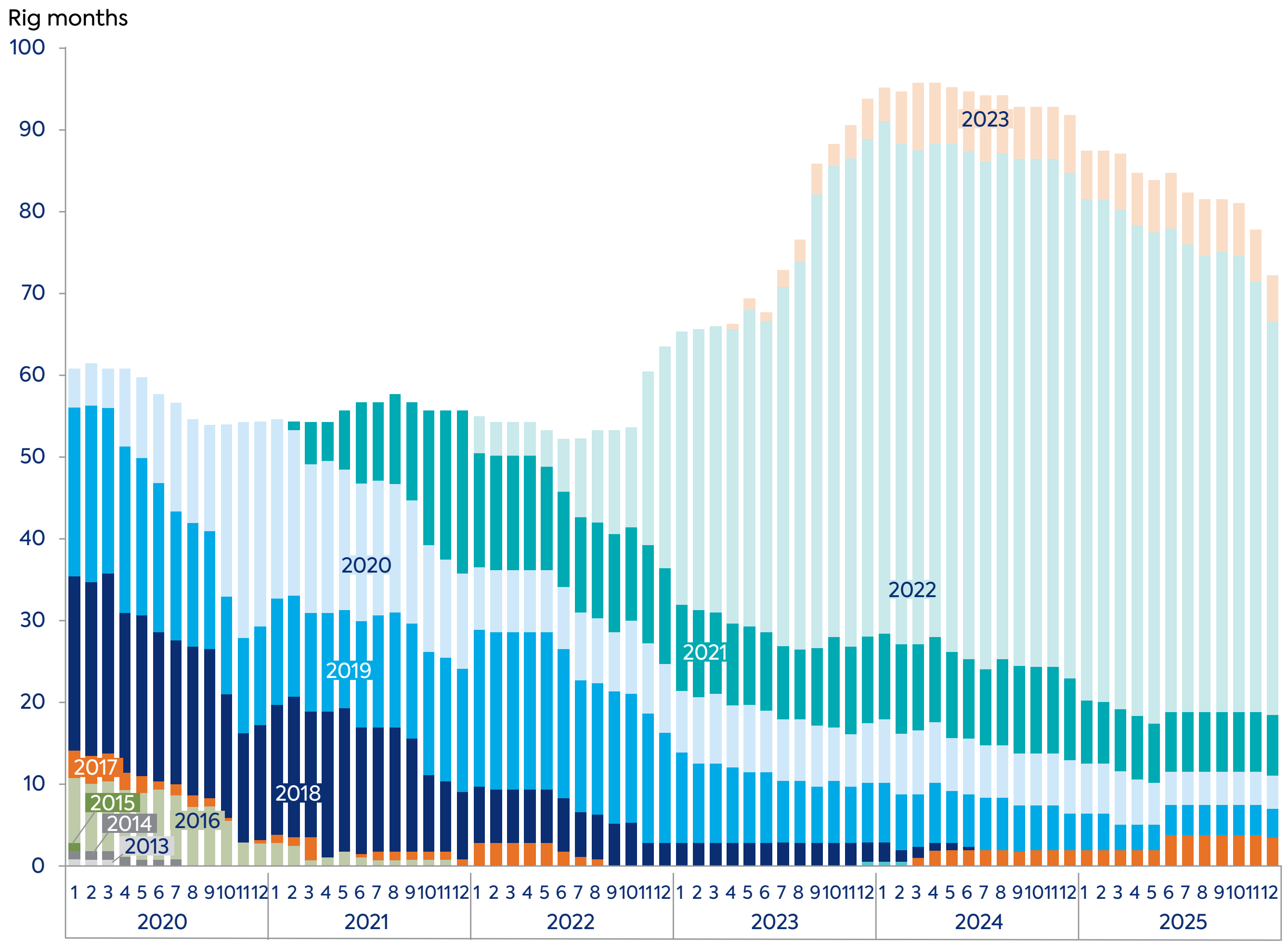
Our Markets

As a leading international pure-play jack-up rig contractor, we have critical mass and significant market share in all our core operating regions. Our sole focus on shallow water operations enables us to optimize our organization's size, scale, and management, strategically concentrating our growing fleet of rigs in the most promising markets.

Our five core operating regions – MENAM, India, West Africa, Southeast Asia, and North Sea, collectively represent 72% of the global contracted jack-up fleet.

The **Middle East** has solidified its position as the global leader in jack-up markets, absorbing over 50 incremental jack-up rigs from Q4 2022 through the end of 2023. NOCs in the region continued to charter and purchase additional rigs throughout 2023, albeit at a markedly slower pace. During this period, most of the incremental rig capacity has been deployed, though many encountered delays due to supply chain and personnel challenges associated with the high number of concurrent shipyard projects for newly contracted rigs. These long-term contracts predominantly spanning five years or longer, have contributed to a tighter jack-up market with the upside to be felt in the years to come. In 2023, we further strengthened our foothold in the Middle East by adding 2 incremental rigs brining our total contracted rigs in the region to 10. In January 2024, Saudi Aramco announced that it had been ordered to discontinue plans to expand maximum sustainable production capacity from 12 to 13 million barrels per day, but we are yet to see any resulting impact on rig demand.

Jack-ups on Contract in Saudi Arabia by Fixture Year



Source: Rystad Energy, January 2024

In **India**, both large NOCs and smaller independents have intensified their tendering activities due to shortage of rigs and limited participation by the bidders in this region. Dayrates for standard rigs lifted further in 2023, with last round of awards nearing US$100k, quadrupling from the figures observed during the 2020 trough. The region's rig count steadily increasing and is expected to reach new highs in the near term. As the largest jack-up contractor in India, we operate a contracted fleet of 9 rigs.

The jack-up market in **West Africa** has shown marked improvement with indigenous E&P companies, who drive a large share of rig activity along with IOCs, have renewed short term contracts into longer terms at meaningfully higher dayrates. IOCs are instead slowing adding incremental rig count into their resumed campaigns. We mobilized a rig from Southeast Asia to the region in early 2023, reaching a total of 6 rigs, of which only 1 was available at year end.

Southeast Asia experienced a slower response to the declining supply of jack-up rigs, with contracted rig count marginally decreasing since 2022. However, since the latter half of 2023, both NOCs and IOCs became actively engaged in tendering for rigs slated for commencement in 2024 and 2025. Despite some initial challenges, several awards were eventually made at dayrates comparable to premium rig fixtures seen elsewhere. One of our rigs from the North Sea is among the new awards and will join our existing fleet of 3 contracted rigs in Southeast Asia later in 2024.

The **North Sea ex-Norway** sector remained challenging throughout 2023 as natural gas prices in Europe normalized to pre-pandemic levels last seen in 2019. Although few new fixtures in this region carried noticeable uplifts in dayrates, overall rig demand showed limited year-on-year change. IOCs redirected investments to offshore fields outside the region, while NOCs and independents deferred their programs due to high windfall taxes. Demand in **Norway** is expected to rise from 2024 onwards, spurred by tax breaks aimed at offsetting upstream capital investments. Shelf Drilling maintains a 3-rig anchor in the harsh environment region.

Number of Contracted Jack-ups by Region

	Contracted Jack-ups		
Regions	**Apr-14**	**Mar-24**	**Change Since Prior Peak**
Middle East	127	181	54
India	32	36	4
West Africa	20	13	-7
SE Asia	67	35	-32
North Sea	46	30	-16
Mexico	50	32	-18
US GOM	15	4	-11
China	30	57	27
Sub-Total	**387**	**388**	**1**
Total Under Contract	**429**	**407**	**-22**
Available	**24**	**24**	**0**
Total Active Supply	**453**	**431**	**-22**
(%) Marketed Utilization	**95%**	**94%**	**-1%**
Under Construction	**141**	**17**	**-124**

Source: IHS Petrodata, March 4, 2024

Business Review

Our 2023 Key Performance Indicators

0.12
TRIR

83.1%
Effective Utilization

98.8%
Uptime

34.7
Average Marketable Rigs

US$2.3Bn
Backlog

US$76.9
Average Dayrate

Safety & Operational Performance

In 2023, Shelf Drilling achieved a Total Recordable Incident Rate (TRIR) of 0.12 from 7 recordable incidents, marking the lowest rate in the Company's history. This significant improvement in safety performance is particularly noteworthy amidst the challenges posed by the large-scale activity ramp up in the jack-up industry. Our TRIR for the year was an impressive 76% below the IADC average of 0.51, while our Lost Time Incident Rate (LTIR) was 0.02. Notably, our entire fleet operated without a recordable incident for 5 months of the year, while 29 rigs, including the entire West Africa fleet, were recordable incident-free in 2023. The fleetwide rollout of both "Make It Safer Today" (MIST) and "One Team One Goal" programs have proven highly effective in raising safety awareness amongst our employees and business partners, and continues to drive our vision for an incident-free environment where nobody gets hurt.

Operational uptime for our fleet in 2023 was 98.8%, marginally below our 2022 statistic of 99.3% due in large part to many of our rigs commencing contracts with new customers, in new locations, or both. Notably, two of our rigs in India achieved remarkable uptime rates of 99.5%, making it our highest performing region, followed closely by the North Africa & Mediterranean at 99.2%.

In 2023, we completed 14 rig projects, a significant increase from 6 in the previous year. Seven of these were capital and manpower intensive contract preparation projects, concentrated in the first half of the year (Shelf Drilling Victory, Harvey H. Ward, Compact Driller, Key Singapore, Shelf Drilling Resourceful, Shelf Drilling Scepter, and Trident VIII). This period saw, by far, the highest number of concurrent projects in Company history. Given the activity ramp up in the jack-up markets worldwide, and challenges arising from shortage of equipment, personnel, and support vessels, we experienced cost and time overruns on four of these projects. However, our project team's proven ability for meticulous planning and innovation led to savings and efficiencies elsewhere. Notably, our proactive approach resulted in significant reductions in out-of-service time for two rigs and the elimination of downtime for another two, creating significant net positive cash and revenue offsets.

29 Rigs had ZERO Recordable Incidents
in 2023

Backlog

In 2023, Shelf Drilling's marketing efforts capitalized on the positive dayrate momentum, even as contracting volumes decreased year-on-year. As of year-end, our contracted backlog was US$2,340 million. We secured a total of sixteen new contracts, extensions, and option exercises contributing over US$500 million in gross additions (excluding impacts of longer wells in progress and indexed rate adjustments). Further, we added three new customers alongside engagements with familiar customers in new locations.

Our diverse customer base includes NOCs, IOCs, and independent oil & gas operators, including but not limited to Saudi Arabian Oil Company (Saudi Aramco), Oil and Natural Gas Corporation Limited (ONGC), Chevron Corporation (Chevron), Ente Nazionale Idrocarburi S.p.A (ENI), PetroVietnam Exploration Production Corporation (PVEP), QatarEnergy LNG, and Equinor.

We added 13 rig-years of activity to our fleet in 2023, with 35 of 36 rigs contracted at year-end, maintaining a 97% marketed utilization and an average of 801 contracted days per rig. While sustaining the extraordinary volume of contract fixtures from 2022 into 2023 was not the primary objective given the limited availability in our fleet, our focus on driving pricing higher proved successful.

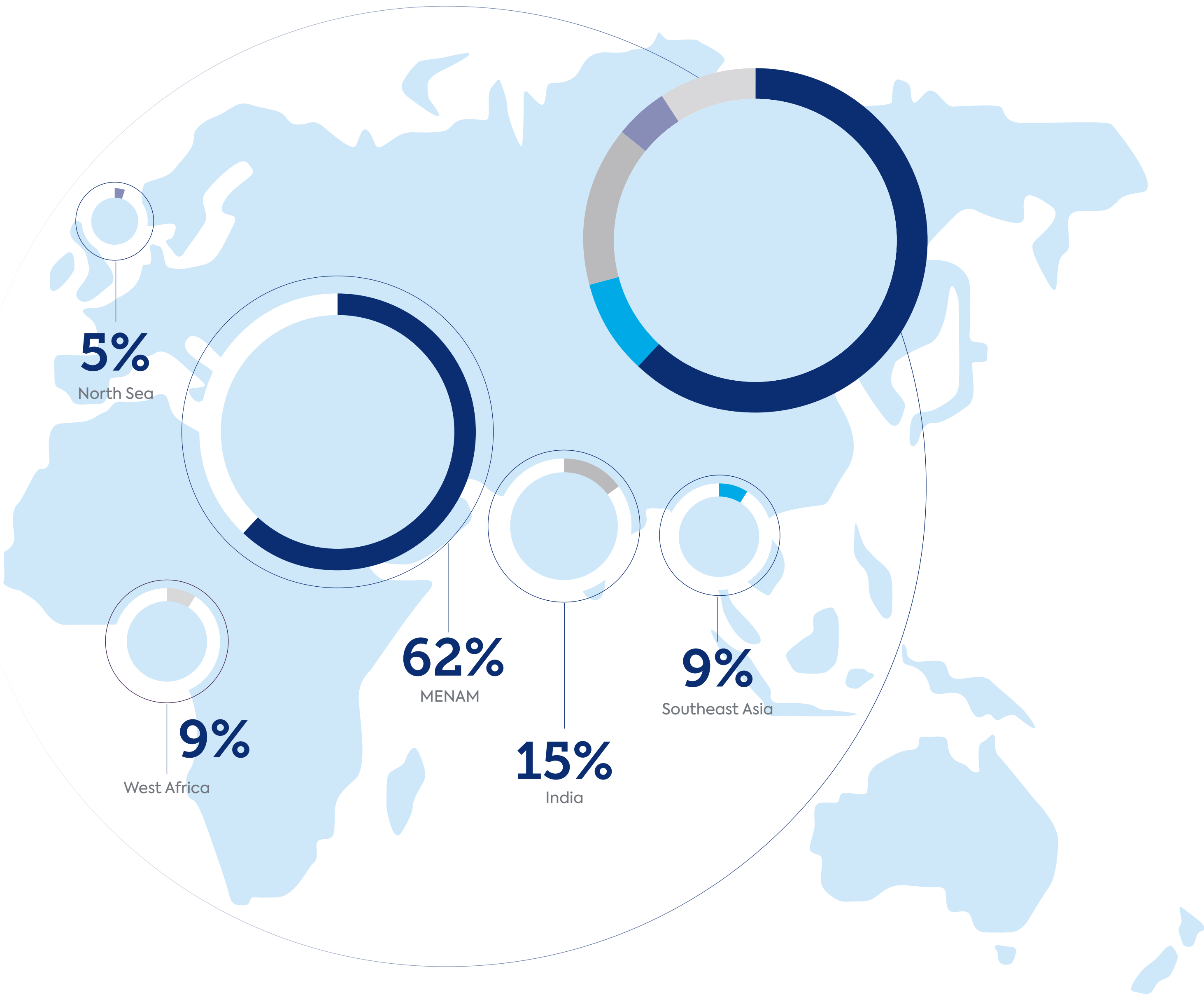
Other Performance Indicators

In 2023, our effective utilization (a measure that is impacted by periods off hire and not on full dayrate such as downtime, waiting on weather, or other factors) remained unchanged at 83% in 2023 from 2022, despite the idle time on the North Sea fleet and delays encountered in a few out-of-service projects.

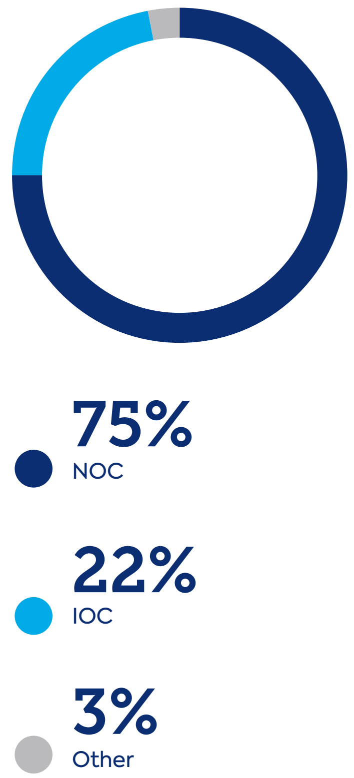
The average marketable rigs for full year 2023 increased to 34.7 from 31.0, driven by the inclusion of four out of five rigs within Shelf Drilling North Sea (Shelf Drilling Fortress, Shelf Drilling Odyssey, Shelf Drilling Perseverance, and Shelf Drilling Winner) for the entire year. Additionally, Shelf Drilling Barsk completed its bareboat charter in Q4 2023 and fully transitioned to Shelf Drilling, further contributing to the increase in average marketable rigs.

In 2023, the average dayrate for rigs in operation increased significantly to US$76.9k from US$63.4k in 2022, mainly driven by rigs in West Africa, Egypt, and India which completed previous contracts and commenced new contracts at more favorable dayrates. We anticipate this upward trend to continue as more rigs in Egypt and India recontract at higher rates later in 2024.

Backlog Breakdown by Geography



Backlog Breakdown by Customer Type



Financial Review

During 2023, we continued to experience improving market conditions across most of our operating geographies following the recovery that began in 2022. The industry fundamentals remained strong and we continued to see improving utilization and dayrates across our sector.

In this context, amidst supply chain challenges and inflationary pressures, a large number of our rigs successfully commenced new contracts at attractive dayrates following major capital projects and out-of-service periods, which significantly improved our financial performance during the second half of the year. In addition, we completed the transition and integration of the five rigs acquired from Noble in 2022 into Shelf Drilling's processes, systems and operating platform, the last rig being the Shelf Drilling Barsk following the completion of its bareboat charter agreement in December 2023. 2023 was also marked by the successful comprehensive refinancing of our capital structure.

Financial 2023 Key Performance Indicators

US$894Mn
Adjusted Revenue

US$311Mn
Adjusted EBITDA

35%
Adjusted EBITDA Margin

US$226Mn
Capital Expenditures & Deferred Costs

The multi-faceted refinancing transaction completed in 2023, will facilitate deleveraging of our balance sheet, improve our liquidity position and provide further flexibility to capitalize on the strong tailwinds in the global jack-up market.

The financial results for 2023 reflect our operating leverage and the potential earnings growth capacity of the business, with a significant improvement from the previous year. Shelf Drilling delivered an Adjusted EBITDA margin of 35% and closed the year with a cash balance of US$98 million.

Significant Transactions in 2023

In a year where geopolitical conflicts further escalated, the global jack-up market and business environment continued to improve, in part due to the intervention by OPEC+ to reduce supply combined with additional demand for oil and gas throughout the year. We observed further jack-up demand growth in India, Southeast Asia and West Africa leading to additional momentum with leading edge dayrates. As of December 31, 2023, our backlog was US$2.3 billion and our weighted average backlog dayrate was US$83.4k.

During the initial part of 2023, we experienced an unprecedented concentration of major projects as several rigs were prepared simultaneously for new contracts with core customers. Amongst them, the high specification jack-up rig Shelf Drilling Victory, which we acquired in 2022, completed its reactivation and preparation project in April, ahead of its new 5-year contract in Saudi Arabia. In 2023, a total of US$29 million was invested for Shelf Drilling Victory. In total, seven rigs started new contracts between Q2 and Q3 2023 in Saudi Arabia, India, West Africa and Italy. These new contracts contributed to a significant increase in earnings in the second half of 2023.

In October 2023, we successfully concluded a comprehensive refinancing of our debt. This included the full redemption of the Shelf Drilling Holdings, Ltd. (SDHL, an indirect wholly owned subsidiary of Shelf Drilling, Ltd.) US$900 million 8.25% senior unsecured notes due February 2025, and US$310 million 8.875% senior secured first lien notes due November 2024. SDHL in turn issued new US$1,095 million 9.625% senior secured notes due April 2029, entered into a US$50 million term loan due June 2024, and secured a new US$125 million revolving credit facility with an April 2028 maturity date. In March 2024, the Company further executed an agreement related to the revolving credit facility that increases the total facility size from US$125 million to US$150 million. In addition, Shelf Drilling, Ltd. raised net equity of US$102 million during 2023, which contributed to complete the refinancing. This transaction will provide greater flexibility to manage future working capital needs and facilitate deleveraging of our balance sheet through annual debt repayments in our new notes until maturity.

In addition, on the back of a supportive business outlook and following the successful conclusion of the refinancing transaction resulting in improved liquidity position, our credit ratings were upgraded by one notch to 'B' from 'CCC+' by Standard & Poor's and to 'B3' from 'Caa1' by Moody's. Fitch was engaged for the first time during this refinancing and rated us at 'B', a notch higher compared to Standard & Poor's and Moody's.

Financial Performance Summary

(Amounts in thousands, except ratios, percentages and per share data)

P&L	Year 2023	Year 2022
Statement of Operations		
Revenues	US$908.0	US$695.2
Operating and maintenance	$512.9	$385.7
Income before income taxes	$12.5	$9.9
Net loss	$(17.2)	$(24.2)
Balance Sheet		
Current assets	$418.9	$396.3
Long-term assets	$1,679.8	$1,650.0
Total assets	$2,098.7	$2,046.3
Current liabilities	$313.2	$202.0
Long-term liabilities	$1,383.2	$1,528.8
Equity	$402.3	$315.5
Key Ratios & Statistics		
Adjusted Revenues	$893.8	$687.6
Adjusted EBITDA	$311.5	$248.6
Adjusted EBITDA margin	35%	36%
Adjusted free cash flow	$(52.8)	$(10.5)
Net debt / LTM adjusted EBITDA	3.9x	5.2x
Total contract backlog / Net debt	1.9x	2.1x
Diluted loss per share	$(0.04)	$(0.18)
Number of shares issued and outstanding	213.7	176.4

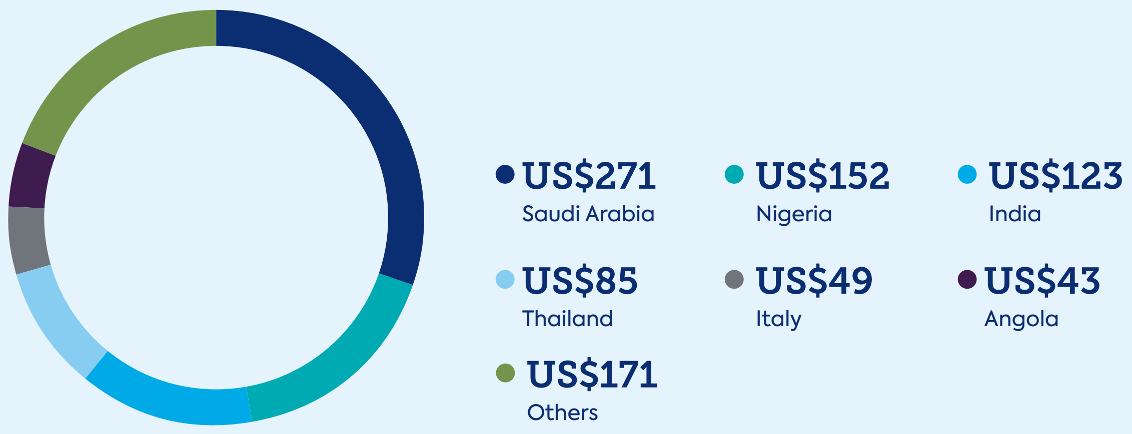
Total Adjusted Revenues of US$894 million for 2023 increased from US$688 million in 2022. Adjusted EBITDA was US$311 million and Adjusted EBITDA margin was 35% in 2023, compared to US$249 million and 36%, respectively, for 2022. Net loss attributable to controlling interest was US$8 million. Effective utilization remained unchanged at 83% in 2023 from 2022, despite the out-of-service reactivation and contract preparation projects performed in the first half of 2023, ahead of commencement of new contracts and significant idle time on both rigs located in the UK during 2023. Average earned dayrate increased to US$76.9 thousand in 2023 from US$63.4 thousand in 2022. Year-over-year, our total Operating and maintenance and General and administrative expenses increased to US$577 million in 2023 from US$443 million in 2022, primarily explained by the full year impact from the addition of the SDNS rigs, the contract preparation expenses for one rig in West Africa and one rig in Saudi Arabia, as well as a general inflationary pressure across our global operations. The income tax expense for 2023 was US$30 million or 3.3% of total revenue. Diluted loss per share was US$(0.04).

Capital expenditures and deferred costs in 2023 of US$226 million included US$166 million for regulatory, capital maintenance and rig contract preparations, as well as US$29 million for the readiness project of the Shelf Drilling Victory. The significantly higher than normal spending in 2023 related to a series of shipyard projects ahead of long-term contracts, such as on the Shelf Drilling Scepter, Shelf Drilling Resourceful, Harvey H. Ward and Shelf Drilling Victory, for which the Company received mobilization fees as a material offset to capital spending. The capital expenditures and deferred costs at SDNS totaled US$11 million in 2023.

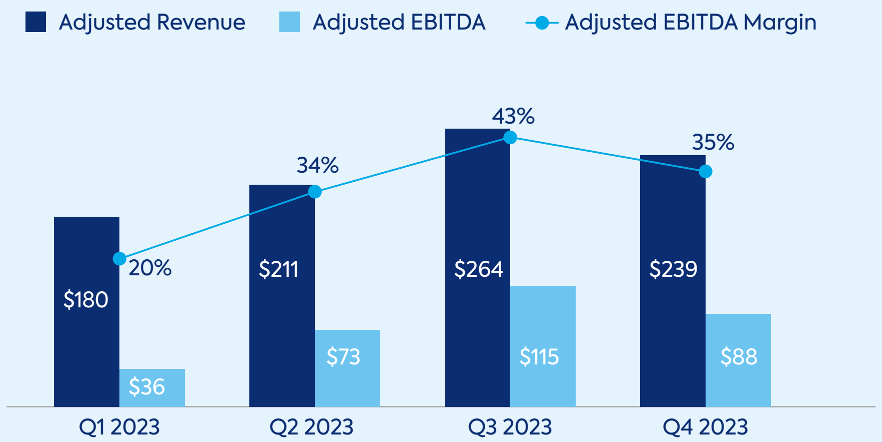
At the end of 2023, Shelf Drilling's cash balance was US$98 million. The net cash provided from operations in 2023 was US$86 million and the total debt was US$1.3 billion as of December 31, 2023. Net debt decreased by US$69 million during 2023 as a result of the refinancing transaction. Our total backlog / net debt ratio was 1.9 as of December 31, 2023, compared to 2.1 in the prior year.

The overall business environment continued to strengthen in 2023 with an increasing demand for jack-up services which drove higher levels of marketed utilization globally and dayrates. As of December 31, 2023, 35 of our 36 rigs were under contract, and we have a strong pipeline of new marketing opportunities for uncontracted days in 2024 and 2025. Our diligent cost management and financial discipline have established Shelf Drilling as one of the most resilient players in the industry, which, combined with our execution capabilities and streamlined capital structure, will position Shelf Drilling very well to create long-term value for all its stakeholders.

2023 Adjusted Revenue by Country (US$ Millions)



Quarterly 2023 Adjusted Revenues (US$ Millions), Adjusted EBITDA (US$ Millions), and Adjusted EBITDA Margin (%)



Sustainability Report

Shelf Drilling is a leading international shallow water offshore drilling contractor with rig operations across the Middle East, Southeast Asia, India, West Africa, Mediterranean and the North Sea.

Our strategy is to maintain a sole focus on shallow water drilling and workover services and leverage decades of industry experience and an outstanding track-record to provide best-in-class operations for our customers.

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CEO Sustainability Statement

David Mullen
Chief Executive Officer

Twenty-nine of our thirty-six rigs operated recordable incident free for the entire year, a clear indication that our vision of incident-free operations is achievable

ONE TEAM ONE GOAL

In 2023 we continued to advance our sustainability program while adapting our plans to changes in the regulatory and reporting frameworks. Our primary areas of focus were to conclude the pilot projects for capturing Scope 1 emissions on our rigs, advancing our engagement with our supply chain on ESG aspects, particularly in relation to human rights, and preparing for reporting in line with EU Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) in 2024.

We achieved an outstanding safety performance, with a Total Recordable Incident Rate (TRIR) of 0.12, the lowest since the company's inception. We were especially pleased to see no recordable incidents across the fleet for the full fourth quarter, a period which historically has been challenging for our industry. Twenty-nine of our thirty-six rigs operated recordable incident free for the entire year, a clear indication that our vision of incident-free operations is achievable.

We began the roll out of our "One Team One Goal" program to ensure participation of all personnel on our rigs in rigorous planning to achieve safe and efficient execution of the customers program. This, combined with our "Make It Safer Today" (MIST) program that encourages participation of all rig personnel to engage with our safety program have been key elements towards achieving this result.

In 2023, we expanded our mental health first aid program to the UK and Denmark and launched a comprehensive Employee Assistance Program (EAP). Our EAP includes access to a global network of mental health professionals, offering confidential counseling services and tailored resources to our employees and their families. Importantly, this initiative is designed to provide support in local languages, ensuring accessibility and cultural relevance.

Our Scope 1 emissions were significantly impacted by an increase in the number of rigs working in drilling operations which are inherently more demanding on power and fuel compared to workover or plug and abandonment activities. However, over the course of the year 27 rigs reduced their engine emissions intensity by 3.7%. We completed the evaluation of various pilot projects to provide real-time data on engine performance and fuel consumption, enabling us to achieve more accurate and consistent results. These modification kits will be progressively rolled out to other rigs in our fleet in 2024, alongside other pilot programs such as fuel additives, aimed at further reducing our emissions profile.

In 2022, we enhanced our Scope 3 emissions reporting, following an assessment consistent with the Green House Gas (GHG) protocol, and in 2023, we continued to improve upon the quality and consistency of our reporting in this area. Our unique approach of recycling used equipment and parts within our operations stands out as a key contributor to reducing Scope 3 emissions. In 2023, we actively engaged with key suppliers to obtain their support for this initiative and ensured the sustainability of our recycling program as an integral part of our long-term business strategy that underpins our commitment to the Environment.

In June 2023, we published our first Norwegian Transparency Act Statement outlining our actions to address potential human rights issues within our own operations and supply chain, consistent with the areas identified in our 2022 Human Rights Saliency Assessment. We enhanced our vendor due diligence, onboarding, and audit processes to include specific requirements on ESG, including human rights, and performed on-site audits on several key vendors in this regard.

As a first step towards compliance with the CSRD, we completed a Double Materiality Assessment (DMA) to determine material impacts, risks and opportunities across our operations and value chain. Currently, we are performing a gap analysis based on the DMA results to the relevant European Sustainability Reporting Standards (ESRS) and will continue to work in collaboration with our external auditors and other industry advisors to ensure compliance by early 2025.

Throughout 2023, we saw an increasing engagement with our customers on ESG-related matters, including our actions to address human rights concerns across our supply chain and measures to reduce our Scope 1 emissions. The progress we have made in recent years positions us well to effectively respond to these requests and actively collaborate with our customers in these critical areas.

Building upon the momentum of 2022, we also significantly enhanced our CSR program in 2023, launching diverse projects across multiple locations that emphasized community engagement and sustainable development.

In 2024, our commitment continues. We will continue to engage with our employees and customers to drive meaningful reductions in our Scope 1 emissions, and establish relevant, activity-linked measures of our rig performance and assist our rig crews in meeting this goal. As required by the ESRS, we will also re-assess our longer-term emissions reduction strategy, including public commitments to emissions reductions targets. Further engagement with our supply chain on human rights issues remains a key objective, as we look to further mitigate potential human rights concerns associated with our business.

The recent COP28 conference in Dubai demonstrated the need for collaborative efforts to achieve meaningful, long-term reduction in emissions in line with the Paris Agreement. The oil and gas industry has a crucial role to play in helping the world meet our ever-expanding energy needs, and this was a clear outcome of the conference. We have continued to focus on expanding our business in low-cost, low-CO_2 areas including the Middle East and the outcome of the conference reinforced our belief that our business model remains resilient under all climate change scenarios for the decades to come.

I would like to thank all our stakeholders for their continued support of Shelf Drilling.

David Mullen
Chief Executive Officer

2023 Sustainability Highlights

Climate & Environment

~60,000 Tonnes CO_2e
Prevented through Circularity

Emissions Tracking
Pilots completed on engine and emissions monitoring

Fuel Additives
Pilot launched for one rig

Health & Safety

0.12
Total Recordable Incident Rate Lowest in Company's history

29 Rigs
Had Zero Recordable Incidents throughout the year

~91,000+
Hours of Safety Training performed

People & Society

4,200
Employees from 57 countries

89%
National workforce on our rigs

32%
Women across our offices (excluding Corporate)

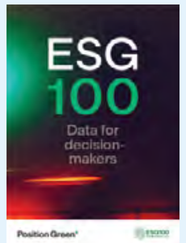
Responsible Business Conduct

Norwegian Transparency Act Statement
Outlining the results of 2022 Human Rights Saliency Assessment

Zero Tolerance
For Corruption, Bribery and Money Laundering

3,100+
Employees trained in the recertification of the Code of Business Conduct & Ethics

Grade "B+"



ESG 100 Rating for 2023. Annual review of the sustainability reporting of the 100 largest companies by market value listed on the Oslo Stock Exchange by Position Green. Shelf Drilling's total ESG score ranks within the top 35 of the 100 largest companies (by market cap) on the Oslo Stock Exchange.

Grade "B-"

CDP DISCLOSURE INSIGHT ACTION

Climate Disclosure Project (CDP) Rating for 2023.

Sustainability at Shelf Drilling

At Shelf Drilling, sustainability is at the core of everything we do. We define sustainability as achieving commercial profitability in a way that is consistent with our fundamental ethical values and with respect for individuals, the environment, and society.

Rooted in our core values of Protect, Lead, and Execute, this commitment drives our strategic priorities of Focus, Reliability, and Relationships, guiding us to conduct business with integrity and ethics.

We have 3 strategic priorities

Focus
Jack-up operations are our sole focus.

Reliability
With safety and operational performance at the forefront of everything we do, we strive to create an environment where no one gets hurt.

Relationships
Our goal is to develop long-term and mutually beneficial relationships with customers and suppliers. We provide development for our people to support their long-term career goals.

Our business is based on 3 essential values

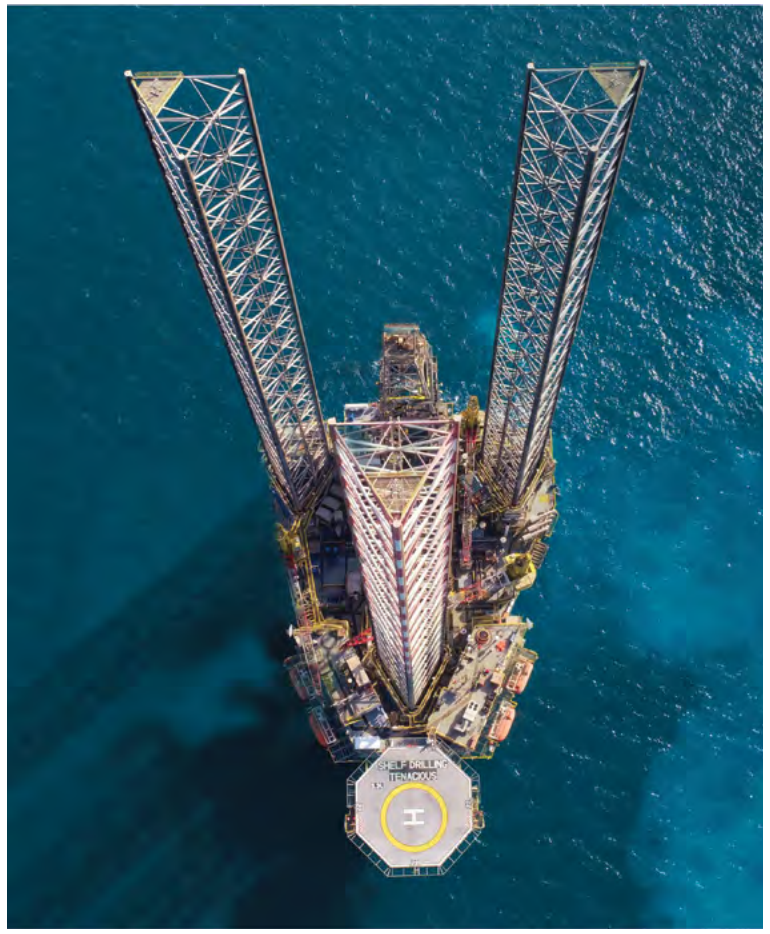
Protect
Protect yourself, your team, your asset and our environment.

Lead
We conduct business ethically, with responsibility and accountability.

Execute
We consistently deliver outstanding performance for our customers, owners and other stakeholders.

Who We Are

Shelf Drilling is a leading international shallow water offshore drilling contractor with rig operations across the Middle East, Southeast Asia, India, West Africa, Mediterranean and the North Sea. The Company was founded in 2012 and has established itself as a leader within its industry through its fit-for-purpose strategy and close working relationship with industry leading clients. Our strategy is to maintain a sole focus on shallow water operations and leverage decades of industry experience and an outstanding track-record to provide best-in-class operations for our customers. We are committed to prioritizing sustainability across our operations to ensure long-term success of our business while upholding the wellbeing of our employees, supporting the communities we operate in and protecting the environment.



Our Impact

As a leading drilling contractor, Shelf Drilling understands its responsibility to contribute to a sustainable future. We recognize that our operations can have a substantial impact on both the environment and people. We acknowledge that our activities may impact biodiversity and ecosystems, and have inherent risks related to health, safety, human rights, integrity, and security.

However, we are also aware of our responsibility and capacity to make significant positive contributions by providing society with vital energy resources, fostering socio-economic development through job creation, and nurturing a professional, safe, and inclusive working environment for our personnel. We remain committed to upholding human rights across our value chain and mitigating any potential negative impact. As a global company operating in various regions, we uphold rigorous compliance with a variety of regulatory frameworks ensuring that we deliver success in the right way and win the trust and confidence of our customers and stakeholders, including the governments and the communities in which we operate.

Our sustainability governance, management and performance are measured across the following four key focus areas.

Risk Management

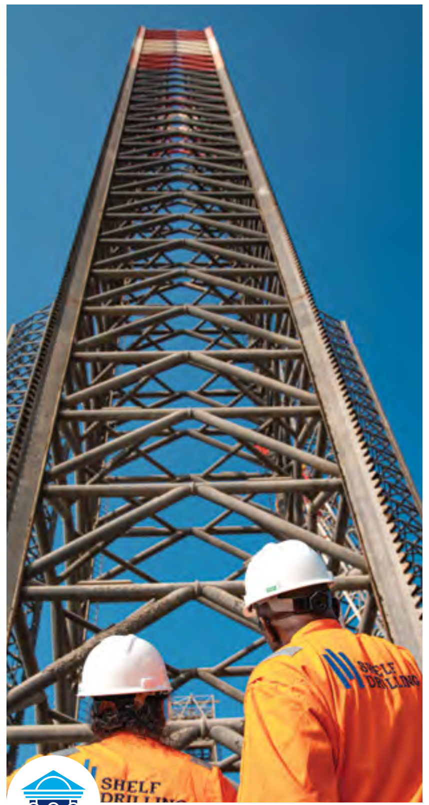
Shelf Drilling established a comprehensive Enterprise Risk Management (ERM) process in 2014 that has continued to be refined and enhanced over the years. The ERM framework enables us to identify and assess the likelihood and impact of all risks, hazards, or other threats to our business activities, (including sustainability matters) and to define specific mitigation and monitoring measures to reduce their potential impact. We reassess all identified risks annually and discuss the top risks with the ERM Steering Committee, the Audit Committee, and the Board. Our ERM outcomes inform the establishment of our Internal Audit plan, which is approved by the Audit Committee each year. In 2022, we refreshed our ERM approach by integrating a management readiness assessment to our consolidated risk framework, which further helped us identify and prioritize the top risks and streamline our action planning and tracking. The management readiness assessments continued to strengthen our ERM framework in 2023, ensuring that our risk management strategies remain proactive and agile in the face of evolving challenges.

Double Materiality Assessment

In 2023, Shelf Drilling conducted a comprehensive Double Materiality Assessment (DMA) consistent with the requirements of the EU Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS). The DMA is the cornerstone of the CSRD, as it dictates which areas within sustainability Shelf Drilling is required to report on. The assessment reviews the impact that Shelf Drilling and our business relationships have on the environment and people (impact materiality), as well as the financial risks and opportunities that sustainability-related events can represent for Shelf Drilling (financial materiality). Collaborating with an external advisor, we identified impacts, risks, and opportunities (IRO), and objectively scored these IROs to ascertain the materiality of sustainability matters pertinent to Shelf Drilling under ESRS. We conducted the assessment through a combination of internal documentation analysis, interviews with affected internal and external stakeholders and users of sustainability matters. Subsequently, the final assessment results were submitted to Shelf Drilling's executive management for validation followed by discussions with the Board.

As a result, **21 sustainability matters (SM) have been identified as material for Shelf Drilling** spanning across environmental (E), social (S), and governance (G) topics.

SUSTAINABILITY MATTERS (MATERIAL TOPICS)



ENVIRONMENTAL (9)

- Climate Change Adaptation
- Climate Change Mitigation
- Energy
- Pollution of air
- Pollution of water
- Pollution of soil
- Substances of very high concern
- Impacts on the state of species
- Resource inflows including use

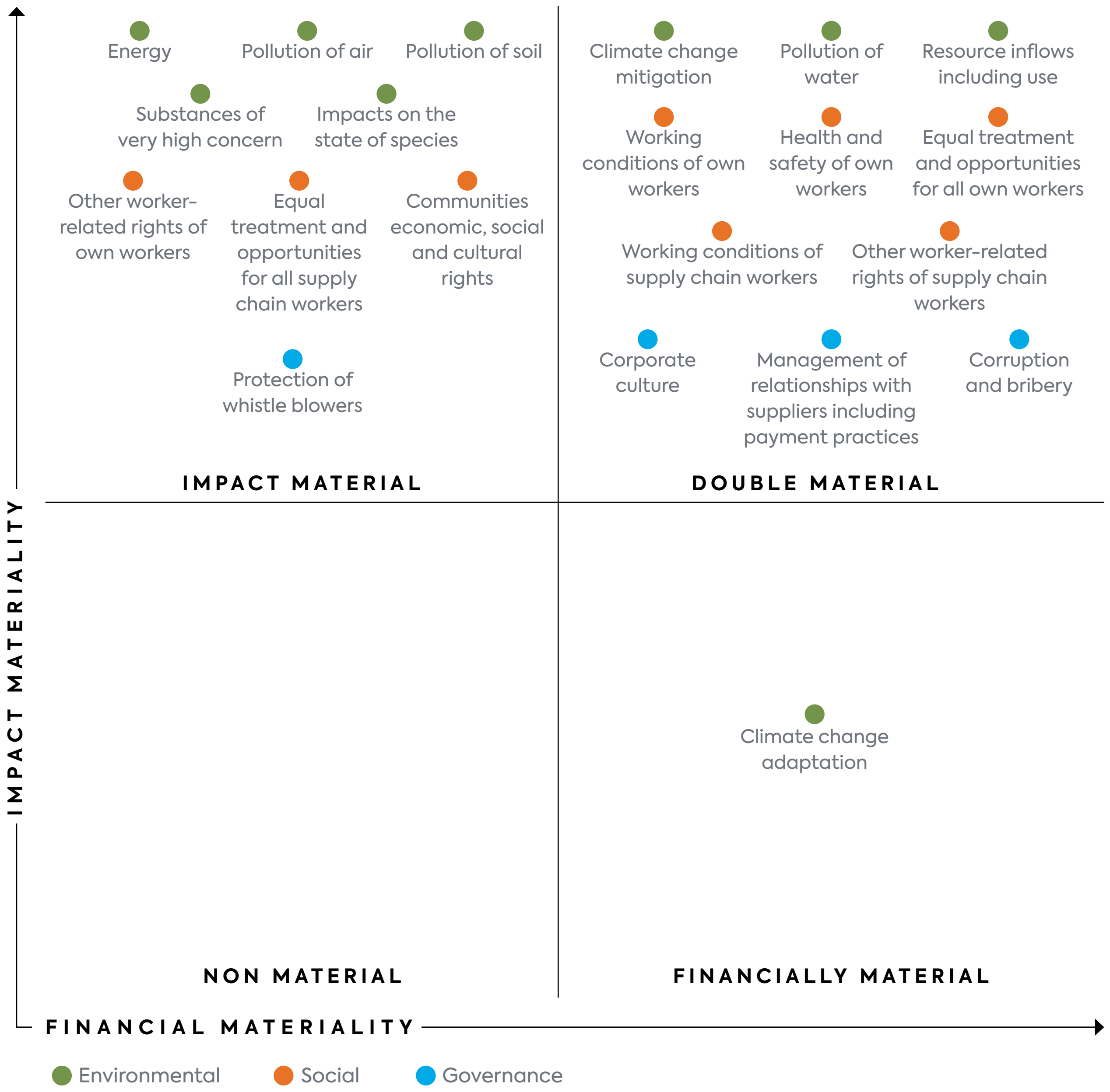
SOCIAL (8)

- Working conditions of own workers
- Health and safety of own workers
- Equal treatment and opportunities for all own workers
- Other worker-related rights of own workers
- Working conditions of supply chain workers
- Equal treatment and opportunities for all supply chain workers
- Other worker-related rights of supply chain workers
- Communities economic, social and cultural rights

GOVERNANCE (4)

- Corporate culture
- Protection of whistle blowers
- Management of relationships with suppliers including payment practices
- Corruption and bribery

Out of 21 identified SMs, **11 are double-material topics, 9 are impact material topics, and 1 is financially material**, as illustrated in the high-level double materiality matrix provided below.



Management Review and Board Oversight

DMA outcomes underwent rigorous management review and were presented to the Board of Directors, ensuring robust governance, accountability, and transparency.

2024 Plan and ESRS Alignment

Towards the end of 2023, Shelf Drilling commenced a gap analysis based on DMA results consistent with the requirements of the European Sustainability Reporting Standards (ESRS). In 2024, we will continue this process in addition to comprehensive data management, addressing and closing the identified gaps and finally adjusting our reporting to reflect ESRS. Our collaborative efforts with external auditors and advisors, are testament to our commitment to ensure timely compliance with these standards.

The work outlined above is a further example of Shelf Drilling's proactive stance in aligning business and reporting practices with the evolving regulatory landscape, and its commitment to the well-being of people and the environment.

Our Material Topics Contribute to the UN Sustainable Development Goals

Within our four sustainability priorities – climate & environment, health & safety, people & society, and responsible business conduct – we have continuously refined our approach to address material topics and drive meaningful long-term impact. In 2020, we identified a comprehensive list of material topics through a materiality assessment that included an outreach to key stakeholders. This initial step laid the foundation for our sustainability strategy, setting the stage for ongoing dialogue and collaboration. Since then, we have reviewed and refined this list through a collaborative process involving both internal stakeholders and external consulting experts. This iterative approach has enabled us to stay responsive to evolving trends, emerging risks, and stakeholder feedback. As of today, 15 material topics (listed on next page) are integral to our business, operations and sustainability agenda. In this report, you will find information on these material topics, why they are material to Shelf Drilling, and how we manage them.

Corresponding key performance indicators measuring our progress against each of the material topics is included in the table of disclosures on pages 109-111.

Further, we recognize the responsibility of our business and our sector to support the achievement of the UN Sustainable Development Goals (SDGs). Our operations and material topics present particularly strong opportunities to make meaningful and sustainable contributions toward the attainment of several SDGs relevant to our business. The table on next page summarizes how our 15 material topics contribute to specific UN SDGs. Additionally, we have mapped these 15 material topics to the 21 sustainability matters identified as a result of the DMA exercise. We plan to report our sustainability performance, actions and plans on the 21 sustainability matters for the 2024 reporting period onwards to ensure compliance with ESRS.

Our Material Topics & SDG Framework

Sustainability Focus Area	Material Topic	Why it Matters	DMA Sustainability Matters	Selected SDGs	Our Ambitions
Climate & Environment	Greenhouse Gas Emissions	Our operations have a significant GHG profile	• Climate change adaptation • Climate change mitigation • Pollution of air	12 Responsible Consumption and Production 13 Climate Action 14 Life Below Water	• Reduce our daily per rig Scope 1 emissions by 20% over 5 years • Partner with stakeholders on innovative technologies to reduce GHG profile • Promote behavioral changes in employees in support of our climate & environment goals
	Energy	Our operations are energy intensive. Rigs consume a significant amount of fuel, hence energy.	• Climate change adaptation • Climate change mitigation • Pollution of air • Energy		
	Spills & Releases	Our operations have the potential to unintentionally generate air, water and soil pollution including the release of substances of concern.	• Pollution of water • Impacts on the state of species • Substances of very high concern		
	Circularity	Our rigs are composed of steel or industrial equipment. Our focus on circularity reduces our Scope 3 footprint by eliminating the need for manufacturing new equipment.	• Pollution of soil • Substances of very high concern • Resource inflows including use		
	Biodiversity (state of species)	Our operations can put at risk the state of species through contamination generated by unintended leakage of fluids to the sea or the transport of foreign species and bacteria to marine ecosystems.	• Impacts on the state of species		
Health & Safety	Health and Safety	Our greatest responsibility given the inherent risks in our operations and footprint	• Health and safety of own workers	3 Good Health and Well-Being 4 Quality Education 8 Decent Work and Economic Growth	Providing a safe working environment through prevention, continuous improvement, and innovation
	Employee Security				

Sustainability Focus Area	Material Topic	Why it Matters	DMA Sustainability Matters	Selected SDGs	Our Ambitions
People & Society	Employee Development & Retention	Builds skilled, motivated, and engaged workforce	• Corporate culture	1 No Poverty 3 Good Health and Well-Being 4 Quality Education 8 Decent Work and Economic Growth 9 Industry, Innovation and Infrastructure	• Develop strong and competent local leadership wherever we operate • Building strong partnerships with local communities • Building an inclusive workplace, free from discrimination • Work collaboratively with all stakeholders to promote respect for human rights across our value chain
	Employee Wellbeing	Our ethical responsibility	• Working conditions of own workers • Equal treatment and opportunities for all own workers • Other worker-related rights of own workers • Protection of whistle blowers		
	Human Rights	Fundamental to the dignity and well-being of every person working directly or indirectly in our operations	• Working conditions of supply chain workers • Equal treatment and opportunities for all supply chain workers • Other worker-related rights of supply chain workers		
	Local Employment	Long-term sustainability and resilience of our operations, inclusive growth for the communities where we operate.	• Communities economic, social and cultural rights		
	Local Community Development				
Responsible Business Conduct	Business Ethics	Ensure our operations are run in a legal and ethically compliant manner, mitigating the reputational and financial risks to our business.	• Corporate culture • Protection of whistle blowers • Corruption and bribery	8 Decent Work and Economic Growth 16 Peace, Justice and Strong Institutions	Promote ethical practices across value chain and strengthen business continuity
	Responsible Procurement		• Working conditions of supply chain workers • Equal treatment and opportunities for all supply chain workers • Other worker-related rights of supply chain workers • Management of relationships with suppliers including payment practices		
	Information Security & Privacy		• Other worker-related rights of own workers		

How We Manage Sustainability

Sustainability Policy

Our Sustainability Policy serves as the cornerstone of our commitment to sustainability. Approved by our Board in 2020, it outlines fundamental principles guiding our business practices, management approach, and personal behavior. Integrated into our Company Management System and publicly available on our website, this policy ensures transparency and accountability. By setting clear expectations, we aim to embed sustainability across our operations and culture.

Other Policies & Procedures

Shelf Drilling has adopted, and regularly updates various other policies and procedures to ensure effective management of sustainability-related activities. These include the **Code of Business Conduct and Ethics, Global Anti-Corruption Policy,** and **Vendor Code of Conduct,** all of which are regularly revised to incorporate evolving key sustainability considerations. Our **Rig Recycling Policy** outlines procedures for environmentally responsible rig disposal.

Employees are required to adhere to established policies, supported by training and compliance monitoring systems. We continuously review and improve our policies and procedures to align with evolving regulations and achieve our sustainability goals. For more information, visit our website at www.shelfdrilling.com.

In 2024, we plan to conduct a thorough review of our policies to ensure alignment with ESRS standards set forth by DMA outcomes.

Climate & Environment

- Sustainability Policy
- HSE Policy
- Rig Recycling Policy
- Environmental Sustainability Metrics and Reporting Standard

Health & Safety

- HSE Policy
- HSE Management System
- Quality Policy
- HSE Requirement
- Security & Emergency Management Requirements
- Occupational Health Standard

People & Society

- Sustainability Policy
- Code of Business Conduct & Ethics
- Vendor Code of Conduct

Responsible Business Conduct

- Code of Business Conduct & Ethics
- Global Anti-Corruption Policy
- Vendor Code of Conduct
- Information Security Policies
- Privacy Policies

Corporate Governance of Sustainability

At Shelf Drilling, we believe that effective governance structures are critical to ensuring sustainability is integrated into all aspects of our business, from strategy development to risk management to day-to-day operations. Our governance approach is designed to promote accountability, transparency, and active engagement with stakeholders, ensuring that sustainability remains at the core of our decision-making processes. An overview of our governance framework for sustainability is outlined below.

- **Board of Directors** of Shelf Drilling regularly engages with management and external advisors to discuss, review and approve sustainability strategy, risk management and performance.
- **Audit Committee of the Board** monitors risk management programs, including ERM, that incorporates climate- and other sustainability-related risks.
- **ERM Steering Committee**, which is chaired by the CEO and includes all executive management and other key management owns and drives the ERM process including conducting annual risk reviews and mitigation prioritization.
- **Chief Executive Officer** is responsible for operationally driving sustainability strategy and performance.
- **Management Sustainability Steering Committee,** which is chaired by the **Executive Vice President**, oversees the development and implementation of our sustainability goals.
- **Rig Steering Committees** on each rig ensures adherence to sustainability standards offshore.
- **Sustainability Manager** leads the development and implementation of sustainability plans, ensuring alignment with global best practices and industry standards.

Performance Assessment

Our annual bonus program rewards company performance for the year based on a comprehensive set of performance indicators which include sustainability-related goals including Scope 1 emission reduction and safety. This bonus program applies to our executive management team, including the CEO, as well as all management positions across the company. It further extends to the OIMs on the rigs, thereby integrating sustainability into our company culture and operations.

Stakeholder Engagement

Shelf Drilling values meaningful engagement with our stakeholders, including our customers, employees,

investors, communities, and regulatory bodies, to ensure that we understand and meet their expectations regarding sustainability. We seek feedback from our stakeholders to inform our sustainability strategy, and we communicate our sustainability performance to them on an ongoing basis through various channels, including our website, annual report, and sustainability reports.

Additionally, we engage in dialogue with stakeholders to address any concerns and to identify opportunities for improvement. Through stakeholder engagement, we seek to build trust and collaboration, identify sustainability risks and opportunities, and align our sustainability strategy with stakeholder expectations.

Industry Initiatives

As a member of the International Association of Drilling Contractors (IADC), Shelf Drilling closely monitors industry dynamics and the evolving landscape of sustainability within the oil and gas sector. We actively participate in the IADC's Sustainability Committee, which facilitates the exchange of information on sustainability-related standards, definitions, and best practices among its members and standards organizations. We are also a member of IADC's Advanced Rig Technology Committee (ART), and the ART Energy Efficiency (EE) subcommittee. Through these roles, we contribute to shaping the industry's future by driving innovation and promoting energy-efficient practices. This collaboration not only enhances our understanding but also contributes to the advancement of consistency in sustainability reporting within our industry.

Sustainability Recognition

We recognize the importance of sustainability ratings and reports as sources of information for investors, analysts, and other stakeholders. We actively engage with several agencies to seek feedback to improve our sustainability performance reporting and better meet stakeholder expectations.

Grade "B+"

ESG 100 Rating for 2023

Annual review of the sustainability reporting of the 100 largest companies by market value listed on the Oslo Stock Exchange by Position Green. Shelf Drilling's total ESG score ranks within the top 35 of the 100 largest companies (by market cap) on the Oslo Stock Exchange.

Grade "B-"

Climate Disclosure Project (CDP) Rating for 2023.

About This Report

Our Approach to Sustainability Reporting

In compiling this report, accuracy of reported data and information has been a key area of focus. The main risks we have identified in our reporting are:

- The data quality of quantitative information could be low if methods of gathering data are not appropriate.
- Presently, most of our Scope 1 emissions data is manually captured before entry into our online tool, posing a risk of inadvertent errors in recording.

We have a comprehensive strategy in place to minimize the possibility that these risks may materialize. To collect our sustainability data, we use our in-house ESG dashboard and other online tools customized to accurately collect metrics relevant to our operations. This allows us to gather data closer to its source, allowing for more accurate estimations and more reliable methods of calculation. Additionally, we have several check-ins and quality assurances at various stages between data capture and finalization. To ensure reporting is aligned with the most recent standards, we have engaged independent consultants with expertise on this area to guide us in producing our sustainability report. All these efforts and internal controls ensure that risks related to reporting are mitigated to the greatest extent possible.

Reporting Framework and Disclosures

This report is prepared in alignment with the Sustainability Accounting Standards Board (SASB) reporting recommendations and based on the Euronext (Oslo Børs) Guidelines to issuers for ESG reporting.

The disclosures on pages 109-111 are based on the SASB recommendations for the oil and gas exploration and production and services sectors[1,2]. Relevant indicators are included from these two different recommendations to best match Company characteristics.

To provide relevant information related to areas identified as material to Shelf Drilling, additional indicators are included, based on the Global Reporting Initiative (GRI) Standards[3] and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[4]. Customized indicators are also included.

The table of disclosures is structured around our key sustainability areas. The following chapters follow the same structure and provide in-depth information.

Reporting Period & External Assurance

The Sustainability Report covers the period of the 2023 calendar year. The Sustainability Report is published annually, as part of the Annual Report and as a standalone report. The Company's previous Sustainability Report was published in March 2023. Sustainability disclosures contained in this report have not been externally assured.

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[1] https://www.sasb.org/wp-content/uploads/2018/11/Oil_Gas_Exploration_Production_Standard_2018.pdf

[2] https://www.sasb.org/wp-content/uploads/2014/06/NR0104_ProvisionalStandard_OGServices.pdf

[3] https://www.globalreporting.org/

[4] https://www.fsb-tcfd.org/

Climate & Environment

Shelf Drilling believes that the oil and gas industry is key to meeting the world's ever-expanding energy needs. We are aware of the environmental impacts our industry and operations can have, and we are committed to managing our operations responsibly and sustainably. Our approach centers on emissions mitigation, achieved through proactive employee involvement, fostering collaboration with our customers and industry partners, and driving innovation. By instilling a culture of environmental responsibility within our workforce, we look to drive behavioral shifts that promote sustainable practices. We actively collaborate with experts to identify new solutions and technologies to reduce our environmental footprint.

2023 Highlights

~60,000 Tonnes CO_2e

Prevented through circularity

Fuel Additives

Pilot launched for one rig

Emissions Tracking

Pilots completed on engine and emissions monitoring

Why it Matters?

- Long-term sustainability
- Efficiency & cost savings
- Regulatory compliance
- Managing investor expectations
- Business continuity

Material Topics

We have assessed the following material topics in relation to Climate and Environment.

Material Topics

- Greenhouse Gas (GHG) Emissions
- Energy Management
- Spills & Releases
- Biodiversity
- Circularity

Impact Materiality

Shelf Drilling acknowledges the impact of its operations and business on both the environment and society. The energy consumption inherent in offshore operations results in significant carbon emissions, contributing to climate change and air pollution. Greenhouse gases, emitted primarily from fuel combustion, lead to global warming, sea-level rise, and extreme weather events, with adverse effects on human health, agriculture, and ecosystems. Furthermore, pollutants such as SOx and NOx also from the combustion process harm air quality and biodiversity, while cooling systems containing ozone-depleting substances pose risks to the ozone layer and ecosystem health. However, Shelf Drilling also demonstrates potential positive impacts through its efforts to reduce emissions and engage customers in sustainable practices, thus influencing broader climate mitigation efforts.

We acknowledge the energy-intensive nature of our operations and the challenges inherent in reducing fuel consumption while meeting operational imperatives. Therefore, our primary focus lies in the optimization of power generation systems and the enhancement of fuel efficiency resulting in cost reduction and reducing the reliance on finite fossil fuel resources, contributing to long-term sustainability.

Shelf Drilling also acknowledges the potential impact of its operations on marine biodiversity. Loss of well control during well construction activities, while exceptionally rare, can release harmful substances into the marine environment, posing risks to marine species and habitats. Discharges at sea, stemming from unplanned discharges from our equipment, presents a risk of inadvertent contamination, potentially impacting marine ecosystems. Additionally, biofouling on rigs and ballast water discharge from rigs can lead to the transportation of invasive species to new areas, disrupting local ecosystems.

Recognizing the environmental impact of equipment and components essential to our operations, such as steel, Shelf Drilling actively implements circularity principles through our "fleet spares strategy," which emphasizes refurbishment and reuse of equipment. Through this approach, we promote resource efficiency, waste reduction, and sustainable practices.

Shelf Drilling exclusively operates in shallow water regions, where hydrocarbon extraction costs and CO_2 emissions per barrel are notably lower than in other areas, enabling us to play a key role in assisting our customers in meeting the world's increasing energy needs. Furthermore, we have strategically expanded our services, fleet, and footprint to specialize in plug and abandonment (P&A) operations, contributing to the circular economy of the oil and gas industry.

Through proactive measures and responsible practices, we strive to minimize our impact on the environment while promoting the well-being of people and society.

Financial Materiality

From a financial perspective, effectively managing material topics pertaining to climate and environment is critical for Shelf Drilling's long-term sustainability and profitability. Extreme weather events pose operational risks, including damage to critical infrastructure, safety hazards for personnel, and productivity losses, potentially leading to revenue loss or additional costs. Moreover, increasing occurrences of extreme weather events across our industry may escalate insurance premiums and liability claims, impacting financial performance.

Inadequate management of GHG emissions and energy consumption can lead to increased operational costs, regulatory fines, and reputational damage, jeopardizing financial performance and investor confidence. Furthermore, the potential for unplanned spills and loss of well control poses financial risks in terms of cleanup costs, regulatory fines, and reputational damage. Engagement with customers to support emissions reduction initiatives offers opportunities for co-investment and long-term partnerships, enhancing both our environmental and financial performance.

The imposition of emissions-related taxes, such as Carbon Tax and Emissions Trading Systems (ETS), could significantly increase the Company's operational costs, affecting profitability in the medium to long term. Failure to comply with future greenhouse gas emission reduction targets established by regulatory bodies may result in fines, penalties, and reputational damage, jeopardizing financial stability and market position.

By integrating environmental considerations into its business strategy, Shelf Drilling not only mitigates financial risks but also capitalizes on opportunities for long-term value creation and sustainable growth. Initiatives like the "fleet spares strategy" based on circularity principles offer opportunities for innovation, cost savings, and competitive advantage. Moreover, by leveraging emerging opportunities such as enhanced energy efficiency onboard rigs, environmentally sustainable operations, and supporting our customers with carbon capture and storage activities, Shelf Drilling positions itself as a leader driving innovation and resilience within the drilling industry.

Policies

Sustainability Policy

Shelf Drilling's Sustainability Policy is consistent with our commitment to support the achievement of UN Sustainable Development Goals (SDGs), prioritizing environmental protection and climate impact mitigation. It outlines our commitment to comply with relevant environmental regulations and minimize our operational impact on the climate and environment. Applicable to all employees and contractors representing us, whether offshore or shore-based locations, this policy sets the standard for our environmental responsibilities. As required by our policy, we track and monitor our environmental performance through our ESG Dashboard and reporting system, generating regular reports for both Management and the Board.

HSE Policy

Our Health, Safety, and Environment (HSE) Policy requires the implementation of systems that prioritize emissions reduction and energy conservation. Central to this policy is the development of Power Management Plans for each rig, aimed at optimizing power generation and usage to minimize fuel consumption effectively. Furthermore, all our rigs are required to operate with an International Air Pollution Prevention (IAPP) Certificate, issued by a Classification society, affirming compliance with emission control requirements as outlined in MARPOL Annex VI. Additionally, we maintain an Environmental Aspects and Impacts Register across all our rigs and shore-based facilities. This register outlines our process for identifying and evaluating the environmental aspects and impacts of our activities and operations.

Rig Recycling Policy

Our Rig Recycling Policy focuses on the responsible disposal and recycling of rigs and equipment, ensuring alignment with the Basel Convention on the Control of Trans-Boundary Movements of Hazardous Wastes and their Disposal, 1989. This policy mandates that rigs are to be sold for recycling solely to facilities certified under the Hong Kong Convention, ensuring legal compliance and mitigating associated risks. Additionally, the policy mandates third-party audits of the recycling process to uphold stringent environmental standards. Furthermore, it advocates the reuse of equipment, aligning with international standards and fostering a commitment to reducing our environmental impact.

Transition Plan

The oil and gas industry has a significant opportunity to support the objectives of the 2015 Paris Agreement, through its potential to contribute to sustainable energy transitions. The recently concluded COP28 highlighted the industry's commitment to the climate agenda, marked by the signing of the Oil and Gas Decarbonization Charter (OGDC), signifying a collaborative step towards strengthening environmental sustainability efforts.

At Shelf Drilling, we recognize the complex energy trilemma facing the world today: ensuring energy security, providing equitable access to energy, especially in emerging economies, and achieving environmental sustainability.

As a leading drilling contractor, we acknowledge the energy-intensive nature of our operations, consisting of drilling, workover, and plug and abandonment (P&A) activities. While our role in supporting our customers' well programs is critical, there are significant challenges for us to reduce fuel consumption due to operational requirements. Therefore, our primary focus lies in optimizing power generation systems and improving fuel consumption efficiency through active engagement with our employees, customers, and recognized industry experts.

Shallow water operations, which are our sole focus, deliver hydrocarbons at lower cost and lower CO_2 per barrel than most other areas, making them a key source of oil and gas supply.

Shallow water operations, which are our sole focus, deliver hydrocarbons at lower cost and lower CO_2 per barrel than most other areas, making them a key source of oil and gas supply. Shallow water fields, and the Middle East in particular, are significant contributors to the oil and gas supply and are projected to deliver an increasing percentage of the world's supply under most climate change scenarios.

In line with our commitment to sustainability and innovation within the energy sector, we have strategically expanded our services to specialize in plug and abandonment (P&A) operations — a critical component of the oil and gas industry's circular economy. As more fields approach the end of their productive life, the requirement for P&A services is expected to increase. While the timing of this activity is uncertain, we have made substantial investments to develop a proven capability in this area.

Our 2022 acquisition in the North Sea is consistent with this strategy, positioning us in a region with increasing demand for P&A operations. The North Sea serves as a relatively more established region for Carbon Capture and Storage (CCS) projects as compared to our other operating regions. Leveraging our expertise and success in P&A operations, we aim to participate in the CCS value chain where possible, contributing to global efforts to achieve net-zero emissions. In 2023, we completed a one-well CCS project for a customer in the Adriatic.

As we move forward, we are working on defining a formal climate transition plan that aligns with our operational realities and our commitment to environmental stewardship. Recognizing the critical importance of addressing climate change and its impacts on our operations, stakeholders, and the environment, we remain committed to innovation, collaboration, and investment in our people, assets, and technologies. By doing so, we aim to serve our customers effectively while contributing to a better future for all.

Climate-related Risks

Shelf Drilling acknowledges the multifaceted impact of climate change, presenting both risks and opportunities across regulatory, reputational, and/or market categories. In 2019, we conducted a comprehensive climate risk review in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines. This review enabled us to identify various physical and transitional climate-related risks and opportunities pertinent to our operations, which have been integrated into our Enterprise Risk Management (ERM) framework.

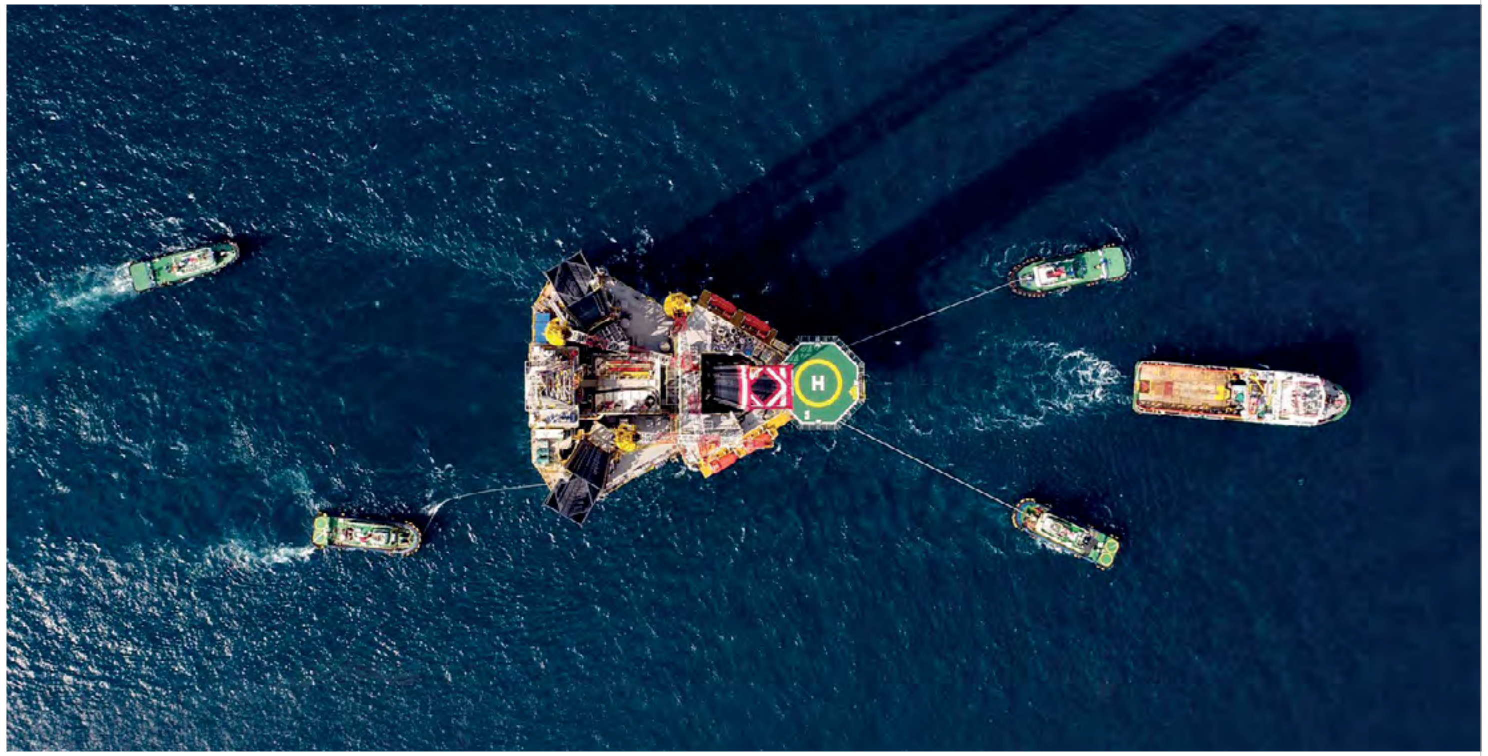
Similar to our approach to other risks, we have devised targeted mitigation strategies for these climate-related risks. Responsibility for their implementation has been allocated to specific members of our management team, ensuring accountability and proactive management. Moreover, we continuously monitor regulatory developments and evolving customer requirements to adapt and refine our strategies in line with emerging trends and expectations. Through these proactive measures, we aim to effectively navigate the challenges and capitalize on the opportunities presented by climate change, safeguarding the sustainability and resilience of our operations.

We annually submit our "Climate Change" disclosure through the Carbon Disclosure Project (CDP). Further details on our impact on climate change cross referenced to our 2023 CDP disclosure, our response to 11 TCFD reporting recommendations, this Sustainability Report as well as 2023 Form-10k equivalent are included on page 108. We believe these details will help our investors and all other stakeholders better understand how Shelf Drilling is positioned to manage the risks and opportunities associated with climate change.

Furthermore, in 2023, Shelf Drilling completed a Double Materiality Assessment (DMA) to comprehensively identify our Impacts, Risks and Opportunities (IROs) and assesses their materiality. More details on DMA process are included on pages 43-48.

The following table outlines the climate-related risks identified, including both physical and transitional types, as part of Double Materiality Assessment and leveraging the work done in our TCFD risk review.

Risk Type	Sustainability Matter	Risk	Time Horizon
Physical	Climate Change Adaptation	Extreme weather disrupts operations	Short to Medium
		Extreme weather increases cost of operations	Long
Transitional	Climate Change Mitigation	Carbon Tax	Medium to Long
		Other GHG Emissions related Regulations	Long



Extreme Weather Disrupts Operations

Shelf Drilling operates in regions prone to extreme weather events, such as increased temperatures in the Middle East and Egypt and cyclones in areas like India and Southeast Asia, which can pose risks to our operations. They can directly damage critical rig infrastructure or pose additional safety hazards for the crew, potentially resulting in injuries. Furthermore, adverse weather conditions may necessitate the suspension of operations by preventing transit of equipment or personnel to offshore rigs, resulting in operational delays. Additionally, severe weather patterns may lead to delays in rig movements and supply chain logistics. These events may therefore result in productivity loss, downtime events, delays in contract commencement, potentially resulting in revenue loss or additional costs. As climate change progresses, the frequency and severity of extreme weather events are expected to rise, further impacting the stability and safety of offshore operations.

Extreme Weather Increases Cost of Operations

Increasing occurrences of extreme weather events heighten the risk of injury to our offshore employees and substantial damage to our rigs. In the long-term, these incidents may result in increased claims across our industry, with the risk that this may impact insurance premiums.

Carbon Tax

The imposition of emissions-related taxes, including Carbon Tax and Emissions Trading Systems (ETS), particularly in developed economies, may pose a potential financial exposure for Shelf Drilling in the future. With the carbon taxes in Denmark and Norway and emission trading in the UK and EU, Shelf Drilling may face increased operational costs in the medium to long term. Furthermore, there is a risk of similar taxation frameworks being adopted by other countries in which Shelf Drilling operates. The introduction of a carbon tax would have an immediate impact on our direct cost of operations and would require us, or our customers, to invest in fleet upgrades to mitigate carbon emissions and minimize tax liabilities. While our contracts with our customers typically include provisions stating that a change in law (including the costs associated with a carbon-tax or equivalent) would be passed on to the customers, there remains uncertainty regarding the complete transferability of such regulatory costs.

Other GHG Emissions related Regulations

Shelf Drilling faces the risk of potential operational shutdowns and contract losses or terminations should it fail to meet future greenhouse gas emission reduction targets established by regulatory bodies, like International Maritime Organization's (IMO) Energy Efficiency Operational Indicator (EEOI) and Carbon Intensity Indicator (CII) standards which do not apply to the offshore drilling sector today. Failure to comply with these environmental benchmarks carries the risk of fines, penalties, and reputational damage. Therefore, meeting these environmental standards is crucial to avoid financial repercussions and to maintain our market position.

Climate-related Opportunities

Shelf Drilling acknowledges the potential for significant opportunities stemming from combatting climate change.

The table below outlines the opportunities identified as part of Double Materiality Assessment.

Sustainability Matter	Opportunity	Time Horizon
Energy	Increase of energy efficiency onboard the rigs	Medium to Long
Climate Change Mitigation	Environmentally Sustainable Drilling Services	Long
Climate Change Mitigation	Developing Carbon Capture and Storage activities	Long

Enhanced Energy Efficiency Onboard Rigs

Shelf Drilling's concerted efforts to increase energy efficiency across its fleet presents an opportunity for enhanced operational efficiency. The initiative to optimize engine utilization not only reflects a commitment to environmental stewardship but also offers a practical avenue for reducing engine maintenance expenses. By implementing real-time fuel and emissions monitoring system, we anticipate meaningful improvements in the fuel efficiency on our rigs. While the direct cost savings from reduced fuel consumption may not accrue to us, as fuel is typically supplied by the customer, the initiative could pave way for future business prospects. Demonstrating our capability to meet stringent customer or regulatory mandates positions us favorably for seizing new opportunities within our markets.

Environmentally Sustainable Offshore Operations

Shelf Drilling is currently evaluating the potential for integrating sustainable practices into its operations as part of a long-term vision of environmental stewardship within the drilling industry. While concrete initiatives have yet to be finalized, exploring options such as rig electrification, hybrid power systems, and the adoption of alternative fuels presents a strategic opportunity to mitigate our environmental impacts in the future. The absence of established benchmarks for sustainability in offshore operations underscores the nascent state of such efforts across the industry, emphasizing the potential for Shelf Drilling to drive innovation and leadership in environmental sustainability.

Developing Carbon Capture and Storage Activities

With the transition to a low-emission economy, the demand for carbon capture and storage (CCS) opportunities is expected to grow. Shelf Drilling has actively engaged in various ongoing and potential CCS projects. The increasing potential of developing CCS activities, particularly in regions like the North Sea, signifies a significant opportunity. Our demonstrated expertise in P&A operations positions us favorably to access and capitalize on these increasing opportunities. Leveraging our proven capability in this domain, we anticipate an escalation in CCS-related ventures in the future.

Greenhouse Gas Emissions

Shelf Drilling is committed to understanding and mitigating its environmental impact, particularly concerning greenhouse gas emissions from its direct operations and broader value chain. The company employs the Greenhouse Gas (GHG) Protocol for Climate Accounting, a globally recognized standard, to ensure accurate and transparent reporting of its GHG emissions. As outlined in the GHG Protocol, we adopt the Operational Control approach for our carbon accounting. This methodology involves accounting for all emissions from operations over which the Company has control over, providing a comprehensive view of its environmental footprint.

Note: 2023 figures on all tables in Greenhouse Gas Emissions section pertains to both SDL & SDNS rigs (excluding SD Barsk) while 2021 figures are for SDL rigs only, unless mentioned otherwise.

Scope 1 Emissions

At Shelf Drilling, our Scope 1 emissions are primarily attributed to the combustion of Marine Gas Oil (MGO) or diesel onboard our rigs, which is essential for generating the power for equipment and accommodation. In accordance with the GHG Protocol, our fuel consumption data for 2023 has been consolidated and converted into tons of CO_2 equivalent (tCO_2e). We have utilized the UK Government conversion factors (DEFRA 2023) for fuels – Marine Gas Oil (MGO), available here, for GHG reporting. These factors provide a basis for reporting GHG emissions, aligning with both national and international guidelines.

Our Scope 1 emissions for 2023 totaled 298,464 tCO_2e, representing an increase of 45,522 tCO_2e compared to 2022. This rise can primarily be attributed to an overall increase in operating hours and several rigs moving into drilling mode which is significantly more fuel intensive than workover or P&A. Operating hours increased from 238,812 in 2022 to 256,568 as several rigs returned to operation in 2023 following the completion of major upgrade or contract preparation projects. Furthermore, the acquisition of additional rigs in the North Sea in Q4 2022 resulted in an increase in operating days, thereby contributing to the observed increase in emissions.

Scope 1 Emissions (tCO_2e)	2023	2022	2021
Fuel Consumption (MT)	91,323	77,829	74,688
CO_2	292,781	249,519	239,449
CH4	83	63	60
N2O	3,507	3,361	3,226
Scope 1 Emissions	296,371	252,943	242,735

Other Air Emissions

For our environmental reporting, Shelf Drilling extends its monitoring to include a variety of air emissions beyond greenhouse gases. However, it is crucial to note that these air emissions primarily result from the combustion process of diesel fuel used in our operations. Shelf Drilling is not responsible for any methane leaks from our customers' oil and gas facilities. Our monitoring efforts focus solely on emissions generated directly from our operations. We utilize the UK Environmental Emissions Monitoring System (EEMS) factors to ensure accurate assessment and reporting of these emissions.

The factors can be found in the Table 8.2 (Default Emission Factors for Diesel Consumption Plant Operations) in EEMS Atmospheric Emissions Calculations Report, available here.

Other Air Emissions (tCO_2e)	2023	2022	2021
CO	1,434	1,222	1,173
NOx	5,425	4,623	4,436
SOx*	91	78	75
VOC	183	156	149

*SOx emissions account for SO2 emissions and have been adjusted for MGO sulfur weight composition of 0.05%.

Scope 2 Emissions

Our Scope 2 emissions are primarily derived from the electricity purchased by our shore-based offices and support facilities. In our commitment to thorough and accurate emissions reporting, we employ both location-based and market-based methods to calculate these emissions. We utilize emission factors from reputable sources, including the International Energy Agency (IEA) 2023 Emissions Factors and the Association of Issuing Bodies (AIB) 2022 Emissions Factors. While we have observed an increase in Scope 2 emissions, particularly attributed to the addition of new facilities in the North Sea, it is important to note that our Scope 2 emissions represent a minimal fraction of our overall combined Scope 1 and Scope 2 emissions.

Scope 2 Emissions (tCO_2e)	2023	2022	2021
Electricity Consumption (MWh)	1,462	1,082	873
Scope 2 Emissions – LB	661	680	617
Scope 2 Emissions – MB	693	691	620

Energy Consumption (MWh)	2023	2022	2021
Fuel Consumption	1,062,090	905,151	868,621
Electricity Consumption	1,462	1,082	873
Total Energy Consumption	**1,063,552**	**906,233**	**869,494**

Emissions Intensity

Recognizing the variability inherent in our operations, we have adopted intensity metrics as a more suitable framework for evaluating our environmental impact. To this end, we established a goal to reduce our emissions intensity (average daily per rig Scope 1 emissions) by 20% over 5 years from our 2021 baseline. While we successfully achieved a reduction of 5.5% in emissions intensity in 2022, our emissions intensity increased by 1.3% in 2023 falling short of our annual target of 4% reduction. This increase can be primarily attributed to a change of activity, particularly within one region performing P&A activity for most part of 2022, whereas, in 2023, changed to development drilling. Our 2023 Per Rig Per Day emissions intensity currently stands at 4.3% lower from our 2021 baseline.

Following the industry best practices and other regulatory requirements, we have established two additional intensity metrics based on Operating days and revenue terms, aiming to provide transparent assessment of our emissions impact. Our 2023 emissions intensity per US$ revenue is 28% lower than the 2021 baseline.

Emissions Intensity	2023	2022	2021
Scope 1 & 2 Emissions (tCO_2e)*	297,032	253,623	243,352
Emissions Intensity (tCO_2e/Rig/Day)**	23.82	23.51	24.89
Emissions Intensity (tCO_2e/Operating Days)***	25.08	Not Measured	Not Measured
Emissions Intensity (tCO_2e/K$ Revenue)	0.33	0.36	0.46

* Includes Location-Based Scope 2 emissions
** 30 Rigs, excluding SDNS rigs
*** 35 Rigs, excluding SD Barsk

28%

lower emissions intensity per US$ revenue than the 2021 baseline

Scope 3 Emissions

At Shelf Drilling, we acknowledge the importance of measuring and reporting Scope 3 emissions as an integral component of our comprehensive approach to sustainability. We focus on all relevant categories including Purchased Goods & Services, Capital Goods, Fuel- and Energy-Related Activities, Upstream Transportation & Distribution, Waste Generated in Operations, Business Travel, and Employee Commuting for measuring our overall Scope 3 emissions. We will continue to enhance our data capture and accounting processes for indirect emissions, working closely with our value chain partners with the aim to improve transparency, accountability, and ultimately drive meaningful reductions in our Scope 3 emissions footprint.

Scope 3 Emissions (tCO_2e)	2023	2022	2021*
Scope 3 Emissions	331,693	292,056	58,996

* 2021 data only includes Upstream Transportation & Distribution, Waste Generated in Operations and Business Air Travel. Other categories were not measured.

Energy Management

Energy management is crucial for Shelf Drilling as it directly impacts our operational efficiency, cost reduction, and environmental stewardship. In 2023, we further advanced our sustainability efforts by implementing projects on real-time energy and an emissions management system. These initiatives are designed to enhance our monitoring capabilities regarding engine use, fuel consumption, and emissions on our rigs.

Engine Run Time Tracking System

Recognizing that over 90% of our Scope 1 emissions come from the fuel used by our rigs' main engines, Shelf Drilling launched an online tracking tool in 2022 to enhance the monitoring of main engines' usage. Our rigs operate with 3 to 6 main engines depending on the activity type. This tracking system collects real-time data on engine performance and fuel consumption. The system consolidates this data in a secure cloud-based server facilitating accurate monitoring and analysis. To further refine our understanding of emissions in relation to specific rig activities, we enhanced the platform in 2023 to include activity details. This enhancement allows us to closely monitor our primary source of emissions and is currently in use onboard all our rigs.

Engine & Emissions Monitoring System

Throughout 2023, **engine monitoring** pilot projects on select premium rigs, equipped with electronically controlled engines, have yielded significant success across various locations. This has set the stage for expansion of the system to all premium rigs within our fleet throughout 2024. The system's ability to automate data collection minimizes human error, enhancing the accuracy and reliability of our emissions data. Real-time monitoring enables us to swiftly identify and implement operational adjustments that improve engine efficiency and reduce emissions.

This tracking system collects real-time data on engine performance and fuel consumption.

For the standard rigs in our fleet equipped with mechanical engines, we launched a pilot of a similar system. This trial helped us evaluate the feasibility and impact of deploying such technology across the rest of our fleet. By the end of 2023, we had equipped three of our rigs with real-time monitoring systems enhancing our energy and emissions management capabilities. Looking ahead, we aim to expand this technology to cover 50% of our standard fleet by the end of 2024, significantly increasing our capacity to monitor and report emissions across our operations.

Building on the positive outcomes from our pilot on one premium rig, we are looking to expand our real-time **emissions monitoring** system. These systems directly measure the composition of gases emitted from the engine exhausts. This approach provides a more accurate means of assessing and reporting greenhouse gas emissions, versus the traditional empirical conversion based on fuel consumption. In 2024, we aim to install these gas sensors on another rig, enabling us to capture, track and assess emissions in real time as we further assess the viability and effectiveness of this solution across our fleet.

Activity-based Fuel Consumption & GHG Emissions Monitoring System

In 2024, we aim to implement a pilot of a real-time monitoring system on one of our rigs, aimed at enhancing our understanding and management of fuel usage and greenhouse gas emissions during various drilling activities. This system will allow us to collect precise data on fuel consumption for both ongoing and past drilling operations. The system is designed to provide insights into how different drilling activities, like drilling, tripping, and mud circulation affect fuel consumption. By leveraging this data, we can identify opportunities to reduce our greenhouse gas emissions.

Moreover, the system will facilitate the identification of the most fuel-efficient use of our engines for each drilling activity, as well as the most fuel-efficient rigs in our fleet, based on their operational performance. This will further enable us to showcase best practices and drive efficiency improvements across our operations.

Fuel Additives

In Q4 2023, Shelf Drilling initiated a fuel additives trial on one of our rigs. The purpose of this trial is to evaluate the effectiveness of a fuel additive that claims to enhance fuel efficiency while potentially reducing both fuel consumption and greenhouse gas emissions by 7-10%. We plan to analyze the results of this trial in 2024. Based on the outcomes of this trial, we intend to extend the initiative to another one of our rigs, further exploring the potential benefits of this fuel additive.

LED Lighting

In 2023, Shelf Drilling took proactive steps toward energy conservation by releasing a guidance document to all our facilities. The guidance document encourages the active replacement of conventional lighting with energy-efficient LED lighting solutions, wherever possible.

Spills and Releases

Shelf Drilling is committed to upholding the environmental management principles outlined in the ISO 14001 standard, guiding our practices across the organization. Our offices in the UK and India, as well as our rigs in the North Sea and India region, hold ISO 14001 certification, ensuring adherence to stringent environmental protocols. While other offices and rigs may not have independent certification, they operate under protocols aligned with the ISO 14001 framework.

Releases to the Sea (Spills)

As mandated by our HSE Policy, our goal is to ensure zero harmful discharges to the sea. In the event of unplanned discharges of drilling mud or other fluids, estimated volumes are promptly recorded and reported through our HSE Dashboard. In 2023, there were five unplanned discharge events resulting in an estimated overboard oil spill of 2.94 barrels. Additionally, there were 10 minor loss of containment events, with all fluids & chemicals safely retained and captured onboard the rig.

Releases to the Air

We monitor and record any leaks of Ozone Depleting Substances (ODS) from our rigs' air conditioning systems. Our goal is to transition all rigs to be completely ODS-free and to utilize environment friendly freon by 2025. As of 2023, 35 out of our 36 rigs are ODS-free and use green freon. The last remaining rig accounted for an ODS release of 13 kilograms into the atmosphere in 2023.

Release to the Soil

Shelf Drilling recognizes the potential environmental impact associated with the rig scrapping process. This includes soil contamination from pollutants such as rust, chemicals, and other hazardous materials. We closely oversee this aspect through our Rig Recycling Policy. In 2023, no rigs were scrapped.

Releases of substances of very high concern

Shelf Drilling is aware that its rigs may contain asbestos, posing potential health risk to crew or any other worker dealing with them. Asbestos exposure can lead to long-term health issues and even fatalities. To address this concern, we prioritize safe and proper handling and disposal of asbestos and other hazardous materials. In 2023, none of our rigs underwent a major project that required either handling or disposal of asbestos.

Our customers' drilling operations use trace amounts of radioactive materials for signaling purposes which may have a potential negative impact on the surrounding ecosystem. The protocols and actions related to the safe management, handling and storage of such substances are overseen by one of the customers' service companies specializing in such activities. These third-party companies operate on behalf of the customer and are beyond Shelf Drilling's operational control. In our capacity as the rig contractor, our responsibility is to ensure that there is a designated location onboard for the safe storage of radioactive materials and a proper permit to work control system during the handling of such materials.

Biodiversity

Shelf Drilling acknowledges the potential impact of its operations on marine biodiversity. We remain committed to understanding and mitigating the biodiversity-related impacts of our activities. Our preliminary assessment identifies four primary areas where our operations may affect marine ecosystems:

- **Blowouts from our Well Construction Activities:** While these incidents are exceptionally rare, they can release harmful substances into the marine environment, posing risks to marine species and habitats. To prevent such occurrences, our rigs strictly adhere to the highest international standards for Well Control Equipment and Control Systems. Rigorous checks conducted by accredited third-party certification companies, including OEM and various regulatory bodies, ensure full compliance with the required standards.
- **Discharge at Sea:** Some of our equipment uses heavy oil (for example, lubricants, diesel, hydraulic) posing a risk of inadvertent discharge of contaminants into the sea, potentially impacting marine ecosystems. To prevent such occurrences, we have a robust Maintenance Management System. This system mandates regular inspection of all discharge ports (including and not limited to all piping/fittings/hoses etc.) to ensure proper maintenance and timely replacement. In addition, our **"Zero Discharge Policy"** prohibits any offboarding of contaminants into the ocean without prior treatment in accordance with international laws. Contaminants that cannot be treated onboard are securely stored and transported back to shore for proper disposal in compliance with local regulations.
- **Biofouling on rigs:** The attachment of organisms to underwater parts of our rigs can lead to the transportation of invasive species to new areas, potentially disrupting local ecosystems. As such, our rigs undergo periodic regulatory inspection and cleaning during dry-dock projects to minimize and clean marine growth.
- **Ballast water discharge from Rigs:** Our rigs use ballast water for stability, which could pose a risk if released into new areas during relocation, potentially spreading non-native species and affecting marine life. To manage this, we follow strict Ballast Water Management Plans aligned with the international standards, minimizing the chance of disrupting ecosystems. The likelihood of such incidents is low, as our rigs do not relocate often.

35 out of our 36 rigs are ODS-free and use green freon.

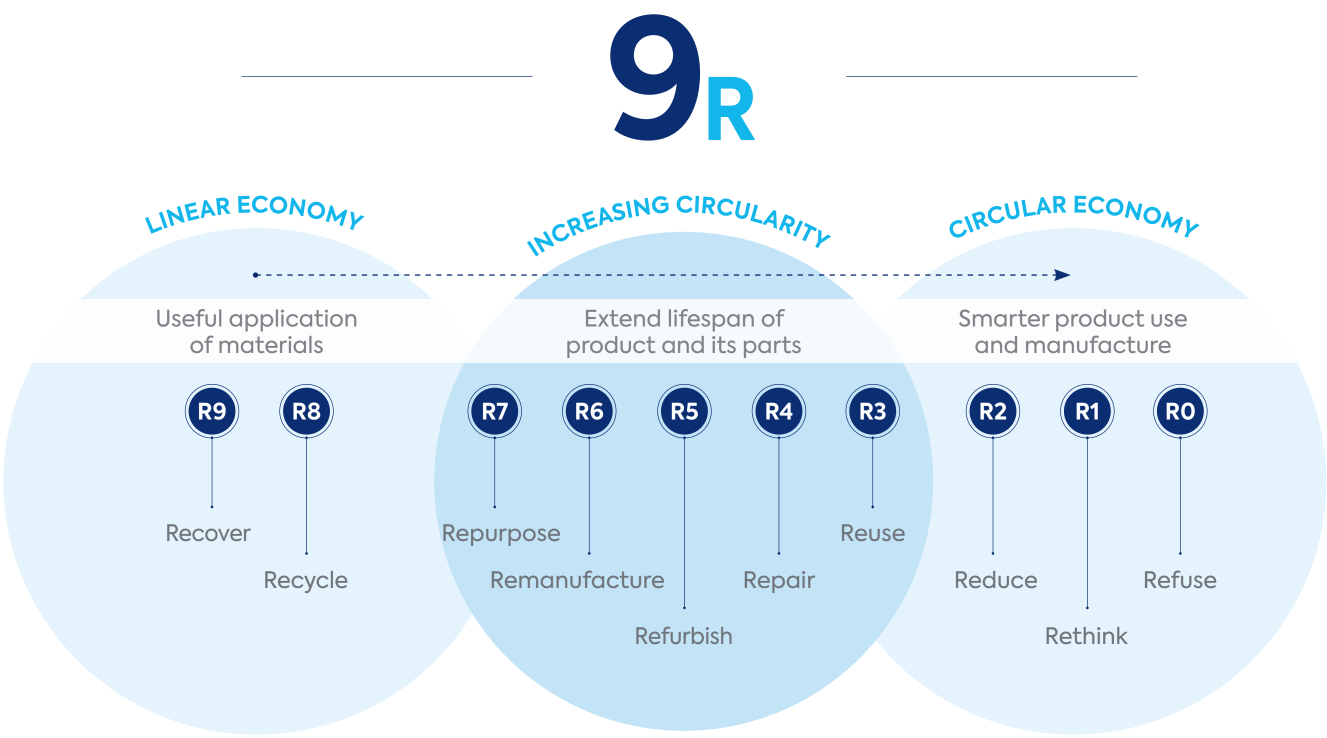
Our "Zero Discharge Policy" prohibits any offboarding of contaminants into the ocean without prior treatment in accordance with international laws.

Circularity

Steel production contributes to higher carbon emissions primarily due to:

- Extraction of iron ore and transportation, which involves the use of heavy machinery and fossil fuel.
- Use of coking coal in traditional steel making processes, releasing CO_2 during combustion.
- Energy-intensive processes like heating furnaces, often powered by fossil fuels.

At Shelf Drilling, we recognize the environmental impact associated with the production of equipment and components essential for our operations. In response, we have carefully crafted a comprehensive **"Fleet Spares Strategy"**. Rooted in our innovative "Fit For (Re) Purpose" approach, this strategy emphasizes the reuse and reconditioning of equipment to extend its lifespan and minimize waste, aligning closely with the principles of the 9R circularity framework.



Source: Conceptualizing the Circular Economy: An Analysis of 114 Definitions by Julian Kirchherr, Denise Reike, M.P. Hekkert, 2017

Fleet Spares Strategy Implementation

Our Fleet Spares Strategy is supported by Shelf Drilling's highly centralized procurement, sourcing, and technical support model, ensuring consistent, reliable, and cost-effective maintenance of our fleet. Central to our approach is the acquisition of used equipment and parts, which are then reconditioned and subjected to rigorous Quality Assurance and Compliance checks to meet OEM and regulatory standards before certification for use in our operations. This approach extends to the overhaul processes for our own equipment (versus purchasing new equipment).

By refurbishing assets, we extend the lifespan of equipment, reduce resource consumption, and mitigate carbon emissions. These refurbished assets play a vital role in our fleet spares concept, ensuring operational continuity while minimizing waste and environmental impact.

Our inventory of "ready-to-go" equipment enables us to exchange complete major items such as engines, top drives, traveling blocks, crown blocks, mud-pumps, and draw-works, rather than disassembling and overhauling onsite. The replaced equipment is then brought back to our shore-based warehouse for overhaul and refurbishment, making it ready for another rig in the fleet. This exchange process is efficient, requires fewer resources, and provides a more predictable and reliable outcome than onsite overhauling.

In 2023, we invested approximately US$10 million in acquiring used equipment. This approach not only demonstrates fiscal prudence but also contributes to the reduction of Scope 3 greenhouse gas emissions. Through this unique approach, Shelf Drilling mitigated (avoided) an estimated 60,000 metric tons of carbon dioxide equivalent (tCO_2e) in 2023.

Training & Awareness

At Shelf Drilling, we recognize that successful implementation of sustainable practices requires more than just technical solutions. That's why we prioritize training and education to ensure our employees understand the importance of sustainability and their role in achieving our goals. Through comprehensive training and awareness initiatives, we equip our employees with the knowledge and skills necessary to implement sustainable practices across our operations. Furthermore, we leverage insights from our rig and shore-based sustainability committees to share best practices and embed them into our business operations. In 2021, we launched a comprehensive sustainability training developed in-house, that provided details on sustainability, why it is important to Shelf Drilling, our expectations of employees and where to find relevant information including the relevant policies and procedures. We regularly collaborate with external specialists to facilitate ESG training and awareness programs, aiming to stay ahead of the dynamic regulatory landscapes. In 2024, we will enhance our training program by rolling out an ESG training for all employees.

Waste Reduction

Shelf Drilling has established a range of waste management plans and processes that prioritize both environmental sustainability and regulatory compliance. While the management and disposal of production waste generated during drilling operations is usually handled by customers, we focus on reducing general business waste generated offshore. The main contributors to this waste include metal, oil, food, wood, plastic, and paper, and we continuously explore opportunities to reduce waste across all categories. Some examples are outlined below:

- By the end of 2023, we installed 64 water filtration units across our fleet, with another 36 units in progress. This initiative is expected to eliminate 1,800 kg of plastics per rig per year, equivalent to reducing 10,800 kgs of GHG emissions.
- In 2023, one of our Rigs in the UK upgraded its oil centrifuge equipment, extending the oil change interval from 1000H to 2000H. While this incurred a cost impact, it significantly reduced the amount of waste oil generated.
- Some of our rigs in the North Sea have transitioned to washable boot covers, eliminating the use of disposable plastic ones. This change is expected to reduce over 200,000 disposable boot covers per rig per year.
- We are conducting to replace paper-based Safety Conversation cards with iPads, aiming to eliminate up to 2,500 paper cards per rig per year.

Looking Ahead

Shelf Drilling recognizes the complexities in achieving accurate carbon accounting amidst evolving regulatory demands and stakeholder expectations. Recognizing the need for transparent and credible reporting, we are collaborating closely with both our internal and external auditors to assess the requirements imposed by ESRS. This collaboration will pave the way for external validation of our environmental data in the future, enhancing the credibility and reliability of our reporting practices. By embracing these initiatives, we reinforce our commitment to environmental responsibility and underscore our dedication to transparency, accountability, and continuous improvement.

Health & Safety

2023 Highlights

0.12
Total Recordable Incident Rate

0.02
Lost Time Incident Rate

9.62
Total Potential Severity Rate

~91,000
Hours of safety training performed

At Shelf Drilling, the safety of our employees, contractors, customer representatives, and other service providers is our greatest responsibility, particularly considering the inherent risks in our operations and footprint. A safe and healthy workplace not only protects our employees from harm but also enhances productivity, efficiency, and morale. We remain committed to fostering a culture of safety excellence, implementing rigorous protocols, and continuously improving our practices to mitigate risks and safeguard our workforce. This commitment includes providing a safe working environment through prevention, continuous improvement, and innovation.

Our Three Pillars of Safety

Material Topics

We have assessed the following material topics in relation to Health & Safety.

Material Topics

Health & Safety

Employee Security

Financial Materiality

We acknowledge the financial materiality of health and safety considerations. Injuries to Shelf Drilling's workforce during offshore rig operations can lead to lawsuits and financial consequences from regulators or affiliated parties. These incidents are potential occurrences on all our rigs worldwide. Furthermore, multiple fatalities, though rare, carry significant financial, legal, and reputational risks. Moreover, these incidents, if they were to occur, could erode trust and confidence in Shelf Drilling, potentially deterring customers from engaging our services due to concerns about safety. This loss of potential customers further exacerbates the financial impact and tarnishes Shelf Drilling's reputation. By prioritizing health and safety, we not only safeguard our employees but also protect the financial stability and long-term success of Shelf Drilling.

Policies

HSE Policy

Our Health, Safety, and Environment (HSE) Policy Statement forms the basis of our commitment to fostering a safe and healthy work environment. It outlines employee obligations and Shelf Drilling's approach to continuous improvement in health and safety. Approved by the CEO, the policy is integrated into our Company Management System, posted throughout our facilities, and published on our website. Our management and employees are dedicated to achieving our **HSE Vision, which is to create an incident-free workplace where no-one gets hurt**.

HSE Management System

Shelf Drilling HSE Management System comprises a comprehensive set of policies, processes, and procedures aligned with industry best practices. Implemented across our operations, this system serves as a framework for identifying, assessing, and controlling health, safety, and environmental risks. Regular review and updates ensure its effectiveness in safeguarding our employees, assets, service providers, and customers while continuously improving our safety performance.

Impact Materiality

Injuries during Shelf Drilling's offshore operations, whether from slips, trips, falls, or incidents like fires or loss of well control, can have mild to severe consequences, impacting the well-being of our workforce. The harsh offshore environment also poses mental health challenges, including anxiety and stress, affecting employees' long-term well-being in part due to extended periods of absence from their families. Moreover, the nature of offshore work conditions, including extreme weather and isolation, can lead to serious injuries, with long-term effects on families and coworkers.

Why it Matters?

- It's our biggest responsibility
- Risk management
- Legal & regulatory compliance
- Maintaining stakeholders' trust

We are dedicated to achieving our HSE Vision, which is to create an incident-free workplace where no-one gets hurt.

Actions Taken

Our safety approach includes risk identification, preventive measures implementation, and comprehensive education of employees and partners on best practices. We prioritize the protection of all stakeholders, continually evaluating and enhancing our safety practices to ensure that we maintain the highest standards. Our commitment to safety goes beyond meeting regulatory requirements. We aim to foster a safety culture where every employee is empowered to actively contribute and take responsibility for safety. Providing necessary training, tools, and empowerment, we emphasize individual responsibility for one's own safety, the safety of colleagues, and the environment.

We believe that safety is a shared responsibility, and we encourage open communication and feedback to continuously improve our safety practices.

Anchoring Our Safety Culture

Management Commitment

We prioritize strong and demonstrable leadership in health and safety. The CEO holds ultimate responsibility for the well-being of all personnel. Our Senior Management actively engages in meetings, inspections, and audits to ensure the effectiveness of our HSE programs. Supported by a robust HSE organization and a focused workforce, we maintain control over health and safety operations.

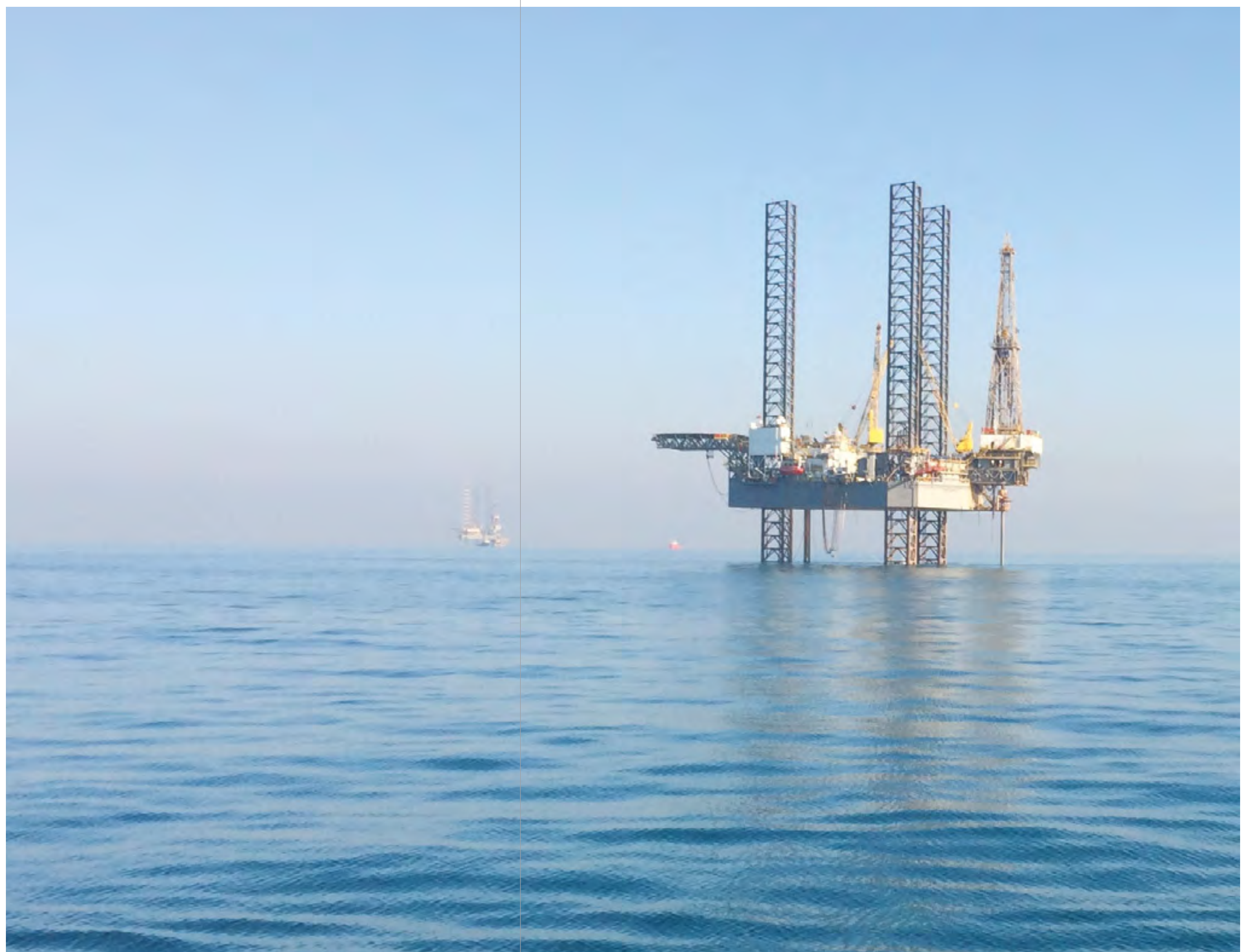
The **Quality Management Steering Committee** (QMSC), comprising Executive and Senior Management, convenes annually to review HSE performance, action items, and goals. This ensures informed decision-making and continuous improvement in our HSE programs.

Planning First

Planning is the first step in creating a safe working environment and effectively managing risks. Our **Risk Assessment Process** and **Safety Conversations** policies are key components of our HSE system. The Risk Assessment Process ensures thorough planning, risk assessment, and monitoring of tasks to prevent incidents. Safety Conversations reinforce safe behavior and address any unsafe acts or conditions. Utilizing **Time Out for Safety** and Safety Conversations serve as our first line of defense, with every Shelf Drilling employee obligated to use them to address unsafe conditions or promote good behaviors.

Planning FIRST
Desired outcome
SAFETY & PERFORMANCE

We believe that safety is a shared responsibility



Emergency Preparedness / Risk Assessments

Identifying and evaluating operational risks and potential major hazards is the first step in ensuring emergency preparedness. Our rigs undergo MHRA (Major Hazards and Risks Assessment), identifying potential hazards, assessing their likelihood and severity, and implementing measures to minimize risks. Major hazards include incidents such as blowouts, fires, helicopter crashes and boat collisions. MHRA is integral to our Hazard and Integrity Management system.

We aim to reduce risks to As Low as Reasonably Practicable (ALARP). Additionally, we have comprehensive strategies in place to respond to emergency situations:

1. Emergency Response Procedures: Clearly defined plans, including Emergency and Medical Emergency Response Plans, are communicated to all stakeholders.
2. Equipment and Resources: Rigs and shore-based facilities are equipped with firefighting, personal protective, medical, and power generation equipment.
3. Communication and Coordination: Established procedures ensure seamless communication and coordination with local authorities and emergency services.
4. Emergency Drills: Regular drills prepare personnel for emergencies and allow for procedure evaluation and improvement.
5. Continuous Improvement: We regularly review and enhance our emergency preparedness plan, including MHRA, to incorporate best practices and technologies.

4D Employee Security Strategy

In areas with physical security risks, we collaborate with global security experts to assess and mitigate these risks. Our 4D Security Strategy involves:

4D

Detecting
potential threats early using surveillance and monitoring systems.

Deterring
threats through access control and alarms.

Delaying
threats with barriers to provide time for response.

Denying
access to critical areas with physical barriers.

Supervisors and/or select crew in high-risk areas receive extensive training on personal safety, situational awareness, anti-piracy, kidnap response, emergency procedures, and communication protocols from third-party providers.

Safety Awareness & Recognition

In our ongoing commitment to enhancing health and safety, we introduced the Make It Safer Today (MIST) Program in 2022. This initiative incentivizes the identification and reporting of unsafe conditions and encourages proactive safety measures by our crews. The program includes awards and recognition tiers for the crews, from local level all the way to the CEO level, who is the ultimate program sponsor. Since its launch, the MIST Program has gained momentum, leading to significant improvements in safety performance. In 2023 alone, 20,450 potential incidents were averted through the reporting of "good catches" under this program.

MIST
MAKE IT SAFER TODAY

Good Catches in 2023

20,450
Total 2023

1,704
Per Month

568
Per Rig

1.5
Daily Per Rig

HSE Training

As a drilling contractor company, it is crucial to ensure that all employees receive adequate HSE training, including those working on rigs, in offices, and at project sites. Tailored to each role's responsibilities, our training covers HSE and Emergency Response, with specific focus and depth for those with emergency response duties. Competency is also evaluated through the On Job Training (OJT) system.

Every person visiting our rigs or shore-based facilities receives training on our HSE management system, with additional specific shore-based training provided for personnel assigned to a new customer or a prolonged out-of-service project. High-risk offshore positions undergo IADC-endorsed Competency Assessments to ensure we have the most trained and skilled personnel in such key roles.

Regular Safety Leadership and HSE Supervisor Trainings are organized for offshore employees, and One Team, One Goal workshops involve everyone who works on our rigs, including customer representatives and third-party service providers. These workshops reinforce knowledge of our Safety Management System, ensuring the safety of all involved in our operations.

2023 HSE Training Records

	HSE Training Hours	Number of Employees	Average HSE Training Hours Per Employee
Offshore	90,169	3,678	24.5
Onshore	980	516	1.9
Total	91,148	4,194	21.7

Performance

Performance Monitoring

We utilize a monthly HSE Report and our custom-designed "Dashboard" safety database to track key performance indicators, trends, and investigations. Oversight by the Board of Directors ensures accountability, with regular reports provided on HSE performance and plans. Senior Management sets yearly HSE objectives, signed off by the Board, and shares safety performance data with employees to drive improvements. As an IADC member, we contribute to industry safety efforts through incident data reporting.

We have streamlined incident, near-miss, and hazard reporting processes, providing training to ensure understanding and importance. Thorough incident investigations inform the development and implementation of corrective and preventive actions.

Regular safety audits and inspections identify improvement areas and ensure regulatory compliance. Installation managers conduct monthly Self-Verification Audits (SVA), while corporate assessors perform Management System Assessments (MSA) every two years to identify areas for improvement.

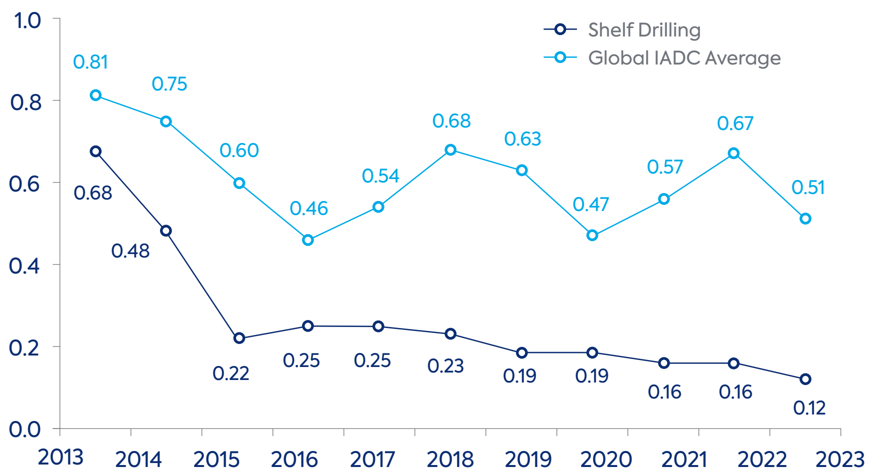
HSE Results

In 2023, we achieved outstanding safety performance with a Total Recordable Incident Rate (TRIR) of 0.12 against a target of 0.15, and a lost-time incident rate (LTIR) of 0.02. 2023 TRIR has been the best in our company's history. Moreover, the entire fleet operated without a recordable incident for 5 months of the year, while 29 rigs, including the entire West Africa fleet, were recordable incident-free in 2023.

29 Rigs had **ZERO Recordable Incidents** in 2023

Safety Track Record (TRIR)

Our TRIR continues to be significantly lower than the worldwide industry average as reported by IADC, as illustrated in the chart below.



Source: International Association of Drilling Contractors (IADC) website and Company figures as of December 31, 2023

Goals	Indicator	2024 Target	2023 Target	Results 2023	Results 2022	Results 2021
Creating an environment that results in an incident free workplace where nobody gets hurt	Fatalities	0	0	0	0	1
	Total Recordable Incident Rate (TRIR)	<=0.12	<=0.15	0.12	0.16	0.16
	Lost Time Incident Rate (LTIR)	<=0.02	<=0.03	0.02	0.04	0.02
	Total Potential Severity Rate (TPSR)	10.0	10.0	9.62	6.31	4.92

Looking Ahead

We are committed to continuously improving our health and safety performance through a strategic approach that focuses on prevention, continuous improvement, and innovation. We will prioritize identifying potential hazards and implementing controls to prevent accidents and injuries, and fostering a safety culture where every employee plays an active role in continuous improvement. We will also remain informed of the latest health and safety practices and technologies and integrate them where appropriate.

Our ultimate goal is to achieve zero accidents and injuries, and we will continue to work towards this goal by continuously improving our safety practices and seeking innovative solutions to safety challenges.

We believe that a safe workplace is not only our obligation to our employees but also a key driver of our long-term sustainability, and we remain committed to prioritizing health and safety in all aspects of our business.

People & Society

2023 Highlights

16
Locations

~4,200
Employees

57
Nationalities

32%
Total Females Onshore (excluding Corporate)

89%
Offshore National Content

At Shelf Drilling, we firmly believe that a healthy, engaged, and competent workforce is essential to our success. Our commitment to empowering our people includes providing a professional, safe, and trusted working environment where every individual is treated with respect, fairness, and dignity.

Our Company culture values open communication, collaboration, and regular feedback and recognition, and we believe that these values have helped us build long term relationships with our employees as evidenced by the consistency of our management teams since inception.

In alignment with our commitment to human rights, we uphold strict adherence to labor laws and ethical standards across our global operations. By prioritizing hiring from within local communities and engaging in meaningful community initiatives, we aim to create sustainable economic opportunities and foster positive social impact wherever we operate. By investing in our people and the communities we serve, we lay the groundwork for enduring success and positive societal change.

In 2023, we successfully concluded the formal transition of Shelf Drilling Barsk rig to Shelf Drilling, welcoming a team of highly skilled and experienced professionals, both onshore and offshore Norway, further strengthening our operations.

With 57 different nationalities represented across our company's corporate headquarters, 16 locations, and 36 active rigs, we are fostering a culture of inclusivity and diversity that drives innovation and growth in our industry.

Material Topics

We have assessed the following material topics in relation to People & Society.

Material Topics

- Employee Development & Retention
- Employee Wellbeing
- Human Rights
- Local Employment
- Local Community Development

Impact Materiality

At Shelf Drilling, we are deeply committed to understanding and addressing the risks and impacts our operations have on people and society. By identifying and managing these material risks, we aim to mitigate adverse effects and enhance positive outcomes for our employees, stakeholders, and the communities where we operate.

Employee development & retention is a crucial aspect as inadequate investment in this area may lead to talent attrition, skill gaps, and decreased productivity, impacting both organizational performance and employee morale. Similarly, neglecting employee wellbeing can result in increased absenteeism, decreased productivity, and higher healthcare costs. Prioritizing employee wellness fosters a healthy, engaged workforce and strengthens organizational resilience.

Moreover, human rights violations such as discrimination, harassment, or forced labor present significant legal, reputational, and ethical risks. Upholding human rights principles ensures fair treatment, dignity, and respect for all individuals within our operations and supply chain. Additionally, local employment initiatives are essential to address social tensions, economic disparities, and community dissatisfaction. Supporting local hiring fosters inclusive growth, strengthens community ties, and enhances our social license to operate.

Furthermore, failure to engage with communities or contribute to their development can lead to strained relationships, protests, and regulatory challenges. Thus, investing in local community development projects fosters goodwill, promotes sustainable development, and creates shared value for both the company and the community.

By proactively managing these material topics, we aim to safeguard the well-being of our workforce, uphold ethical standards, and create sustainable value for all stakeholders.

Why it Matters?

- **Strong customer and governmental relationships**
- **Lower employee turnover**
- **Competitive operating costs**
- **Long-term sustainability & resilience**

Financial Materiality

While the direct financial impacts of our actions on people and society may not always be immediately apparent, they are integral to our overall business performance and long-term sustainability.

Employee compensation and benefits represent a major portion of our operating expenses. Ensuring competitive compensation, adequate benefits, and opportunities for career advancement are essential for attracting and retaining talent, as well as maintaining employee satisfaction and productivity. Similarly, training and development costs, while incurring financial investments, yield long-term benefits in terms of enhanced skills, knowledge, and performance. Effective training programs contribute to employee retention, job satisfaction, and overall organizational success.

Legal and compliance costs are necessary to ensure compliance with labor laws, regulations, and ethical standards. Investments in legal counsel, compliance programs, audits, and remediation efforts are critical to mitigating legal risks and preventing financial penalties. Additionally, community engagement and CSR Initiatives require financial resources. These investments are essential for building trust, maintaining a positive reputation, and securing our social license to operate.

By integrating financial considerations into our decision-making processes and strategically allocating resources, we aim to optimize our financial performance while simultaneously creating positive impacts on people and society.

Policies

- **Code of Business Conduct and Ethics** outlines the fundamental principles and standards of behavior expected from all employees, contractors, and business partners. It encompasses integrity, honesty, transparency, respect for human rights, and compliance with laws and regulations.
- **Sustainability Policy** articulates our commitment to integrating environmental, social, and governance (ESG) considerations into our business practices.
- **Vendor Code of Conduct** establishes the expectations and requirements for suppliers, contractors, and business partners who provide goods and services to Shelf Drilling. It emphasizes ethical sourcing, labor standards, environmental responsibility, and adherence to applicable laws and regulations.

Employee Development & Retention

At Shelf Drilling, investing in our employees is not just about meeting business objectives; it is about fostering a culture of learning and growth. By prioritizing employee development through Training & Development, Performance Management, and Talent Attraction & Employee Retention, we cultivate a workforce that is skilled, motivated, and engaged. This not only enhances performance and productivity but also reduces turnover and associated costs. Ultimately, it's about creating an environment where every team member thrives, contributing to our collective success and long-term sustainability.

Why it Matters?

- **Fosters a culture of learning & growth**
- **Builds skilled, motivated, and engaged workforce**
- **Improves performance & productivity**
- **Reduces turnover & associated costs**

Training & Development

Performance Management

Attract & Retain

Actions Taken

Training & Development

At Shelf Drilling, investing in the training and development of our employees is a cornerstone of our commitment to excellence and long-term success. We prioritize the growth and advancement of our employees through a variety of training & development initiatives. We believe in fostering a culture of continuous learning and improvement, which is why we offer a comprehensive range of both internal programs and external resources to support ongoing education.

90.3%

Training Compliance (Including shipyards and project rigs)

For offshore employees, we have implemented comprehensive training and development programs that span from entry-level to the most-senior level on a rig. Employees acquire skills, knowledge and experience following a highly structured training matrix that specifies the training required for each role and responsibility. This is channeled into four main categories: on the job training, competency assessments, shore-based professional courses, and regulatory and marine licensing training courses. Employee progress toward the next level and compliance with defined training targets are tracked through our online reporting system, ensuring accountability and transparency. Specific programs, such as the **Offshore Development Program**, the **Fast Track Program**, the **Engineer Development Program**, aim to support the development and the promotion of high potential candidates. Regular reviews are held between the field and corporate management teams on an ad-hoc basis and as part of a structured **Annual Succession Planning** process to ensure progress towards achieving the designated nationalization objectives as well as the development of adequate bench strength for key positions.

Our **Fast Track Program** was of particular importance in 2023 to mitigate the impact of incremental demand for competent offshore employees. Throughout the year, we had a total of 165 participants, with 32 graduating in 2023 and assuming key offshore roles.

For shore-based and corporate employees, development plans are specific to the individual, their current role and potential future opportunities. In 2023, we have introduced **Management Skills Trainings** for all Manager level employees at Corporate, as well as various coaching programs for selected employees across our workforce. For 2024, we are planning further specific trainings for shore-based employees at Corporate and in field offices to enhance efficiency, management, and leadership skills.

Additionally, we recognize the importance of company-wide compliance training in ensuring that all employees are equipped with the knowledge and skills necessary to adhere to our organizational standards and policies. Our training initiatives cover diverse aspects of company policies, fostering a strong ethical framework through guidelines on business conduct, ethics, anti-corruption and conflict of interest.

Shelf Drilling acquired International Association of Drilling Contractors (IADC) Competency Assurance Accreditation for the eighth consecutive year for training programs customized and fit-for-purpose for our operations.

Performance Management

At Shelf Drilling, we believe in ongoing, open feedback between onshore employees and supervisors for performance and development purposes. This is reflected in our approach to performance management, which is characterized by tailored development plans designed to meet the unique needs and goals of each individual employee within our organization. Rather than employing a one-size-fits-all approach, our lean organizational structure allows us to customize development initiatives to align closely with specific roles and responsibilities, ensuring that our employees receive the support and resources they need to thrive. In contrast to traditional annual performance reviews, we have adopted a more agile and adaptive approach that emphasizes continuous feedback and improvement. Through ongoing evaluation and dialogue, we empower our employees to make real-time adjustments and enhancements to their performance, thereby driving greater agility and responsiveness within our organization.

We have developed a custom **Performance Management Guide** for our onshore employees, providing them with clear benchmarks and expectations to guide their development journey. This performance management and development philosophy has been integral to our success since our company's inception. By prioritizing continuous improvement, open communication, and tailored support, we have cultivated a culture of excellence and innovation that enables us to thrive in today's rapidly evolving business landscape.

583

Promotions in 2023

Talent Attraction & Employee Retention

Attracting and retaining top talent is a priority at Shelf Drilling, particularly amidst the unique challenges of recent years. The surge in activity across the Middle East has intensified competition for skilled professionals, making talent retention and acquisition more challenging than ever before. Shelf Drilling has demonstrated resilience in these circumstances, successfully retaining key talent and maintaining relatively stable turnover rates.

Our strategy revolves around investing in our employees and prioritizing their well-being. We are committed to fostering an inclusive, supportive, and empowering environment where every team member feels valued and motivated to excel. Our commitment to fostering a culture that celebrates diversity, promotes growth, and champions innovation, has been instrumental in retaining our valued employees. By prioritizing their well-being and professional development, we have cultivated a sense of loyalty and dedication among our team members.

Furthermore, our proactive approach to talent management, complemented by competitive benefits and packages and strategic retention initiatives, has enabled us to navigate the challenges posed by recent industry trends effectively. By implementing targeted programs to recognize and reward excellence, providing opportunities for growth and advancement, and fostering open communication, we have been able to safeguard our talent pool and sustain our organizational strength. Our strong local presence, demonstrated commitment to developing our people and brand reputation have solidified our position as an employer of choice, enabling us to attract and retain top-tier talent.

Our commitment to fostering a culture that celebrates diversity, promotes growth and champions innovation, has been instrumental in retaining our valued employees.

1,406
New Employees Hired in 2022

11%
Offshore Voluntary Turnover

10.5%
Total Voluntary Turnover

7.5%
Onshore Voluntary Turnover

Looking Ahead

Looking ahead, Shelf Drilling recognizes the challenges of employee retention within the oil and gas sector, attributed to its cyclical nature and fierce competition for top talent. As the industry undergoes transformation and increasingly prioritizes sustainability, our strategy emphasizes investment in upskilling and reskilling initiatives to prepare our workforce for the future.

Employee Wellbeing

At Shelf Drilling, we hold an ethical responsibility to prioritize the wellbeing of our employees. By creating a workplace that values their contributions and supports their growth, we cultivate a more resilient and adaptable organization, capable of thriving in a rapidly changing and uncertain environment.

We understand that when our employees feel safe, valued and supported, they are more likely to perform at their best, leading to improved performance and productivity. Furthermore, research has shown that organizations that prioritize employee wellbeing experience reduced turnover rates and associated costs, ultimately driving tangible benefits for our organization's long-term success. We therefore take deliberate steps to foster a culture of respect, belonging, and inclusion, guided by our Code of Business Conduct and employment practices.

Why it Matters?

- **Ethical responsibility to prioritize the wellbeing of our employees**
- **Improved performance & productivity**
- **Reduced turnover & associated costs**

Actions Taken

Diversity & Equal Opportunity

Shelf Drilling is committed to equal opportunity employment for all employees and applicants for employment and celebrates the variety that emerges from experiences they bring to the Company. Consistent with our Code of Business Conduct and Ethics and Sustainability Policy, Shelf Drilling recruits, hires, trains, promotes, and compensates without regard to race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category of persons to the extent protected by applicable laws.

While gender diversity remains a challenge in our industry, we are committed to enhancing representation, as evidenced by the increasing number of women in our shore-based management positions. Our operations in Nigeria have continued to focus on advocating for the recruitment and development of women in offshore roles. Likewise, our India operations recently initiated a **Women Offshore Program** targeting petrochemical graduates, aiming to bolster diversity by encouraging their entry into rig-based positions. Moving forward, we are committed to further expanding our diversity and inclusion initiatives to create a more equitable and representative workforce.

Non-Discrimination

Shelf Drilling is committed to establishing and maintaining a work environment in which all individuals are respected and treated with dignity. The Company has **zero tolerance for discrimination or harassment** in the workplace or any other work-related setting, governing all aspects of employment. Shelf Drilling prohibits all harassment, including verbal, written, or electronic dissemination of materials which are offensive or disparaging of others on the basis of race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category, whether the harassment is directed at a subordinate, co-worker, supervisor, customer, agent, guest, contractor, or vendor.

Acknowledging that discrimination can manifest indirectly or unintentionally, we actively educate our employees and foster awareness to cultivate and uphold an inclusive and respectful culture. Our initiatives include mandatory training sessions for select employees on Unconscious Bias, Diversity & Inclusion, Workplace Harassment, Reporting and Non-Retaliation, supplemented by awareness posters defining the characteristics of a truly inclusive workplace culture.

Speak-Up: While we encourage open dialogue between employees and supervisors, we recognize the challenges in addressing issues related to discrimination. To facilitate a safe environment for reporting concerns, the company has established multiple channels through which employees can raise grievances and report actual or suspected wrongdoings, including discrimination, with the assurance of protection from retaliation. For further information, please refer to the "Whistleblowing/Speak Up" section on page 101.

Wellbeing Benefits

We provide comprehensive health insurance and benefits to all our employees to ensure that they have access to the necessary resources for maintaining their physical health and wellbeing. In regions where local regulations limit medical insurance to employees only, such as in Thailand, we extend coverage to include families, surpassing statutory requirements to safeguard the health of our entire workforce. Furthermore, Shelf Drilling expects that contracted crew members, hired through third parties, receive similar benefits as directly employed peers, fostering equality and security among all workers. This commitment not only positively impacts employees but also provides reassurance to their families during challenging times. Recognizing the importance of work-life balance, we offer flexible work arrangements, where possible, to accommodate the diverse needs of our employees.

Furthermore, in 2023, we launched our global **Employee Assistance Program (EAP)**, which provides 24/7 emotional and psychological support & solutions to all employees and contractors and their dependents. Leveraging a global network of resources and partners, the program offers solutions tailored to individual needs and is available in multiple languages across all our locations. The rollout of the program was supported by various in-person presentations and trainings, and we will continue to proactively promote the importance of mental health and well-being.

We also expanded our **Mental Health Awareness** initiative through comprehensive training sessions conducted for larger employee groups across various locations. Through this initiative, we continue to develop mental health champions who actively promote awareness and advocate for mental health within our organization, equipped with knowledge and skills to support colleagues facing mental health challenges.

Employee Assistance Program

In 2023, we partnered with the world's largest and independent provider of integrated employee wellbeing solutions to introduce our Employee Assistance Program (EAP). This strategic collaboration aims to provide comprehensive confidential support to our employees, contractors and their families, acknowledging the importance of addressing personal, work-related, and life challenges that can impact their overall well-being and job performance.

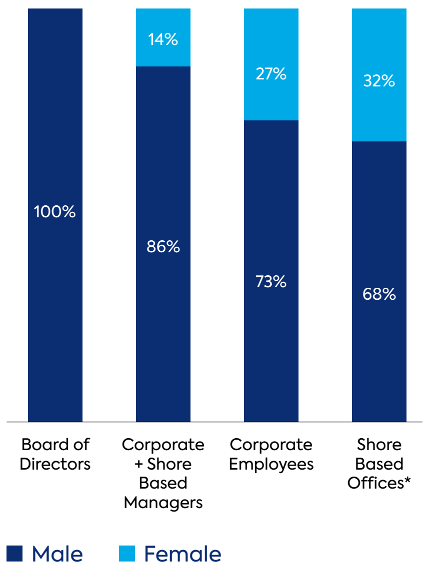
The EAP offers 24/7/365 emotional and psychological support & solutions to our employees and their families to address a range of personal and work-related issues and other life challenges that may impact their wellbeing and/or job performance. By extending these services to include employees' families, Shelf Drilling ensures that our support network encompasses their broader support system, recognizing the interconnectedness of personal and professional well-being.

One of the key strengths of our EAP is its global reach and inclusivity. Regardless of location or language, our employees and their families can access the program, making it accessible to our diverse workforce. Moreover, the program is sensitive to cultural and national differences, ensuring that the support provided is relevant and effective across various contexts.

"EAP ensures that **support** is available **whenever** and **wherever** it's needed"

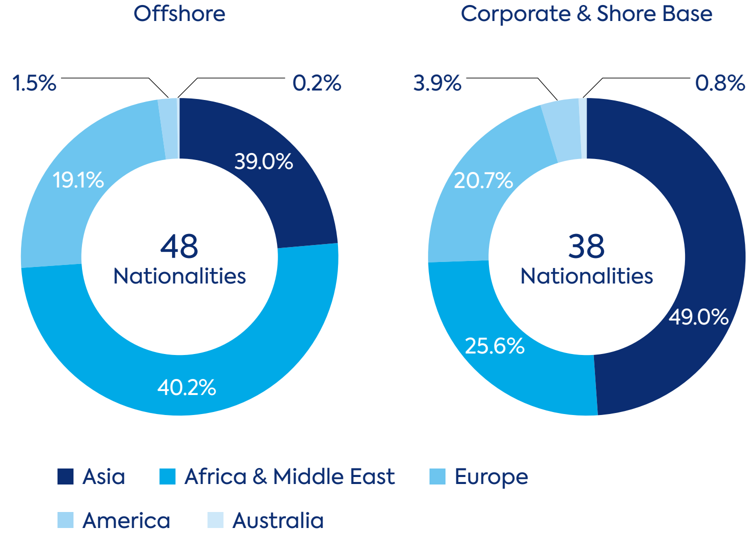
Our Performance

Gender Distribution



*Excluding Corporate Employees

Nationality Distribution



Looking Ahead

We recognize that building a strong and inclusive workplace culture is an ongoing effort, and we are committed to regularly evaluating our initiatives and making adjustments as needed to ensure they remain effective and aligned with our employees' needs and expectations.

Human Rights

Shelf Drilling is committed to respecting fundamental human rights as outlined in the International Bill of Rights and the International Labour Organization's (ILO) Fundamental Conventions. We adhere to the UN Guiding Principles on Business and Human Rights, recognizing that our responsibility extends beyond our operations to encompass our entire value chain. We actively identify and address human rights risks and impacts across our business to ensure that our suppliers and partners share our commitment to human rights.

Why it Matters?

- **Fundamental to the dignity and well-being of every person working directly or indirectly in our operations**
- **Essential to building trust of our internal and external stakeholders**
- **Ensures legal compliance with relevant laws and regulations globally**
- **Manages operational and reputational risks to our business**

Policies

- **Code of Business Conduct and Ethics** sets the standards for responsible business conduct, including our commitment to upholding and respecting human rights throughout our operations.
- **Sustainability Policy** solidifies our commitment to human rights within the broader context of sustainability.
- **Vendor Code of Conduct,** governing our supplier relationships, outlines the ethical requirements for all third parties engaged with Shelf Drilling, with respect for human rights being a fundamental expectation.

Actions Taken

Human Rights Saliency Assessment

In 2022, we conducted a human rights saliency assessment consistent with the requirements of the Norwegian Transparency Act. Phase 1 of **Human Rights Due Diligence** was completed in 2022, resulting in the following prioritized list of our human rights risks and impacts.

Salient Human Rights Issues

Health & Safety
Inherent risk to workers in the Oil & Gas industry

Decent Working Conditions
Risk of inconsistent working practices and conditions across various geographies

Use of Contractors
Less oversight of contractors' practice versus direct employees

Rig Recycling & Scrap
Rig recycling is linked to hazardous working conditions/child labor Sourcing of scrap prone to similar issues

Supply Chain Visibility
Exposure to high-risk geographies linked to child and forced labor

In June 2023, we published our first **Transparency Act Statement** reflecting the outcomes of our assessment and outlining our commitment to human rights, the diligence processes, actions taken, and future plans. The statement was approved by the Board of Directors demonstrating accountability and robust governance practices.

Building upon the findings of our assessment, in Phase 2, launched in 2023, we refined action plans for each salient issue aiming to cease, prevent, or mitigate the associated impacts.

Specific actions taken in 2023 include:

Policy Updates

We revised our third-party due diligence policies and procedures to incorporate vendor identification based on human rights and Environmental, Social, and Governance (ESG) risks.

Contractor Oversight

We conducted a thorough review of contractor payment practices to ensure pay parity and fair treatment. Additionally, we investigated allegations of passport sequestration by manpower agencies, finding no evidence of such practices within our operations.

Supply Chain Mapping

We initiated our supply-chain mapping process by identifying the Tier 1 vendors for a human rights focused due diligence. Additionally, we conducted site visits and physical audits on selected key vendors to assess human rights related risks.

2024 Focus Areas include:

Crew Transportation Evaluation

We will assess crew transportation practices in key locations to ensure increased safety and well-being of our workforce during transit.

Onboard Living Conditions

We are working with our rig crews across the world on various projects to enhance the living conditions onboard our rigs. While all our rigs are compliant with various regulatory requirements for accommodation conditions, the management has allotted additional budgets to further enhance the living experience onboard. This process will continue across various geographies on an as needed basis.

Contractor Oversight Enhancement

We will further strengthen our oversight mechanisms by revising Master Service Agreements (MSAs) to incorporate specific human rights requirements, fostering a culture of accountability among our contractors. Further, we are committed to auditing various vendors including their adherence to human rights standards.

Supply Chain Mapping

In 2024, we have planned a third-party ESG-focused due diligence initiative, including human rights matters, targeting identified tier 1 vendors. We will continue to conduct site visits and physical audits on identified vendors to further improve our oversight.

Employee Awareness

As part of our ongoing commitment to ethical conduct, employees are required to recertify the Code of Business Conduct and Ethics annually. Further, in 2023, we launched a comprehensive human rights training for our global shore-based and identified offshore employees. This training equips them with the knowledge and skills to identify and respond to potential adverse human rights issues and risks across our operations. By fostering a culture of awareness and responsibility, we aim to ensure that human rights considerations are deeply ingrained in all aspects of our work.

Looking Ahead

At Shelf Drilling, we believe that managing and improving our human rights impact is an ongoing process. We will therefore regularly review our identified salient issues to ensure that we effectively address those with the greatest potential to negatively impact people. While no specific human rights violations were raised in 2023, we remain committed to continuous improvement. Our policies and procedures are regularly updated to actively mitigate potential rights impacts and ensure compliance. If any adverse human rights issues are identified either in our own operations or across our value chain, we are committed to transparently communicating these impacts, seeking appropriate remedies for affected stakeholders, and updating our policies and procedures to avoid future negative impacts.

Local Employment

Nationalization is a key element of our company's strategy, reflecting our commitment to sustainable business practices and community engagement. We prioritize local employment and cultivate mutually beneficial partnerships with local stakeholders to support our business objectives while positively contributing to the communities where we operate.

Since our inception, we have been committed to hiring and developing nationals from the countries where we operate, including within our leadership teams, to establish a high national content within our workforce. As of December 31, 2023, approximately 89% of our offshore workforce comprises nationals, underscoring our sustained efforts to increase national representation.

Our emphasis on nationalization has yielded numerous benefits, including strengthened relationships with customers and government entities, particularly National Oil Companies (NOCs). Additionally, it has contributed to lowering our cost base and reducing employee turnover, thereby enhancing the stability and continuity of our operations. Moreover, our nationalization strategy has had a significant positive impact on local economies, creating employment opportunities and increasing income, in alignment with UN SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

Why it Matters?

- **Strong customer and governmental relationships**
- **Lower employee turnover**
- **Competitive operating costs**
- **Long-term sustainability & resilience**

Actions Taken

Our ongoing nationalization efforts include our commitment to hiring and training local talent, partnering with local educational institutions to build a pipeline of skilled workers, providing opportunities for career growth and development, and ensuring the long-term retention of our skilled workforce. This is achieved through the implementation of competitive compensation and benefits packages, the establishment of robust employee engagement programs, and the promotion of a supportive workplace culture. Further specific actions are described below.

Key elements of our local employment strategy include:

Recruitment
- Leveraging Company reputation, employee referral program and strong local network
- Partnering with local educational institutions to build a pipeline

Development
- Training and development programs
- Capacity building & mentorship program
- Succession planning

Retention
- Competitive compensation and local benefits package
- Regular benchmarking to local market
- Valuing and strengthening employee engagement

Fostering Future Talent

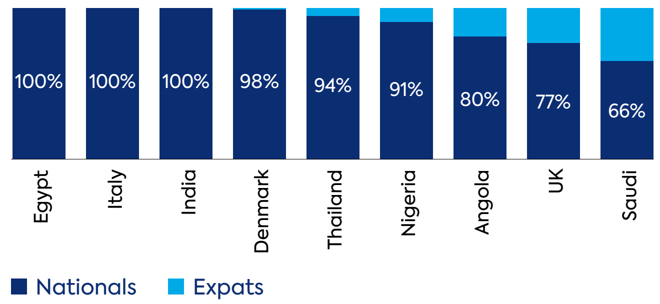
In certain countries such as Saudi Arabia, Egypt, India, and Nigeria, we have initiated tailored recruitment and development programs to address specific talent challenges. These programs target selected profiles that align with our strategic objectives and encompass a thorough developmental curriculum. Identified individuals undergo expedited onshore training and gain practical offshore experience on the job. Our objective is to develop a proficient local workforce in these areas and developing the foundation of our future leadership.

Offshore Development Program

Our Offshore Development Program aims at accelerating the development of nationals into roles of greater responsibility within our organization. The program has been instrumental in making significant progress in Thailand, Saudi Arabia and Angola, with a particular emphasis on the development of local Supervisors and Managers. This has resulted in a competent and capable local workforce that is equipped with the skills and expertise to drive our business forward. Notably, in Angola, our nationalization has increased from 68% in 2021 to approximately 80% in 2023, demonstrating our ability to develop national talent. Meanwhile Egypt, India and Nigeria have either achieved or are nearing full nationalization.

Our Performance

Offshore Nationalization Percentage



Looking Ahead

Our efforts are focused on the development of nationals across all levels of our organization, including leadership positions, as we aim to foster local talent to drive our business growth. Currently, our focus is on developing national supervisors and managers in key regions such as Angola, Thailand, and Saudi Arabia. Additionally, we recognize the importance of building robust partnerships with local communities and stakeholders. To achieve this, we are committed to working closely with local organizations and leaders to identify collaborative opportunities and support initiatives that contribute to the mutual success of our business and the communities we serve.

Local Community Development

At Shelf Drilling, we believe that our long-term success is linked with the well-being and prosperity of the communities in which we operate. Our approach to local community development revolves around advancing social, economic, and environmental welfare in these areas. With our operational footprint, we recognize our unique opportunity to make a positive and lasting impact on local communities.

Why it Matters?

- **Contribution to Sustainable Development Goals (SDGs)**
- **Stronger social license to operate**
- **Long-term business sustainability**

Our Approach

Through our focus on national content, we actively invest in local communities by providing direct employment, facilitating skill development, and sourcing goods and services locally. This approach not only fosters economic growth but also strengthens community resilience.

Further, in 2022, we formalized a Corporate Social Responsibility (CSR) framework, guided by the United Nations' Sustainable Development Goals (SDGs) relevant to our business and operations. Endorsed by senior management, and spearheaded by regional 'CSR Champions', our CSR program focuses on health, education, charitable contributions, and environmental sustainability. The program includes partnerships with local organizations, community development projects, and employee volunteering programs to effect meaningful change.

Key CSR Focus Areas

- Health & Education Support for Local Communities
- Charitable Contributions
- Environmental Impact & Waste Reduction

Our Performance

Our commitment to CSR has delivered tangible results through impactful initiatives across diverse regions, including Angola, Egypt, India, Nigeria, Saudi Arabia, and Thailand, stimulating further support from our employees. In 2023, we directed our focus towards enhancing education and IT infrastructure, providing learning resources, scholarships, and IT solutions to support training, development and employability within our communities. Additionally, we have prioritized healthcare infrastructure improvements, investing in medical facilities, modern equipment, and technology to elevate healthcare services to benefit local communities.

Looking Ahead

Shelf Drilling is committed to advancing Corporate Social Responsibility and sustainability, aligning with the UN Sustainable Development Goals. Building upon the achievements of our existing CSR initiatives, we are dedicated to extending our outreach to more communities, with a continued focus on education, health, and environmental sustainability. By partnering with NGOs and leveraging employee expertise, we aim to make a lasting impact and build a better future for all.

Education Infrastructure Development in Thailand

Since 2022, our team has been actively involved in improving the education infrastructure of four rural community schools: Wat SaNum, Wat Sri Chai, Wat Pak Rawa, and Wat Pak Phai. These schools face challenges due to minimal government support and a shortage of qualified teachers. Through our CSR initiatives, we have upgraded electrical systems, provided computers, printers, and sports equipment, and built playgrounds to create conducive learning environments. Our ongoing support aims to enhance student learning experiences, promote self-learning, and foster community engagement.

Bridging Educational Gaps in Upper Egypt

As a part of our CSR program, Shelf Drilling Egypt is spearheading the construction of a three-story, 200-square-meter building in Luxor, Upper Egypt. Managed by the Albir Wal Takwa Almasreya Association, an NGO, this center aims to address the educational needs of underserved populations. The facility will enroll approximately 50-100 students per cycle, totaling 150-300 students annually, offering education to children and adults, particularly women, who have been deprived of schooling opportunities. In recognition of Shelf Drilling's sponsorship, a section of the school will be named after the company. Construction of the first floor is currently underway, with the project slated for completion in 2024. This initiative stands to significantly expand access to education for individuals who have previously lacked such opportunities.

Empowering Girls in Angola

Horizonte Azul shelter provides a safe space for 95 girls, offering education and skill-based training. In 2023, Shelf Drilling partnered with ABS to donate essential items. Additionally, two interns were hired for hands-on experience aboard Shelf Drilling Tenacious for three full hitches as part of the marine and maintenance crew. This initiative aims to empower young talent and potentially integrate them into the company's workforce if they demonstrate potential and proficiency during their internship.

Empowering Futures in India

BTC (Bombay Teen Challenge) is a non-profit organization dedicated to rescuing and rehabilitating individuals from dangerous situations, focusing on breaking cycles of trafficking. Shelf Drilling India partnered with BTC as part of their CSR initiative, sponsoring education support and skill development for BTC students. Our India team actively engages with BTC students, providing mentorship and support, while also covering various aspects of their well-being, including transportation, maintenance, housekeeping, sanitization, and hygiene. Moreover, the program includes extracurricular activities such as sports, painting, and music, along with essential computer education and training in robotics and coding, preparing the students for a diverse range of opportunities.

In addition, Shelf Drilling's "Gyaan Saarthi" (knowledge support) project, aimed at renovating schools and providing educational resources continues to gather momentum. In 2023, our India team sponsored visits to the Nehru Planetarium for 1591 students from government schools in Mumbai's slum areas and organized beach clean-up activities, furthering our commitment to community welfare and environmental sustainability.

Responsible Business Conduct

Shelf Drilling is committed to conducting its business with honesty, fairness, and transparency, recognizing its importance for long-term success, reputation, and sustainability. These values are ingrained in everything we do, including our interactions with customers, suppliers, employees, shareholders, and communities where we operate. We have implemented a robust risk-based global compliance and ethics program that is designed to meet regulatory expectations and to uphold the highest standards of integrity.

We prioritize long-term, trust-based relationships with vendors, fostering collaboration and shared values across our value chain. Comprehensive policies and ongoing training empower employees to uphold ethical standards, fostering a culture of accountability and transparency. We conduct regular audits, monitor compliance, and facilitate transparent investigation and reporting mechanisms. We have also established effective channels enabling anyone to report a violation, ask questions, or express concerns in relation to our business and operations.

Material Topics

We have assessed the following material topics in relation to Responsible Business Conduct.

Material Topics
Business Ethics
Responsible Procurement
Information Security and Privacy

Impact Materiality

Shelf Drilling has adopted a comprehensive approach towards promoting well-being, ethical conduct, and accountability throughout its global operations and supply chain. Through ongoing collaboration and dedication, we strive to create a positive and lasting impact on the lives of our employees, partners, and communities worldwide.

Upholding ethical standards in our conduct and nurturing a culture where employees feel empowered to speak up, fosters an environment of trust and accountability, positively impacting the morale and well-being of our workforce. Moreover, Shelf Drilling's robust legal and compliance program instills a sense of personal accountability among employees.

This commitment to ethical business practices extends throughout our supply chain, promoting fair working conditions and contributing to the broader societal goal of fostering ethical behavior. Shelf Drilling's due diligence processes ensure that we select partners who share our commitment to ethical business practices. This rigorous vetting process promotes higher standards within the supply chain, positively impacting the well-being of people involved in our operations worldwide. Furthermore, our preference for local vendors creates job opportunities within communities, bolstering economic prosperity and social well-being. By prioritizing suppliers who adhere to human rights standards and ethical conduct, we positively influence working conditions and well-being across our global operations.

Additionally, by maintaining robust information security measures, we protect the sensitive data of our employees, customers, and partners, ensuring their privacy and security.

Financial Materiality

We recognize the significant financial implications of ethical considerations within business operations. Ethical breaches, ranging from unfair business practices to fraudulent activities, not only jeopardize reputation but also incur legal liabilities and diminish employee morale. Such breaches can lead to tangible financial losses, including contract termination, litigation expenses, and reduced shareholder value. Similarly, irresponsible procurement practices, such as engaging with suppliers with unethical labor practices or environmental negligence, can result in supply chain disruptions, environmental harm, and human rights violations, further impacting financial stability. Conversely, adopting responsible procurement practices can yield financial benefits such as cost savings, improved market access, and heightened investor confidence. Moreover, inadequate information security measures pose a significant risk, leaving organizations vulnerable to data breaches that can result in financial losses, regulatory fines, and operational disruptions. Therefore, robust information security measures are crucial in mitigating these financial risks, encompassing direct losses, remediation costs, and insurance premiums. Recognizing and addressing the financial materiality of these aspects is critical for Shelf Drilling to sustainably manage risks, enhance resilience, and drive long-term value creation.

Business Ethics

Shelf Drilling places the utmost importance on conducting its business with honesty, integrity, and high ethical standards. By embedding ethical considerations into our decision-making processes and daily operations, we proactively mitigate risks that could undermine our reputation or financial stability. By prioritizing ethical behavior in all aspects of our operations, we position Shelf Drilling for sustained success and meaningful contributions to the communities and environments in which we operate.

Why it Matters?

- Fundamental to our business integrity
- Global legal compliance
- Operational & reputational risk management
- Trust with stakeholders

Policies

Code of Business Conduct & Ethics

Our Code of Business Conduct & Ethics (Corporate Code) forms the foundation of our compliance and ethics program. It sets the standards for responsible business conduct and is based on the following fundamental themes.

- Commitment to conduct our operations sustainably, ethically and in full compliance with legal requirements
- Ensuring our employees' safety and wellbeing and freedom from harassment and discrimination
- Zero tolerance for corruption, bribery, and money laundering
- Acting with honesty and Integrity, preventing conflict of interest and Insider trading
- Protecting company Intellectual property and respecting Individual privacy
- Maintaining responsible supply chains
- Speaking up without fear of retaliation

Global Anti-corruption Policy

We have established a Global Anti-corruption Policy to support our Corporate Code in promoting ethical values and enhance our anti-corruption efforts. This policy prohibits corruption and bribery (including facilitation payments) and mandates compliance with applicable anti-corruption laws and regulations in all countries where we operate, including the U.S. Foreign Corrupt Practices Act (FCPA) and UK Bribery Act. This is supplemented by our robust internal controls and regular training to identified employees and third-party representatives to raise awareness. The policy is supported by the following three documents which provide detailed guidance regarding key risk areas.

Shelf Drilling
Global Anti-Corruption Policy

- **Shelf Drilling** Facilitating Payments Policy
- **Shelf Drilling** Gift, Meal, Travel & Entertainment Procedure
- **Shelf Drilling** Third-party Due Diligence Procedure

Shelf Drilling's Board of Directors has specifically directed the issuance and implementation of our Code of Business Conduct and Ethics and retains ultimate responsibility.

Our compliance and ethics policies are administered under the oversight of the Board and the Audit Committee of the Board of Directors and are regularly reviewed and updated. Further, new policies (including location specific policies) as well as additional guidelines on existing policies are issued, from time to time. Our executive management team sets the tone at the top and actively promotes a culture that meets our legal and ethical obligations and standards. Everyone who represents or works for us, including employees, contractors, and partners, is expected to uphold these ethical principles. Our offshore and onshore employees have access to the Corporate Code and its key supporting policies in eight different languages, with the recent addition of Danish and Norwegian translations. All changes are communicated to employees, who must complete recertification of the Corporate Code and its supporting policies on an annual basis. Our Corporate Code and key supporting policies are available on our Company website.

Actions Taken

Conflict of interest

Our Corporate Code mandates that employees identify and disclose any actual, perceived, or potential conflicts of interest. To reinforce this policy, in 2023, we introduced new **Conflict of Interest Disclosure Guidelines**, offering clear guidance to employees. Additionally, we implemented an online reporting tool enabling employees to self-report instances of conflict of interest. Further, as part of the annual recertification on the Corporate Code, employees are required to certify they have reported and will report any actual, perceived, or potential conflicts.

Compliance Training & Awareness

Shelf Drilling maintains a robust compliance and ethics training program designed to ensure that all employees are well-versed in our corporate policies and values. This program includes core compliance training for all employees, as well as targeted, in-depth training sessions for identified staff members. Additionally, we provide tailored location-focused training sessions to address specific needs within different regions.

As part of our training initiative, all employees are required to complete annual programs covering topics such as the Corporate Code and the Global Anti-corruption Policy, along with its supporting policies. Our training and awareness program is dynamic and regularly updated to ensure relevance and effectiveness. We utilize various methods including e-learning modules, virtual and in-person sessions, as well as email updates, posters, and newsletters to engage employees. Throughout the year, we conduct training sessions for both employees and vendor representatives on a range of topics to enhance awareness and promote a culture of compliance.

2023 Online Training Focus Areas

Module/Course	Employees Trained
Recertification of Code of Business Conduct & Ethics & supporting policies	3,165
Modular training for employees and third parties covering the following topics: - Anti-Corruption - Business Courtesies - Reporting and Non-retaliation	524
Conflicts of Interest	647
Cybersecurity & Data Privacy	811
Human Rights	696

Speak Up

At Shelf Drilling, we are committed to promoting and sustaining a culture where everybody feels comfortable reporting concerns in good faith and without fear of retaliation. Through our Speak Up initiative, employees and third parties can ask compliance and ethics questions, report actual or suspected misconduct, unethical or illegal behavior, or violations of our Corporate Code and its supporting policies or applicable laws, or seek advice.

Shelf Drilling is committed to fostering a Speak Up culture that empowers our employees and business partners to report any concerns or potential violations in a safe and supportive environment.

We offer various reporting channels, including confidential reporting through the Shelf Drilling EthicsPoint Helpline, available in multiple languages and formats and accessible to employees and external stakeholders. The helpline is open 24/7, and an independent third-party provider operates it to ensure confidentiality and, if requested, anonymity.

In 2023, we took several steps to enhance our reporting mechanisms, including the introduction of a QR Code-enabled mobile platform for easy and secure reporting, catering to our expanding global presence. Furthermore, we upgraded our EthicsPoint incident management system to streamline and enhance intake and tracking of concerns across multiple channels.

All incidents are thoroughly reviewed and investigated with strict confidentiality. Any resulting actions, including disciplinary action, are reported to the Audit Committee. In 2023, 17 concerns were reported and resolved with appropriate follow-up.

Responsible Procurement

At Shelf Drilling, we believe in a responsible and sustainable supply chain that aims to forge a long-term relationship with suppliers and business partners based on shared values across our value chain. We ensure effective supply chain governance through clear policies, proactive risk management, and monitoring of suppliers' performance. Collaboration, communication, and continuous improvement are essential elements of our approach.

Why it Matters?

- **Risk management**
- **End-to-end sustainable practices**
- **Trust with stakeholders**
- **Global legal compliance**

Policies

Corporate Code

Corporate Code sets the standards for responsible business conduct including our commitment to upholding and respecting human rights throughout our operations.

Vendor Code of Conduct

Shelf Drilling Vendor Code of Conduct (Vendor Code) governs our supplier relationships and outlines the ethical requirements of all third parties engaged with Shelf Drilling. Our Board oversees the Company's Environment, Social and Governance ('ESG') practices and reporting.

Sustainability Policy

Sustainability Policy further solidifies our commitment to responsible business conduct by outlining the basic principles that we expect from our employees and third parties. This policy also stipulates that the selection of vendors and agents must follow the tiered risk-based vendor diligence process prior to being onboarded as a vendor.

Actions Taken

Onboarding New Vendors

Establishing a sustainable supply chain begins with selecting vendors or third parties that align with our corporate values and policies. We implement the following measures to ensure responsible vendor onboarding at Shelf Drilling.

1 Vendor Code

Our Vendor Code sets out ethical performance requirements for all third parties, including agents, suppliers, and business partners, who conduct business on behalf of Shelf Drilling. As part of the onboarding process, it is mandatory for all third parties to acknowledge and accept our Vendor Code or otherwise provide suitable explanation for any deviations. We also require our third parties to extend the Vendor Code expectations to their own vendors and subcontractors, thus, promoting a sustainable supply chain that is aligned to our corporate values and policies. The Vendor Code is available on our website.

2 Grievance Mechanism

Shelf Drilling EthicsPoint helpline is also accessible by third parties to report any actual or suspected violations or unethical conduct, including in relation to human rights and other ESG risks.

3 Vendor Onboarding – Screening & Due Diligence

We conduct tiered and risk-based due diligence when onboarding vendors, following our Supply Chain Procedures Manual and Third-Party Due Diligence Procedure. The depth of the onboarding process varies based on service type and location. Human rights and other ESG risks are integrated into our vendor due diligence processes, including adverse media searches to identify any misconduct related to human rights, modern slavery, or human trafficking.

4 Ongoing Monitoring

Identified vendors undergo continuous screening as part of our monitoring efforts. Additionally, we conduct periodic site visits and audits on key vendors to assess ESG-related risks. In 2024, we have commenced an ESG-focused third-party due diligence initiative targeting identified tier 1 vendors.

5 Employee awareness

In 2023, we launched comprehensive human rights training for our global shore-based and select offshore employees. This training equips our staff with the knowledge and skills to identify and address potential human rights issues and risks across our operations.

Vendor Code of Conduct

Core Expectations

Acting with integrity	Compliance with laws and regulations	Prohibition of corruption and bribery, and improper payment
Ensuring employees' health and safety	Respecting human rights	Environmental protection
Safeguarding against conflict of interest	Confidentiality of relationship	Reporting concerns/ violations

Prioritizing Human Rights in Supply Chains

At Shelf Drilling, we are committed to managing and improving our human rights impact, with a particular focus on preventing modern slavery and human trafficking within our supply chains. We recognize that this is an ongoing process requiring continual assessment and action.

To address this issue, we conducted a thorough assessment to identify salient human rights issues relevant to our business operations. Based on this assessment, we have been actively enhancing our vendor onboarding questionnaire and overall process to better address human rights, modern slavery, and human trafficking concerns. For more details, see pages 88-90.

In 2023, we did not receive any concerns regarding human rights, modern slavery or human trafficking violations by any of our vendors.

Tracking Compliance – HSE and Quality Audits

Shelf Drilling establishes specific HSE and/or quality standards with vendors providing goods or services to our rigs and operations and performs audits to ensure compliance. Vendor selection is based on vendor scope, criticality of the service or goods provided, and/or issues reported by our rig teams.

High-Risk Vendor Categories

We collaborate closely with vendor categories that may pose a higher risk of negative impact on human rights, labor rights, and the environment.

Contractors

When hiring for junior crew and other positions in certain geographies, we engage third-party labor providers who go through our due diligence process outlined above. This includes commitments to ethical and fair treatment of their employees, as well as adherence to the International Bill of Human Rights and ILO Fundamental Conventions. All personnel assigned to work on our rigs follow our standard HSE and job-specific training programs, regardless of whether they are contractors or direct hires.

Shipyards

We prioritize safety and quality when selecting shipyards for major maintenance or upgrades to our rigs. We carefully choose shipyards that follow our HSE system or prepare bridging documents as necessary to ensure compliance with our standards. We assign onsite teams to monitor compliance with standards.

Information Security and Privacy

At Shelf Drilling, we manage, and process information related to our employees, customers, and vendors in the ordinary course of business. Our operations depend on the secure retention and transmission of this information across public networks, which exposes it to the continually evolving risk of intrusion, tampering, and theft. We also recognize the increasing frequency and sophistication of cyberattacks in recent years and remain vigilant by adapting our security measures to stay ahead of these threats. Further, we keep up with evolving data privacy standards to ensure compliance across our geographical footprint. As such, information security has become an essential aspect of sustainability of our business and operations.

Why it Matters?

- **Maintaining business continuity**
- **Safeguarding intellectual property**
- **Protecting against financial and reputational damage**
- **Maintaining stakeholders' trust**
- **Legal & regulatory compliance**

Policies

Information Security Policy

Our Information Security Policy sets out the foundation for the protection of the Company's information assets.

- Protect the organization's information from all threats, whether internal or external, deliberate, or accidental
- Enable secure information sharing
- Ensure business continuity and minimize business damage
- Protect the organization from legal liability and the inappropriate use of information
- Ensure that everyone is clear about their roles in using and protecting information

The Information Security Policy outlines several controls to protect information, including policies, standards, processes, and procedures. These controls apply to all forms of information and all staff, employees, third parties, and agents who have access to our information systems or information. Compliance with the policy is mandatory, and failure to do so may result in disciplinary or remedial action.

Our Information Security Policy is approved by management and communicated to all employees and relevant parties to ensure everyone is aware of their roles and responsibilities in using and protecting information. The security requirements for the organization are reviewed at least annually by the Head of IT and approved by Executive Management. By leveraging the expertise of external consultants and industry experts, we ensure that our information security practices remain effective to address new and emerging threats and standards. The organization's auditors review the adequacy of existing controls and recommend improvements where deficiencies are found.

Information Security Program

Our comprehensive information security program focuses on implementing policies, procedures, and technical measures to safeguard information, conducting regular risk assessments and security audits, establishing incident response plans, and providing regular awareness and training to employees. Our dedicated cybersecurity team operationalizes the information security program and ensures that it is up-to-date and effective.

Under the information security program, we have aligned our security, incident response and business continuity planning as well as our general IT policy documents around the International Organization for Standardization (ISO) 27001 and National Institute of Standards and Technology (NIST) frameworks. Further, we prioritize compliance with all applicable laws, regulations, and contractual obligations that affect our information systems as an essential aspect of our information security program.

Our information security program is based on the CIA principles of Confidentially, Integrity and Availability.

Confidentially

Integrity

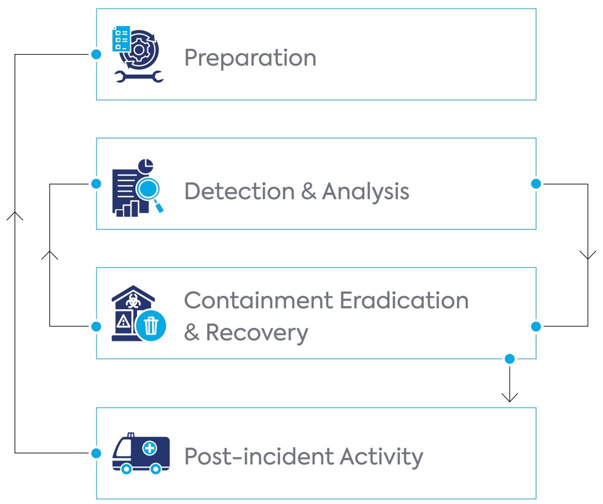
Availability

- **Confidentiality:** to ensure that information is accessible only to authorized individuals
- **Integrity:** to safeguard the accuracy and completeness of information and processing methods
- **Availability:** to ensure that authorized users have access to relevant information when required

Incident Management Policy

Shelf Drilling Incident Management Policy provides the overarching framework to ensure efficient incident management, minimize the impact on our business operations, and enable quick restoration of service operations. To maintain business continuity, we create, maintain, and test business continuity plans. We ensure that all employees, contractors, and third-party users are equipped with the necessary guidance to identify information security incidents and are aware of the procedures for reporting security incidents or vulnerabilities. All breaches of information security, whether actual or suspected, are promptly reported and investigated. In 2023, there were no reported data breaches.

Our incident response process is continuously improving to address emerging threats and challenges.



Physical & Environmental Security

To safeguard our critical and sensitive information from unauthorized access, damage, and interference, we use secure facilities that are protected by defined security perimeters with appropriate entry controls and security barriers.

Actions Taken

Data Privacy

Shelf Drilling has implemented a **Privacy Program** adopting the EU General Data Protection Regulation (GDPR) standards, and other relevant privacy standards that apply to our business. The Company regularly updates its privacy policies and program to keep up to date with the existing and new privacy laws and regulations in various jurisdictions in addition to raising awareness and providing related training to our employees.

We strive to maintain a consistent approach to privacy management across all our global locations, supplementing overarching principles with local law implementation requirements where necessary. We continue to monitor the evolving privacy regulations to ensure we comply with them promptly and effectively. This ensures that our privacy practices are both robust and compliant, regardless of geographical distinctions.

In 2023, we undertook several significant enhancements to our privacy program, further solidifying our commitment to data protection:

- **Tailored Privacy Policies:** We developed and implemented location-specific privacy policy frameworks, such as in Thailand, aligning with local privacy legislation to ensure adherence to regional requirements.
- **Hotline Privacy Statement:** To align with regulatory mandates, we introduced a dedicated privacy statement on our EthicsPoint website, enhancing transparency and compliance in reporting procedures.
- **Data Classification Initiative:** A comprehensive data classification solution was implemented, complemented by the rollout of our global Data Classification Policy. This initiative enhances data governance and ensures appropriate handling and protection of sensitive information.

We recognize that safeguarding data is a collective effort, requiring active participation from all employees. Therefore, we prioritize equipping our workforce with the knowledge and tools necessary to protect both themselves and company data. We continue to invest in our cybersecurity team through skilled personnel, ongoing training programs, and support for advanced tools and technologies, underscoring our commitment to managing cybersecurity risks effectively.

Training & Awareness

Employee awareness and training on information security is a critical aspect of ensuring the confidentiality, integrity, and availability of our information assets. By providing regular education, periodic bulletins, and training to our staff, we equip them with the knowledge and skills to identify and respond to security threats, reducing the risk of a breach or unauthorized access to sensitive information. Employees are required to take part in information security and cybersecurity threat education and training on an annual basis.

In 2023, our cybersecurity and data privacy training expanded to cover an extensive array of pertinent topics. Training sessions covered topics like data privacy rights, types of information, responsible handling of third-party data, identification and mitigation of common cyber threats such as phishing and social engineering tactics, importance of protecting Company equipment and devices, and effective password management.

Looking Ahead

Shelf Drilling recognizes that responsible business conduct is an ongoing journey. We are committed to continuously improving our practices and staying ahead of emerging risks and challenges, as well as evolving regulatory frameworks and international standards. Our goal is to build a sustainable future for our business and the communities where we operate, in full compliance with the laws and regulations applicable to our business.

Looking ahead, we will continue to integrate sustainability and responsible conduct into our operations and supply chain, invest in our employees, and collaborate with stakeholders to create shared value.

Shelf Drilling's Response to 11 TCFD Reporting Recommendations

TCFD Recommendation	Shelf Drilling 2023 CDP Disclosure / Sustainability Report (SR) Reference / 2023 Form 10-K Equivalent Reference
Governance	
Describe the board's oversight of climate-related risks and opportunities	SR – Corporate Governance of Sustainability – Page 50 CDP C1 – Governance CDP C2 – Risks & Opportunities
Describe management's role in assessing and managing climate-related risks and opportunities	SR – Corporate Governance of Sustainability – Page 50 CDP C1 – Governance CDP C2 – Risks & Opportunities
Strategy	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	SR – Climate Risks – Pages 56-58 SR – Transition Plan - Pages 54-55 Form 10-K Equivalent – Risk Factors – Page 16 CDP C2 – Risks & Opportunities
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	SR – Transition Plan - Pages 54-55 SR - Climate-related Risks, Opportunities - Pages 56-58 CDP C2 – Risks & Opportunities CDP C3 – Business Strategy
Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	SR – Transition Plan - Pages 54-55 CDP C3 – Business Strategy CDP C3 – Business Strategy
Risk Management	
Describe the organization's processes for identifying and assessing climate-related risks	SR – Corporate Governance of Sustainability – Page 50 SR – Climate-related Risks - Pages 56-57 CDP C1 – Governance CDP C2 – Risks & Opportunities
Describe the organization's processes for managing climate-related risks	
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	
Metrics & Targets	
Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	SR – Greenhouse Gas Emissions – Pages 59-61 SR – Spills & Releases – Pages 63-64 SR – Circularity - Pages 66-67 CDP – C4 – Targets & Performance CDP – C6 – Emissions Data
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	
Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	

2023 Disclosures

Topic	Metric	2023	2022	2021	CODE
Climate & Environmental management	**Scope 1 GHG Emissions** Gross global Scope 1 emissions (Metric tons CO_2-e (t), percentage methane).	Fuel Consumption: 91,323 MT CO_2-e: 296,371 CO_2: 292,781 CH_4: 83 N_2O: 3,507	Fuel Consumption: 77,829 MT CO_2-e: 252,943 CO_2: 249,519 CH_4: 63 N_2O: 3,361	Fuel Consumption: 74,688 MT CO_2-e: 242,735 CO_2: 239,449 CH_4: 60 N_2O: 3,226	EM-EP-110a.1 GRI 305-1
	Scope 2 GHG Emissions Gross global Scope 2 emissions (Metric tons CO_2-e (t), percentage methane).	CO_2-e: 661	CO_2-e: 680	CO_2-e: 617	EM-EP-110a.1 GRI 305-2
	Scope 3 GHG Emissions Gross global Scope 1 emissions (Metric tons CO_2-e (t), percentage methane).	CO_2-e: 331,693	CO_2-e: 292,056	CO_2-e: 58,996	EM-EP-110a.1 GRI 305-3
	Emissions Management Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets.	See pages 59-63	-	-	EM-EP-110a.3 GRI 3-3
	Air Emissions Emissions of the following pollutants: (1) NOx (excluding N2O), (2) SOx, (3) volatile organic compounds (VOCs), and (4) particulate matter (PM10). Numbers in Metric tons (t)	CO: 1,434 NOx: 5,425 SOx: 91 VOC: 183 PM10: Shelf Drilling does not calculate this number	CO: 1,222 NOx: 4,623 SOx: 78 VOC: 156 PM10: Shelf Drilling does not calculate this number	CO: 1,173 NOx: 4,436 SOx: 75 VOC: 149 PM10: Shelf Drilling does not calculate this number	EM-EP-120a.1 GRI 305-7
	TCFD Reporting Reporting on climate related risks and opportunities in line with the recommendations of the Task force on Climate-related Financial Disclosures (TCFD)	See pages 56, 108	-	-	TCFD GRI 201-2
	Biodiversity Management Description of environmental management Policies and practices for active sites.	See pages 64-65	-	-	EM-EP-160a.1 GRI 3-3
	Spills & Releases to the Environment Number and aggregate volume of spills and releases to the environment.	Overboard Releases Number of spills: 5 Aggregate volume: 2.94 bbls Releases to air Number of ODS releases: 13 Aggregate volume: 13 Kg	Overboard Releases Number of spills: 1 Aggregate volume: 0.03 bbls Releases to air Number of ODS releases: 1 Aggregate volume: 1 Kg	Overboard Releases Number of spills: 0 Aggregate volume: 0 bbls Releases to air Number of ODS releases: 12 Aggregate volume: 42 Kg	GRI 306-3

Topic	Metric	2023	2022	2021	CODE
Climate & Environmental management	**Fresh Water Consumption & Recycling** (1) Total volume of fresh water (non-drinking) handled in operations (2) Percentage recycled	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	EM-SV-140a.1 GRI 303-5
	Water Management Discussion of strategy or plans to address water consumption and disposal-related risks, opportunities, and impacts.	See pages 63-65	-	-	EM-SV-140a.2 GRI 303-2
Health & Safety	**HSE Performance** (1) Number of recordable incidents, (2) Total recordable incident rate (TRIR), (3) Lost Time Incident Rate (LTIR), (4) number of fatalities, (5) near miss frequency rate (NMFR), and (5) serious near miss frequency rate (SNMFR), (6) Total Potential Severity Rate (TPSR)	#Recordable Incidents: 7 TRIR: 0.12 LTIR: 0.02 Fatalities: 0 NMFR: 0.44 SNMFR: 0.19 TPSR: 9.62	#Recordable Incidents: 8 TRIR: 0.16 LTIR: 0.04 Fatalities: 0 NMFR: 0.36 SNMFR: 0.10 TPSR: 6.31	#Recordable Incidents: 7 TRIR: 0.16 LTIR: 0.02 Fatalities: 1 NMFR: 0.09 SNMFR: 0.09 TPSR: 4.92	EM-EP-320a.1 (Customized) GRI 403-9
	Health & Safety Management Discussion of management systems used to integrate a culture of safety throughout the exploration and production lifecycle.	See pages 68-75	-	-	EM-EP-320a.2 GRI 403-1
	Emergency Preparedness Management Systems Description of management systems used to identify and mitigate catastrophic and tail-end risks.	See pages 71-75	-	-	EM-EP-540a.2 GRI 403-2
	HSE Training Average hours of HSE training provided to onshore and offshore personnel (employees plus contractors). Description of occupational health and safety training.	Offshore: 24.5 Onshore: 1.9 See page 73	Offshore: 20.5 Onshore: 1.4	Offshore: 20.9 Onshore: 0.8	EM-EP-320a.1 (Customized) GRI 403-5
People	**Labour rights – Freedom of Association & Collective Bargaining** Percentage of total employees covered by collective bargaining agreements.	5.0%	2.53%	2.67%	GRI 102-41 GRI 2-30
	Local Employment Description of how Shelf Drilling build national content through hiring and developing nationals from the countries of operation, including across leadership teams.	See pages 90-91	-	-	Custom
	Gender Diversity of Management & Board Percentage of individuals within the organization's management and governance bodies according to gender	Board: 0% female Management: 14% female	Board: 0% female Management: 13% female	Board: 0% female Management: 14% female	GRI 405-1

Topic	Metric	2023	2022	2021	CODE
People	**Training & Development** Overall compliance to requirements of training matrix (percentage).	90%	87%	88%	Custom
	Recruitment Annual talent attraction.	Offshore: 622 direct employees, 703 contractors Onshore: 50 direct employees, 31 contractors	Offshore: 464 direct employees, 909 contractors Onshore: 70 direct employees, 52 contractors	Offshore: 251 direct employees, 443 contractors Onshore: 15 direct employees, 41 contractors	Custom GRI 401-1
	Retention Annual retention in terms of annual voluntary turnover (percentage).	Offshore: 11% Onshore: 7.5%	Offshore: 8.7% Onshore: 10.5%	Offshore: 8.5% Onshore: 5.5%	Custom GRI 401-1
Responsible Business Conduct	**Corruption Risk** Amount of net revenue in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index.	0	0	0	M-SV-510a.1
	Anti-corruption & Bribery Management Description of the management system for prevention of corruption and bribery throughout the value chain.	See pages 96-101	-	-	EM-EP-510a.2
	Ethics Number of reported incidents	17	7	8	Custom
	Fines Total monetary value of significant fines and total number of non monetary sanctions for non-compliance with laws and/ or regulations in the social and economic area.	0	0	0	GRI 419-1 GRI 2-27
	Responsible Vendor Management Processes and policies guiding the selection and monitoring of vendors and agents.	See pages 102-104	-	-	Custom
	Human Rights Percentage of (1) proved and (2) probable reserves in or near areas of conflict.	0%	0%	0%	EM-EP-210a.1
	Human Rights Percentage of (1) proved and (2) probable reserves in or near indigenous land.	0%	0%	0%	EM-EP-210a.2

GRI Content Index

Statement of Use	Shelf Drilling has reported the information cited in this GRI content index for the period 1 January 2023 to 31 December 2023 with reference to the GRI Standards.
GRI 1 Used	GRI 1: Foundation 2021

GRI Standard	Disclosure	Location
GRI 2: General Disclosures 2021	2-1 Organizational details	Page 4 of 2023 Form 10-K Equivalent
	2-2 Entities included in the organization's sustainability reporting	Page 4 of 2023 Form 10-K Equivalent
	2-3 Reporting period, frequency and contact point	Page 51
	2-5 External assurance	Page 51
	2-6 Activities, value chain and other business relationships	Page 5-8 of 2023 Form 10-K Equivalent
	2-7 Employees	Pages 76-91
	2-9 Governance structure and composition	Pages 114-121 of 2023 Annual Report
	2-10 Nomination and selection of the highest governance body	Pages 114-121 of 2023 Annual Report
	2-11 Chair of the highest governance body	Pages 114-121 of 2023 Annual Report
	2-12 Role of the highest governance body in overseeing the management of impacts	Page 50
	2-13 Delegation of responsibility for managing impacts	Page 50
	2-14 Role of the highest governance body in sustainability reporting	Page 50
	2-16 Communication of critical concerns	Page 101
	2-19 Remuneration policies	Page 121 of 2023 Annual Report
	2-20 Process to determine remuneration	Page 121 of 2023 Annual Report
	2-22 Statement on sustainable development strategy	Pages 38-39
	2-23 Policy commitments	Pages 88-90
	2-24 Embedding policy commitments	Page 96-101
	2-26 Mechanisms for seeking advice and raising concerns	Page 101
	2-27 Compliance with laws and regulations	Page 111
	2-28 Membership associations	Page 50
	2-29 Approach to stakeholder engagement	Page 46
	2-30 Collective bargaining agreements	Page 110
GRI 3: Material Topics 2021	3-1 Process to determine material topics	Page 43-48
	3-2 List of material topics	Page 47-48
	3-3 Management of material topics	Pages 49-107

GRI Standard	Disclosure	Location
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	Page 52-54, 56-58
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	Page 111
	205-2 Communication and training about anti-corruption policies and procedures	Pages 100-101
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Page 109
	302-2 Energy consumption outside of the organization	Page 109
	302-4 Reduction of energy consumption	Page 109
GRI 303: Water and Effluents 2018	303-2 Management of water discharge-related impacts	Pages 63-65
	303-5 Water consumption	Page 110
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Page 109
	305-2 Energy indirect (Scope 2) GHG emissions	Page 109
	305-3 Other indirect (Scope 3) GHG emissions	Page 109
	305-4 GHG emissions intensity	Page 109
	305-5 Reduction of GHG emissions	Page 109
	305-6 Emissions of ozone-depleting substances (ODS)	Page 109
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Page 109
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	Pages 66-67
	306-2 Management of significant waste-related impacts	Pages 66-67
	306-3 Waste generated	Pages 66-67
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Page 111
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Pages 68-75
	403-2 Hazard identification, risk assessment, and incident investigation	Page 71
	403-3 Occupational health services	Pages 68-75
	403-4 Worker participation, consultation, and communication on occupational health and safety	Pages 68-75
	403-5 Worker training on occupational health and safety	Pages 68-75
	403-6 Promotion of worker health	Pages 84-87
	403-8 Workers covered by an occupational health and safety management system	Pages 68-75
	403-9 Work-related injuries	Page 110
	403-10 Work-related ill health	Page 110
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Page 73
	404-2 Programs for upgrading employee skills and transition assistance programs	Pages 80-83
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Pages 84-87
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Pages 76-79, 90-95
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	Page 102-104

Corporate Governance

Pursuant to the Oslo Rulebook II – Issuer Rules applicable to companies listed on Oslo Børs, where the shares of Shelf Drilling, Ltd. ('Shelf Drilling' or the 'Company') are actively traded, the Company is subject to the reporting requirements of the Norwegian Code of Practice for Corporate Governance, a copy of which is available at www.nues.no/english/.

The Company considers good corporate governance to be a prerequisite for value creation, building trust with its stakeholders, and for accessing sources of capital. Since inception, the Company has ensured a robust compliance culture across the organization which, combined with comprehensive policies, procedures, and systems, ensures reliable financial reporting and compliance with the legislation and regulations applicable to the Company and its subsidiaries. Details regarding the Company's approach and compliance with the Norwegian Code of Practice for Corporate Governance (most recently revised on October 14, 2021) (the 'Code') are presented in sections 1 to 15 below. This report follows the same structure as used in the Code.

1. Implementation and Reporting on Corporate Governance

The board of directors of Shelf Drilling (the 'Board') aspires to comply with the recommendations set out in the Code. However, in accordance with common practice for Cayman Islands incorporated companies, there are certain deviations from the Code's recommendations.

Further information on, and the background for, the deviations are presented in the relevant sections of this report.

2. Business

Shelf Drilling was incorporated under the laws of the Cayman Islands on August 14, 2012, and is a holding company. The operations of the Company and its subsidiaries (together the 'Group') are entirely carried out by the Company's operating subsidiaries. The Group is a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. The Group is solely focused on shallow water operations in depths of up to 500 feet and owns 36 independent-leg cantilever jack-up rigs, making us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs.

In accordance with common practice for Cayman Islands incorporated companies, Shelf Drilling's objectives are not specified in the Company's articles of association (the "Articles"), contrary to what is recommended in the Code.

The Board seeks to define clear objectives, strategies, and risk profiles for the Company's business activities such that it creates value for its shareholders in a sustainable manner, among other things by way of challenging management on proposals made to deploy capital in strategic investments and authorizing spending to established limits through the annual budget process. The Board regularly assesses the Company's performance and adjusts plans when deviations are observed.

Shelf Drilling continuously develops strategies and plans to secure its long-term sustainability and profitability, creating value for investors while balancing this with the interests of other stakeholders (employees, creditors, suppliers, customers, local communities, for example) and compliance with internal and external regulations. For further details please see page 8 for the section on Strategy and Competitive Strengths in the Form 10-K equivalent included in this report.

The Board evaluates the Company's objectives, strategies and risk profile on an annual basis. Further, the Board reviews the Group's environmental, social and governance ("ESG") policies, including its Sustainability Policy and Code of Business Conduct and Ethics which, inter alia, provide information on matters relating to the environment, social issues, the working environment, equality and non-discrimination, respect for human rights, and anti-corruption and bribery. The Board also evaluates climate risks and opportunities and makes regular assessments of the Group's ESG policies in order to ensure high standards. For further details about our ESG policies, please see our Sustainability Report contained in this Annual Report.

3. Equity and Dividends

Capital Structure

As of December 31, 2023, the total issued share capital of the Company amounted to US$2,136,909.17, divided into 213,690,917 common shares, each with a par value of US$0.01. The Board considers the Company's capital structure to be appropriate with regard to the Company's objectives, strategy and risk profile.

The Group's financing arrangements as of December 31, 2023 were comprised of US$243.8 million of 10.25% senior secured notes due October 2025, US$1,095.0 million of 9.625% senior secured notes due April 2029, US$33.3 million of term loan due June 2024 and US$125.0 million revolving credit facility. On March 1, 2024, the Group executed an agreement related to the revolving credit facility that increases the total facility size from US$125.0 million to US$150.0 million.

As of December 31, 2023, the Group had a total indebtedness of US$1.4 billion. The Company did not distribute any dividends for the financial year ended December 31, 2023.

Dividend Policy

The Company's future dividend policy is within the discretion of the Board, who will consider issuing dividends to holders of common shares with other relevant considerations and factors, including but not limited to the Company's working capital and capital expenditure needs, results of operations, financial condition, and investment opportunities. Certain of the Company's debt agreements contain covenants that limit the payment of dividends.

US$2,136,909

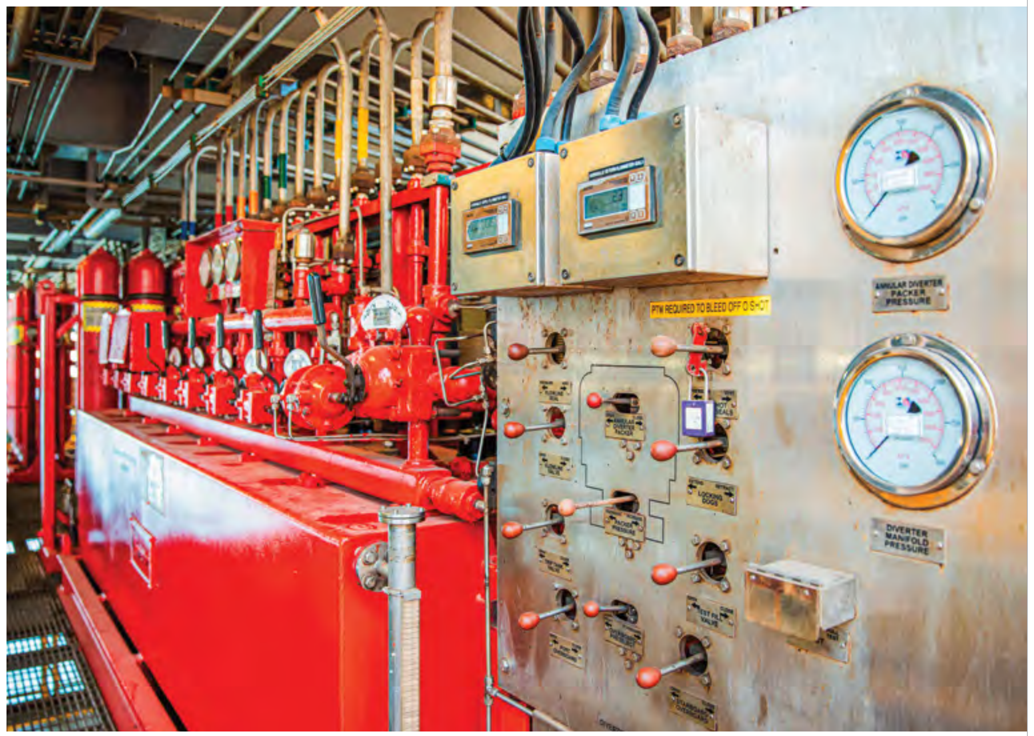
As of December 31, 2023, the total issued share capital of the Company

Authorization to the Board

In accordance with Cayman Islands law and common practice for Cayman Islands incorporated companies and subject to the provisions of the Articles, the Board has wide powers to issue any authorized but unissued shares on such terms and conditions as it may decide, and any shares or class of shares may be issued with preferred, deferred or other special rights or such restrictions, whether with regard to dividend, voting, return on capital, or otherwise as the directors may prescribe. Accordingly, this represents a deviation from section 3 of the Code. Further, the Board also has the power to authorize the Company's purchase of its own shares, whether for cancellation or to hold as treasury shares and the power to declare dividends. These powers are neither limited to specific purposes nor to a specified period as recommended in the Code. This represents a deviation from section 3 of the Code.

4. Equal Treatment of Shareholders

Shelf Drilling has one class of shares (common shares). Each common share carries one vote and all common shares carry equal rights. In the event of an increase in share capital through the issue of new common shares where a decision to waive the existing shareholders' pre-emptive rights is made, the justification for such waiver will be publicly disclosed in a stock exchange announcement issued in connection with the share issuance. Transactions in the Company's own common shares are carried out either through the stock exchange or at prevailing stock exchange prices to seek to facilitate equal treatment of all shareholders. In the event that there is limited liquidity in the Company's shares, the Company will consider other ways to ensure equal treatment of shareholders.



5. Shares and Negotiability

The common shares of Shelf Drilling are freely negotiable and there are no restrictions on any party's ability to own, trade or vote a share in the Company.

6. General Meetings

In respect of general meetings, the Board ensures that:

- as many shareholders as possible can participate in the general meeting;
- the resolutions and any supporting documentation are sufficiently detailed and comprehensive allowing shareholders to understand and form a view on all matters to be considered at the meeting; and
- members of the Board attend the general meeting.

The Articles stipulate that the directors may, at any time prior to the general meeting, appoint any person to act as chairman of the general meeting or, if the directors do not make any such appointment, the chairman, if any, of the Board shall preside as chairman at such general meeting. This represents a deviation from section 6 of the Code, which stipulates that 'the board of directors should ensure that the general meeting is able to elect an independent chairman for the general meeting'. This is common for Cayman Islands exempted companies and simplifies the preparations for the general meeting. The Articles do not provide for any deadline for the shareholders to give notice of their attendance at the general meeting. The Board may still encourage shareholders to give such notice within a set deadline.

Shareholders who are unable to be present at the general meeting will be given the opportunity to vote by proxy. The Company will in this respect provide information on the procedure and prepare a proxy form, which will be set up so that it is possible to vote on each of the items on the agenda and candidates that are nominated for election.

7. Nomination Committee

The Board has established a Nomination Committee which, as of December 31, 2023, comprised the directors John K. Castle (Chairman), John Reynolds and David Williams. In line with common practice for Cayman Islands incorporated companies, the Articles do not include provisions specific to a nomination committee and the members are not independent of the Board which represents a deviation from section 7 of the Code.

All members of the Nomination Committee are independent of the Company's executive management, but are, however members of the Board. The duties of the Nomination Committee are to review candidates and make recommendations to the Board for new directors and replacements for vacancies that may exist from time to time on the Board. The Nomination Committee's power to nominate directors shall, in the case of directors nominated by right by certain shareholders or shareholder groups pursuant to the Articles, be limited to a determination that any such nominee is suitable to become a director of the Company.

8. Board of Directors: Composition and Independence

The Board is responsible for the overall management of the Company and may exercise all powers of the Company not reserved to its shareholders by the Articles or pursuant to Cayman Islands law. The Company is of the opinion that the composition of the Board ensures that the Board can attend to the common interests of all shareholders and that it meets Shelf Drilling's need for expertise, capacity and diversity. The Company pays attention to ensuring that the Board functions effectively as a collegiate body.

As of December 31, 2023, the Board comprised the following persons:

Ernie Danner Chairman	**David Mullen** Director	**John K. Castle** Director
Xianzhi Mei Director	**David Pittaway** Director	**John Reynolds** Director
Benjamin Sebel Director	**Usama Trabulsi** Director	**David Williams** Director

Further information on each of the above directors, including information about their expertise is included on www.shelfdrilling.com and in their biographies on pages 124-126 of this annual report.

The Code recommends that the chairman of the Board is elected by the general meeting, but Mr. Danner was, in line with common practice for Cayman Islands companies, appointed by the Board and this therefore represents a deviation from the Code.

The directors Ernie Danner, Benjamin Sebel, Usama Trabulsi and David Williams are independent of the Company's main shareholders. Further, all of the directors are independent of the Company's material business contacts and executive personnel is not represented on the Board, with the exception of David Mullen, the Chief Executive Officer ("CEO") of the Company.

Attendance by the directors at meetings during 2023 is reflected in the table below:

Board Member	Board	Audit Committee	Compensation Committee	Nomination Committee
Ernie Danner	8/8	6/6		
David Mullen	8/8			
John K. Castle	8/8		4/4	1/1
Mei Xianzhi[1]	2/3			
David Pittaway	7/8			
John Reynolds[2]	8/8		3/3	1/1
Benjamin Sebel	8/8	6/6	4/4	
Usama Trabulsi	8/8	6/6		
David Williams	8/8[3]	6/6		1/1

[1] Appointed to the Board on June 11, 2023
[2] Appointed to Compensation and Nomination Committees on March 19, 2023
[3] Two of which by proxy

While the CEO being on the Board represents a deviation from the Code, this is in line with established practice for the Company (since inception) and other Cayman Islands incorporated companies. The Board has implemented certain controls to ensure that no conflicts of interest arise due to his appointment to the Board. The charters of the Committees, more fully described in the next section, do not permit the CEO to be a member, ensuring independent preparation of matters for discussion by the Board.

The term of office for the directors of Shelf Drilling is not limited to two years, as the directors are appointed for an indefinite period of time. This represents a deviation from the Code.

Directors are not required to own any shares in the Company. As of December 31, 2023, David Mullen owned 1,098,942 shares in the Company, Ernie Danner owned 623,069 shares in the Company, John K. Castle owned 500,000 shares in the Company, Benjamin Sebel (partly through a close associate) owned 209,240 shares in the Company and Usama Trabulsi and David Williams each owned 109,240 shares in the Company.

9. The Work of the Board of Directors

General

The Board produces an annual plan for its work, with particular focus on objectives, strategy, and implementation. The Board has implemented instructions for the Board and executive management, focusing on determining the allocation of internal responsibilities and duties. The objectives, responsibilities and functions of the Board and the CEO are in compliance with rules and standards applicable to the Group, which are described in the Company's 'Instructions for the Board of Directors'.

The Board will evaluate its performance and expertise on an ongoing basis. Such evaluations will include the composition of the Board and the manner in which its members function, both individually and as a group, in relation to the objectives set out for its work.

Members of the Board and executive personnel must notify the Board when such members have any significant, direct or indirect, interest in a transaction carried out by the Group. Guidelines for such notification have been established to ensure that the Board is notified when a member of the Board or executive personnel has a material interest in a transaction or other matter involving the Group.

The Company's 'Instructions for the Board of Directors' further states how agreements with related parties shall be handled. In the event of a not immaterial transaction between the Company and its shareholders, a shareholder's parent company, members of the Board, executive management or closely-related parties of any such parties, the Board will arrange for a valuation to be obtained from an independent third party. All agreements with related parties will be disclosed in the annual director's report.

To the extent a matter of a material nature in which the Chairman of the Board is, or has been, personally involved, the Board considers on a case-by-case basis whether to implement appropriate measures to ensure that conflicts of interest do not affect the decision of the Board.

The Audit Committee

The Board has elected an Audit Committee among the members of the Board. As of December 31, 2023, the audit committee comprised David Williams (Chairman), Ernie Danner, Benjamin Sebel and Usama Trabulsi, all of whom are independent.

The primary purposes of the Audit Committee are and have been to:

- Assist the Board in discharging its duties relating to the safeguarding of assets; the operation of adequate systems and internal controls; control processes; and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards
- Provide support to the Board on the risk profile and risk management of the Company
- Be responsible for the relationship with the external auditor
- Provide oversight of the internal audit activity
- Provide oversight of the compliance and whistleblowing activity

The Audit Committee reports and makes recommendations to the Board; however, the Board retains responsibility for implementing such recommendations.

The Compensation Committee

The Board has established a Compensation Committee which, as of December 31, 2023, comprised the directors. Benjamin Sebel (chairman), John K. Castle and John Reynolds, all of whom are independent of the Company's executive management.

The Compensation Committee assists the Board in its oversight of all compensation and benefits related matters of the Company and its affiliates. The Compensation Committee is responsible for evaluating and approving the compensation plans, policies, and programs of the Company.

Further, the Compensation Committee is responsible for establishing general compensation guidelines and policies for executive employees. The Compensation Committee determines the compensation and other terms of employment for executives (including salary, bonus, equity participation, benefits and severance terms) and reviews, from time to time, the Company's compensation strategy and compensation levels in order to ensure it is able to attract, retain and motivate executives and other employees. The Compensation Committee is also responsible for approving any equity incentive plans or arrangements and any guidelines or policies for the grant of equity incentives there under to employees of the Company. It oversees and periodically reviews all annual bonus, long-term incentive plans, retention plans, stock options, employee pension and welfare benefit plans and also reviews and makes recommendations to the Board regarding the compensation of directors for their services to the Board.

The Nomination Committee

Please see section 7. Nomination Committee on page 117.

10. Risk Management and Internal Control

It is ultimately the responsibility of the Board to ensure that the Company has sound and appropriate internal control systems and risk management systems and that these are proportionate to and reflect the extent and nature of the Company's activities. Sound risk management is an important tool to create trust and enhance value creation.

Internal control should ensure effective operations and prudent management of significant risks that could prevent the Group from attaining its targets. Shelf Drilling's internal controls and systems also cover the Company's corporate values, ethical guidelines and principles of corporate social responsibility.

Having in place an effective internal control system means that the Company is better suited to manage commercial risk, operational risk, the risk of breaching legislation and regulations as well as other forms of risk that may be material to the Company. As such, there is a correlation between the Company's internal control systems and effective risk management.

The internal control system also addresses the organization and execution of the Company's financial reporting, and covers the Company's corporate values, ethical guidelines and principles of corporate social responsibility.

The Company has adopted a separate code of conduct, sustainability policy and HSE policy and uses its best efforts to have a comprehensive set of relevant corporate manuals and procedures, which provide detailed descriptions of procedures covering all aspects of the management of the Company's operational business. These procedures and manuals are continually revised to reflect best practice, derived from experience or adopted through regulations. For further details please see our Sustainability Report and the sections Health, Safety and Environment and Maintenance and Certifications, in the Form 10-K Equivalent included in this report. Shelf Drilling complies with the laws and regulations that apply to the Company's operations.

The Board conducts annual reviews of the Company's most important areas of exposure to risk and such areas' internal control arrangements.

11. Remuneration of the Board of Directors

The remuneration of the Board reflects the Board's responsibility, expertise and time commitment and the complexity of the Company's activities. Further, the remuneration of the Board is not linked to the Company's performance, and the Company does not grant share options to members of the Board. However, members of the Board have, contrary to what is recommended in the Code, been awarded restricted share units (RSUs).

In November 2023, Ernie Danner received 95,092 common shares of the Company and the other non-executive directors (NEDs) or the shareholder firms they represent received 31,697 common shares of the Company per NED, in each case in settlement of the RSU awards granted in November 2022 as part of their compensation as Chairman of the Board and NEDs, respectively. Mr. Danner also received an award of 51,923 RSUs in November 2023 as part of his compensation as Chairman of the Board, representing an annual equity award with a targeted value of US$150,000 per year. For each of the other NEDs, the Board also approved in November 2023 an annual equity award targeted at US$50,000 in the form of 17,308 RSUs. The RSUs awarded to the Chairman and NEDs will vest as common shares on the first anniversary of the award date subject to their continued service with the Company. For further details please see page F-37 Note 15 Share-based Compensation to the Consolidated Financial Statements in the Form 10-K Equivalent included in this report.

Except for David Mullen, who acts both as CEO and Director, none of the directors, or companies with which they are associated, has taken on specific assignments for the Company in addition to their appointment as a director. If, however, any of the above-mentioned persons takes on such assignments, this will be disclosed to the Board, and remuneration for such additional duties shall be subject to Board approval.

David Mullen receives no additional compensation for his role as a director over and above that which has been agreed for his role as CEO of the Company.

12. Remuneration of Executive Personnel

Shelf Drilling is an exempted company incorporated in the Cayman Islands and is not subject to the rules of the Norwegian Public Companies Act. As a consequence, the Board has not prepared written guidelines for the remuneration of the members of the Company's management.

However, the remuneration of executive personnel of the Company is based on the objective to attract, retain and motivate senior management to achieve the strategic objectives of Shelf Drilling and provide value to its shareholders. The remuneration of executives, including the CEO, is benchmarked against comparable companies in the industry.

The Company provides for performance-related remuneration of the executive management in the form of an annual bonus program, cash retention and share based long-term incentives, which are linked to the Company's profit over time and value creation for shareholders. Such arrangements are based on quantifiable factors that the employee may influence. Performance-related remuneration is subject to a cap. In accordance with the above, the Company does not deviate from section 12 of the Code other than with regard to provisions that are of a Norwegian company law specific nature.

13. Information and Communications

Shelf Drilling is obligated to continuously provide its shareholders, Oslo Børs and the financial markets in general with timely and precise information about the Company and its operations. Relevant information is given in the form of annual reports, quarterly reports, press releases, notices to the stock exchange and investor presentations in accordance with what is deemed appropriate from time to time. To this end the Company has established guidelines for communication with the financial market. The Company publishes an annual, electronic financial calendar with an overview of dates for important events, such as the annual general meeting, interim financial reports and public presentations, if applicable.

The Company seeks to clarify its long-term potential, including strategies, value drivers and risk factors, and maintains an open and proactive policy for investor relations, a website designed to incorporate 'sound practices', and gives regular presentations in connection with annual and quarterly results.

The Board seeks to make suitable arrangements for shareholders to communicate with the Company. Communications with shareholders are in compliance with the provisions of applicable laws and regulations and in accordance with the principle of equal treatment of the Company's shareholders. Information to shareholders is published on the Company's website.

The Company has created a dedicated investor relations email ID, investor.relations@shelfdrilling.com, for the convenience of shareholders and investors in case of any queries or requests. Investor contact and investor relations activities are conducted in accordance with relevant policies and by the investor relations team.

14. Take-Overs

The Board complies with applicable Norwegian and Cayman Islands laws and regulations regarding take-over offers. The Board has established the main principles for its actions in the event of a take-over offer.

In a take-over process, the Board will endeavor to facilitate that the Company's shareholders are treated equally and that there are no unnecessary interruptions to the Company's business activities. The Board will further seek to facilitate that the shareholders are given sufficient information and time to assess the offer.

In the event of a take-over process, the Board will seek to abide by the principles of the Code. Further, the Board will, subject to its overriding fiduciary duties, ensure that the following take place:

- the Board will not seek to hinder or obstruct any takeover offer for the Company's operations or shares unless they have valid and particular reasons for doing so;
- the Board shall not exercise mandates or pass any resolutions with the intention of obstructing the takeover offer unless this is approved by the general meeting following announcement of the offer or the Board had justifiable reasons for such actions;
- the Board shall not undertake any actions intended to give shareholders or others an unreasonable advantage at the expense of other shareholders or the Company;
- the Board shall not enter an agreement with any offer or that limits the Company's ability to arrange other offers for the Company's shares, unless it is self-evident that such an agreement is in the common interest of the Company and its shareholders;
- the Board and executive management shall not institute measures with the intention of protecting the personal interests of its members at the expense of the interests of the shareholders; and
- the Board must be aware of the particular duty it has for ensuring that the values and interests of the shareholders are protected.

In the event of a take-over offer, the Board will, unless there are any reasons to the contrary, seek a valuation from an independent third party. On this basis, the Board will make a recommendation as to whether or not the shareholders should accept the offer.

The Board shall strive to ensure that neither inside information about the Company, nor any other information that must be assumed to be relevant for shareholders in a bidding process, remains unpublished.

Shelf Drilling was not subject to any takeover bids in 2023.

15. Auditor

The Company's independent auditor is PricewaterhouseCoopers Limited Partnership Dubai Branch (PwC). PwC has been the Company's auditor since its inception in 2012.

At least once a year, the Audit Committee of the Board reviews the Company's internal control procedures with the auditor, including weaknesses identified by the auditor and proposals for improvement. In order to ensure the auditor's independence of the Company's executive management, the Board has specified the executive management's right to use the auditor for purposes other than auditing.

The auditor participates in meetings of the Audit Committee of the Board considering annual accounts, accounting principles, assessment of any important accounting estimates and other matters of importance.

At these meetings, the auditor reports on any material changes in the Company's accounting principles and key aspects of the audit, comments on any material estimates, accounting figures and judgements, and reports all material matters on which there has been a disagreement between the auditor and the executive management of the Company and/or the Audit Committee.

The Audit Committee holds a meeting with the auditor at least once a year in which no representative of executive management is present. In order to strengthen the Board's work on financial reporting and internal control, the auditor provides a report to the Audit Committee on the main elements of the audit of the previous financial year and reports any significant deficiency and material weakness identified in the internal control relating to the financial reporting process.

Board of Directors' Biographies

Ernie Danner
Chairman of the Board

Mr. Danner joined our board of directors in October 2013 and has served as Chairman of the Board since November 2018. Since January 2018 Mr. Danner has served as an Operating Partner of SCF Partners, a private equity firm focused on oil service investments, which he joined in October 2012. Currently Mr. Danner serves as Chairman of the board of directors of Nine Energy Service, Inc., a NYSE listed company providing completion services to oil and gas producers in North America and Chairman of the board of directors of BCCK Engineering, Inc, a private company that designs, fabricates and installs gas processing plants in North America. Mr. Danner also serves as Chairman of the board of directors of Pipeline Plastics LLC, a manufacturer of HDPE pipe. Mr. Danner served as President and Chief Executive Officer of Exterran Holdings Inc. from July 2009 to October 2011 and as a member of its board of directors from 1998 to October 2011. He also served as President, Chief Executive Officer and a director of Exterran GP LLC the general partner of Exterran Partners L.P. Mr. Danner has a Masters of Accounting and Bachelor of the Arts degree from Rice University.

David Mullen
Director & Chief Executive Officer

Mr. Mullen has over 40 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a UK listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. Degree in Geophysics from University College Galway.

John K. Castle
Director

Mr. Castle joined our board of directors in November 2012 and has served as Chairman of the Nomination Committee since February 2019. Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. since 1987, and as Chairman and Chief Executive Officer of Branford Castle, Inc since 1986. Prior to forming Castle Harlan, Inc., Mr. Castle was President and Chief Executive of investment banking firm Donaldson, Lufkin & Jenrette, Inc. Mr. Castle is a board member of various private equity companies, and he has previously been a director of numerous private and public companies. He also served as a Director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a Life Member of the Corporation of the Massachusetts Institute of Technology. Previously, he had served for 22 years as a Trustee of New York Medical College, including 11 of those years as Chairman of the board. Mr. Castle is a Trustee and Chairman of the Executive Committee of the St. Patrick's Cathedral in New York City and is a member of the Finance Council of the Archdiocese of New York. From 2000 to 2018, Mr. Castle was a Director of Castle Harlan Australian Mezzanine Partners Pty. Ltd. and a Director of CHAMP Group Holdings Pty. Ltd. He has served on various visiting committees at Harvard University, including the Harvard Business School. Mr. Castle received his Bachelor's degree from the Massachusetts Institute of Technology, his M.B.A. as a Baker Scholar with High Distinction from Harvard University, and has four Honorary Doctorate Degrees of Humane Letters.

Xianzhi Mei
Director

Mr. Xianzhi Mei joined our board of directors in June 2023. He has been with China Merchants Industry Holdings Co. Ltd. ("CMI") for more than twenty years, bringing extensive experience in the shipbuilding and manufacturing industry. Currently serving as Deputy General Manager of CMI since June 2022, he oversees the Planning Operations and Digital functions, driving strategic initiatives and leading digital transformation efforts. Mr. Mei's career began in 2002 as a Repair Supervisor and Project Manager at Yiulian Dockyards in Shenzhen, China. He then advanced to managing various senior positions including the Production Department Deputy Manager overseeing the ship repairing segment of the business. Following CMI's acquisition of Yiulian Dockyards in November 2011 (renamed CMHI Shenzhen), Mr. Mei assumed the role of General Manager Assistant at CMHI Shenzhen. From 2015-2021, he served as Deputy General Manager at CMHI Jiangsu, another shipyard under CMI, and concurrently as the General Manager of China Merchants Cruise Shipbuilding Co. Lt., responsible for manufacturing and construction. In 2019, Mr. Mei was promoted to the General Manager of CMHI Jiangsu before relocating to CMI headquarters in Hong Kong SAR. Mr. Mei holds a bachelor's degree in ship and marine power plants from Wuhan University of Technology, and a Master's degree in Management Science and Engineering from Zhejiang University.

David B. Pittaway
Director

Mr. Pittaway joined our board of directors in July 2015. Mr. Pittaway is Vice Chairman and Senior Managing Director of Castle Harlan and has been with the firm since its founding in 1987. Prior to joining Castle Harlan, Mr. Pittaway was Vice President for Strategic Planning and Assistant to the President of Donaldson, Lufkin & Jenrette, Inc. Before joining DLJ, he was a management consultant in strategic planning with Bain & Company in Boston, Mass., and previously was an attorney with Morgan, Lewis & Bockius, specializing in labor relations. He is a former board member of Caribbean Restaurants, LLC and also served on the boards of multiple other Castle Harlan portfolio companies, including American Achievement Corporation, Statia Terminals Group N.V., Morton's Restaurant Group and United Malt Holdings Inc. He serves as Vice Chairman of Branford Castle, Inc. and Branford Chain, Inc. and is also currently a board member of The Cheesecake Factory Inc. Mr. Pittaway's community interests include being a trustee of the University of Kansas Endowment Association. In addition, he served for twenty years in the United States Army Reserve and, upon retiring as a Major, he co-founded and acts as a director of the Armed Forces Reserve Family Assistance Fund, which provides needed support for families of American service members whose breadwinners are serving their country in overseas conflicts. He is a graduate of the University of Kansas (B.A. with Highest Distinction), and has both an M.B.A. with High Distinction (Baker Scholar) and a Juris Doctor degree from Harvard University.

John Reynolds
Director

Mr. Reynolds joined our board of directors in September 2012 and is co-founder and a Managing Director of Lime Rock Partners. He joined Goldman Sachs in 1992 and spent six years in the Investment Research Department where he had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector. He co-founded Lime Rock Partners in 1998. Based in Westport, Connecticut, Mr. Reynolds leads the Lime Rock Partners team's efforts in the global oilfield service sector. He is currently a director of Liquila Ventures and previously served on the board of directors of Archer, Blackjewel, Eastern Drilling, EnerMech, Hercules Offshore, IPEC, Noble Rochford Drilling, Patriot Drilling, Revelation Energy, Roxar, Sensa, Tercel Oilfield Products, Tesco Corporation, Torch Offshore, and VEDCO Holdings. Mr. Reynolds is a graduate of Bucknell University (B.A.) and serves as a member of its Board of Trustees.

Benjamin Sebel
Director

Mr. Sebel joined our board of directors in November 2012 and has served as Chairman of the Compensation Committee since May 2023. He is a Senior Advisor to Branford Castle Partners and was previously a Managing Director at CHAMP Private Equity, having been with the firm from 2005 until 2014. Immediately prior, Mr. Sebel was a Managing Director at Castle Harlan for seven years, and is experienced in all aspects of private equity investment including deal origination, realizations and fundraising in both the United States and Australia. Immediately prior to joining Castle Harlan, Mr. Sebel worked at Goldman Sachs & Co. in its Capital Markets Group. Previously, Mr. Sebel spent two years as Special Advisor to the Hon. Nick Greiner AC, a former premier of New South Wales, and commenced his career in the Management Consulting Services Group of PricewaterhouseCoopers (Australia), where he also qualified as a Chartered Accountant. Mr. Sebel is currently a director of Sunless (Australia) Pty Ltd., an Investment Committee Member at Commencer Capital and Glow Capital Partners and a Senior Advisor to Alceon Private Equity, based in Sydney. Mr. Sebel holds a Bachelor of Commerce (First Class Honours) from the University of New South Wales, an M.B.A. from the Harvard Business School, and is a graduate of the Australian Institute of Company Directors.

Usama Trabulsi
Director

Mr. Trabulsi joined our board of directors in August 2017. Previously, he was a Managing Member of Integrated Renewable Energy Systems Ltd., a Saudi Arabia registered privately held limited liability company, the Chief Financial Controller (Deputy Minister Portfolio) of the Ministry of Petroleum and Mineral Resources, Riyadh, Saudi Arabia for over 14 years and the representative of the Minister of Petroleum and Mineral Resources to the Executive Committee, Auditing Committee and Compensation Committee of Saudi Aramco for over 13 years. Mr. Trabulsi served on the board of directors of Arabian Oil Company from 1996 to 2003 and Arabian Oil Holdings, Inc. Japan from 2003 to 2007, in each case as the representative of the Saudi Government. In addition, Mr. Trabulsi served as the Chairman of the board of directors of "PEMREF" Petromin-Mobil Oil Refinery Company Ltd., a joint venture company between Petromin (the State-owned National Oil Company) and Mobil Oil Company from 1990 to 1993. Meanwhile, Mr. Trabulsi served as Executive Vice President for Operation and Marketing of SUMED Oil Pipelines Co., a joint venture company between Egypt, Saudi Arabia, Kuwait, UAE and Qatar. He received his B.A. in Economics and Political Science from the King Saud University in 1965 and received his M.B.A. from Michigan State University in 1970.

David Williams
Director

Mr. Williams joined our board of directors in August 2017 and has served as Chairman of the Audit Committee since November 2018. He is a non-executive director of Tharsus Ltd of Newcastle upon Tyne ("Tharsus") and Pipeline Technique Limited, trading as CRC Evans ("PTL") where he also chairs the remuneration committee. Previously, Mr. Williams was the Chairman of PTL from 2019 to 2022, the Chairman of Tharsus from 2012 to 2022, the Chairman of Shepherd Group Ltd of York from 2014 to 2020, the Chairman of Ramco Ltd from 2013 to 2019, the Chairman of Frog Capital (previously known as Foursome Investments) for 13 years and the Interim Chief Executive Officer of Logstor Holdings A/S of Logstor, Denmark for two years. Prior to this, Mr. Williams was the Chairman, then Chief Executive, of Serimax Holdings SAS of Paris from June 2004 to June 2006 and June 2006 to October 2011, respectively. He also held several positions at 3i plc from 1985 to 2003, including regional managing director. Mr. Williams received a B.Sc. (Hons) in Naval Architecture and Shipbuilding from the University of Newcastle upon Tyne in 1975, has a Certified Diploma in Accountancy and Finance and received an M.Sc. from London Business School in 1985.

Executive Officers' Biographies

David Mullen
Director &
Chief Executive Officer

Mr. Mullen has over 40 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a UK listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. Degree in Geophysics from University College Galway.

Gregory O'Brien
Executive Vice President &
Chief Financial Officer

Mr. O'Brien was appointed Executive Vice President and Chief Financial Officer in March 2016. Prior to his current role, Mr. O'Brien served as Director, Strategic Planning since 2014, in charge of Shelf Drilling's corporate development efforts. Mr. O'Brien joined Shelf Drilling from Lime Rock Partners, where he focused on oilfield services and exploration & production investment opportunities internationally. Before that, Mr. O'Brien held energy investment banking roles with J.P. Morgan and SunTrust Robinson Humphrey. Mr. O'Brien graduated from the McIntire School of Commerce at the University of Virginia in 2008.

William (Kurt) Hoffman
Executive Vice President &
Chief Operating Officer

Mr. Hoffman has worked on rigs around the world and has over 40 years' experience in the global oil and gas drilling industry. Mr. Hoffman joined Shelf Drilling in October 2012. From August 2009 to April 2011, Mr. Hoffman was Senior Vice President and Chief Operating Officer of Seahawk Drilling, a Houston and Gulf of Mexico-based jack-up drilling provider where he was responsible for the Company's daily operations and strategic business plan implementation. From 1991 through August 2009, Mr. Hoffman spent 18 years with Noble Corporation where he held senior operational and executive roles, including Vice President of Worldwide Marketing, Vice President of Western Hemisphere Operations and President of Noble's engineering services division, Triton Engineering Services. Mr. Hoffman received a B.S. degree from Southwest Texas State University.

Ian Clark
Executive Vice President

Mr. Clark has over 40 years' experience in the oil services business. Prior to joining Shelf Drilling in November 2012, Mr. Clark spent 12 years with Transocean Ltd. where he most recently served as Vice President of Human Resources and as part of its senior management team. Previous roles included Division Manager for Transocean Ltd.'s operations in Northeast Asia and also Managing Director for Nigeria. Before joining Transocean Ltd., Mr. Clark had a 20-year career with Schlumberger in various managerial, technical and marketing roles across Europe and Africa. Mr. Clark has a B.S. degree in Electrical and Electronic Engineering from Heriot-Watt University in Edinburgh, Scotland and completed both the Advanced Management Program at Harvard Business School and the Financial Times Non-Executive Director Diploma.

Responsibility Statement

We confirm that, to the best of our knowledge, the consolidated financial statements for the year ended December 31, 2023, have been prepared in accordance with accounting principles generally accepted in the United States of America, and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole.

We also confirm that, to the best of our knowledge, the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

By Order of the Board of Directors of Shelf Drilling, Ltd.

March 4, 2024

Ernie Danner
Chairman

David Mullen
Director & Chief Executive Officer

Glossary

Adjusted EBITDA	Adjusted earnings before interest, taxes, depreciation and amortization, which consists of net loss plus interest expense and financing charges, net of interest income, income tax expense, depreciation, amortization of deferred costs, loss on impairment of assets, loss/(gain) on disposal of assets, amortization of intangible liability, acquired rig reactivation costs, one-time corporate transaction costs and other specific items in certain periods.
Adjusted EBITDA Margin	Adjusted EBITDA divided by Adjusted Revenues
Adjusted Free Cash Flow	Adjusted EBITDA less capital and deferred expenditures excluding rig acquisitions, interest expense (excluding loss on debt extinguishment), net of interest income and income tax expense.
Average Dayrate	The average contract day rate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average day rate can be calculated related to historical revenues or contract backlog.
Adjusted Revenues	Revenues less the amortization of intangible liability.
Bbls	Barrels
Bbls/d	Barrels per day
Board	The Company's Board of Directors
Capital expenditures & deferred costs	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.
Corporate Code	The Company's Code of Business Conduct and Ethics
Code/Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance, dated October 14, 2021.
Company	Shelf Drilling, Ltd. together with its consolidated subsidiaries. Also referred to as Shelf Drilling or SHLF.
Effective Utilization	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.
ESG	Environmental, Social and Governance
Group	Shelf Drilling, Ltd./Shelf Drilling/SHLF together with its consolidated subsidiaries.
Harsh Environment Rigs/ Jack-ups	Categorization of rigs designed to operate in harsh weather and sea conditions, typically with high winds, rough seas and cold temperatures, such as those found in the North Sea and other harsh climate regions.
HSE	Health, Safety and Environment
IADC	International Association of Drilling Contractors
IOCs	International Oil Companies
LTM	Last twelve months
LTIR	The Lost Time Incident Rate which is calculated as the number of lost time incidents per 200,000 man-hours.
Marketable Rigs	The total number of 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.
Net Debt	Represents Total Debt less cash and cash equivalents.
NOCs	National Oil Companies
Operating Position/ Market Position	Ranking of a company in terms of number of jack-ups deployed in a region, excludes owner-operators, for example ONGC in India, ADNOC in UAE.
Premium Rigs/ Premium Jack-ups	Categorization of rigs based on specifications and capabilities, typically with 1.5-million-pound hook load capacity, 120 persons of accommodation capacity and 350-foot water depth capability.
Rystad/Rystad Energy	An independent energy research and business intelligence company.
TPSR	The Total Potential Severity Rate which is calculated as the number of incidents per 200,000 man-hours.
TRIR	The Total Recordable Incident Rate which is calculated as the sum of the potential severity values of all events (incidents and near/serious near hits) per 200,000 man-hours.
Uptime	The period during which the Company performs well operations without stoppage due to mechanical, procedural, or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly, or yearly. Uptime performance is a key customer contracting criterion, an indication of the Company's operational efficiency and directly related to current and future revenues and profit generation.
Form 10-K Equivalent	The Form 10-K Equivalent, with certain exceptions, is provided pursuant to the indenture for our 9.625% senior secured notes, term loan and credit facility and should be read in its entirety as it pertains to Shelf Drilling, Ltd. Except where indicated, the consolidated financial statements and the notes to the consolidated financial statements are combined.
Note to EBITDA/ Adjusted EBITDA	In addition to terms under US GAAP, the Company presents non-GAAP financial measures, including EBITDA and Adjusted EBITDA. The Company believes that Adjusted EBITDA and Adjusted EBITDA Margin are useful non-GAAP financial measures because they are widely used 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, the Company's management uses Adjusted EBITDA and Adjusted EBITDA Margin in presentations to its Board to provide a consistent basis to measure the operating performance of the business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with shareholders, lenders, noteholders, rating agencies and others concerning the Company's 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 US 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.

Form 10-K Equivalent

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SHELF DRILLING, LTD.

Form 10-K Equivalent
for the year ended December 31, 2023

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This Form 10-K equivalent ("Form 10-K Equivalent"), with certain exceptions, is provided pursuant to the indenture for our 9.625% senior secured notes, term loan and credit facility and should be read in its entirety as it pertains to Shelf Drilling, Ltd. Except where indicated, the consolidated financial statements and the notes to the consolidated financial statements are combined.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include words or phrases such as “anticipate, ” “believe, ” “estimate, ” “expect, ” “intend, ” “plan, ” “project, ” “could, ” “may, ” “might, ” “should, ” “will” and similar words and specifically include statements regarding expected financial performance; expected utilization, dayrates, revenues, operating expenses, contract terms, contract backlog, capital expenditures and deferred costs, insurance, financing and funding; the timing of availability, delivery, mobilization, contract commencement or relocation or other movement of rigs; current or future rig construction (including construction in progress and completion thereof), enhancement, upgrade, repair or reactivation and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory complexity; expected contributions from our acquired rigs; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims and the timing thereof. These forward-looking statements speak only as of the date of this Form 10-K Equivalent and we undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- the impact of variations in oil and gas production, prices, and demand for hydrocarbons, which drives activity in resource exploration and drilling activity;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere;
- the decline in demand as oil and gas fossil fuels are replaced by sustainable/clean energy;
- future regulatory requirements or customer expectations to reduce carbon emissions;
- the effects of supply chain disruptions such as supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases;
- public health issues, including epidemics and pandemics such as COVID-19 and their effect on demand for our services, global demand for oil and natural gas, the U.S. and world financial markets, our financial condition, results of operations and cash flows;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild rigs;
- the demand for our rigs, including the preferences of some of our customers for newer and/or higher specification rigs;
- our and our customers’ ability to obtain permits and approvals for operations;
- our ability to renew or extend contracts, enter into new contracts when such contracts expire or are terminated, and negotiate the dayrates and other terms of such contracts;
- expectations, trends and outlook regarding operating revenues, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense and other matters with regard to outlook and future earnings;
- the effect of disproportionate changes in our costs compared to changes in operating revenues;
- complex and changing laws, treaties and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect our business;
- the effects and results of our strategies;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs;
- the expected completion of shipyard projects including the timing of rig construction or reactivation and delivery and the return of idle rigs to operations;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;

- the cost and timing of acquisitions and integration of additional rigs;
- sufficiency and availability of funds and adequate liquidity for required capital expenditures and deferred costs, working capital, share repurchases and debt service;
- our levels of indebtedness, covenant compliance, access to future capital, and liquidity sufficient to service our debt;
- the market value of our rigs and of any rigs we acquire in the future, which may decrease and/or be impaired as a result of Company specific, industry specific or market factors;
- the level of reserves for accounts receivable and other financial assets, as appropriate;
- the proceeds and timing of asset dispositions;
- litigation, investigations, claims and disputes and their effects on our financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- the adverse changes in foreign currency exchange rates and currency convertibility;
- 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; and
- the other factors listed in "Item 1A. - Risk Factors" and elsewhere in this Form 10-K Equivalent.

Part I

Item 1. Business.

General

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 December 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.

We furnish financial reports, including our Form 10-K Equivalent annual reports and Form 10-Q Equivalent quarterly reports, news releases and presentations free of charge on our website at www.shelfdrilling.com. Similar information can also be found on the Euronext website at live.euronext.com. Euronext is an exchange group operating regulated markets in seven European countries including the OSE in Norway. References in this Form 10-K Equivalent to "Shelf,", the "Company,", "Group,", "we", "us", "our" and words of similar meaning refer collectively to Shelf Drilling, Ltd and its consolidated subsidiaries.

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

During the year ended December 31, 2023, the Company received 16 new contract awards, including new or extended contracts in all of its key geographic areas which contributed to our backlog of $2.3 billion as of December 31, 2023.

In October 2023, SDHL successfully completed refinancing transactions consisting of (i) an offering of $1,095.0 million 9.625% Senior Secured Notes, due April 2029, (ii) the repayment and cancellation of 8.25% Senior Unsecured Notes, due February 2025 and 8.875% Senior Secured Notes, due November 2024, (iii) entering into a $125.0 million Credit Facility due April 2028, and (iv) entering into a $50.0 million Term Loan facility due June 2024. In addition, SDL completed a private placement of 19.4 million common shares for gross proceeds of $59.7 million.

In December 2023, the Shelf Drilling Perseverance secured a new contract with PetroVietnam Domestic Exploration Production Operating Company Limited which is expected to start in Vietnam in July 2024 for a firm term of approximately 16 months. In February 2024, the Baltic secured a new contract expected to start in April 2024 in Nigeria for a firm term of approximately 70 days.

Operations

Our primary operations are providing services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells and associated services using the rigs in our fleet and related equipment. A significant portion of our revenues are dayrates related to the provision of these services earned from our customers, including NOCs, IOCs and independent oil and natural gas companies. Additionally, we may earn lump-sum fees relating to contract preparation, capital upgrades, mobilization, demobilization and/or termination revenues in certain contracts. We also provide catering, additional equipment and personnel, consumables or accommodations at the request of the customer and we may use third parties for the provision of such goods and services. See also “Customers and Customer Contracts” below for additional discussion on our customers and revenue generating activities.

Although certain of our rigs may be affected by seasonal monsoons or other weather events, generally seasonal factors do not have a material effect on our business.

Our operating expenses consist primarily of operating and maintenance expenses, which can be classified as rig related or shore-based. Our other significant operating expenses include depreciation, amortization of deferred costs and general and administrative expenses. As we operate in a capital-intensive business, we may also incur significant losses related to impairment of assets. See also “Operating Expenses, Capital Expenditures and Deferred Costs” below for additional discussion of our cost and expenses.

We have one reportable segment, contract services, which reflects how we manage our business, that our fleet is mobile and that our market is dependent upon the worldwide oil and natural gas industry.

We utilize various operational and financial measures that we believe are useful in assessing our business and performance. Many of these measures are common to our industry and we believe they are useful in measuring our operating performance over time. See also “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion of our operating measures and financial 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 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. Contract backlog is a key indicator of our potential future revenue generation.

- *Total recordable incident rate (“TRIR”)* is the number of recordable safety incidents per 200,000 man-hours.

- *Uptime* is the period during which we perform operations without unplanned stoppage due to mechanical, procedural or other operational events that result in non-productive operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency and directly related to our current and future revenues and profit generation.

The following tables include selected operating measures as December 31, 2023, 2022 and 2021:

	As of December 31,		
	2023	**2022**	**2021**
Contract backlog (in millions)	$ 2,340	$ 2,682	$ 1,679

The following table includes selected operating measures for the years ended December 31, 2023, 2022 and 2021:

	Years ended December 31,		
	2023	**2022**	**2021**
TRIR	0.12	0.16	0.16
Uptime	98.8%	99.3%	99.3%

Customers and Customer Contracts

Our contracts are typically awarded on an individual basis and vary in terms and rates depending on the operational nature and duration of the contract, amount and type of services and equipment provided, geographic area served, market conditions and other variables. Dayrates are negotiated directly with customers or determined through a formal bidding process and can be influenced by the operating performance of the service provider or rig. Prior experience with a customer can be a deciding factor in the awarding of contracts and negotiation of contract terms, as discussed further below. Brent crude oil and natural gas prices, which are sensitive to global supply and demand, and other market factors can also impact dayrates. As is common in the industry, our customer contracts can contain multiple dayrates, including specified dayrates for contracted operations and reduced dayrates for rig movements, adverse weather, equipment downtime, or other instances of scheduled or non-scheduled events, including for circumstances both within and outside of our control.

Revenues may increase or decrease largely due to changes in average dayrates and effective utilization as defined in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Average dayrates can be affected by new contract dayrates that are lower or higher than previous dayrates and by changes in the mix of dayrates earned by different rigs in different operating regions. Effective utilization can be affected by the timing of new contracts, contract extensions or terminations and changes in operational uptime. Out of service periods that reduce operational uptime can include planned or unplanned downtime such as for periodical surveys, underwater inspections, contract preparation and upgrades and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, move, mobilization, force majeure, or other rates that apply under certain circumstances.

We may receive additional compensation or reimbursement for contract preparation, capital upgrades, such as mechanical or structural modifications to a rig necessary to meet customer specifications, and for mobilization costs necessary to relocate the rig for contractual operations. Some contracts also include lump-sum demobilization revenues which are triggered if stipulated conditions are present. These provisions vary and are based on negotiations of individual contracts with customers, which can be influenced by the contract duration, dayrates, drilling rig availability, country specific conditions and other factors.

Many contracts have extension options, which can be exercised at the option of the customer, some are at previously agreed prices and terms. Customer contracts may also be subject to suspension, termination, cancellation and delays for a variety of reasons, including at the customers’ convenience and sole option or for other circumstances beyond our control, such as due to force majeure. Contract suspension provisions may allow customers to suspend contract activity for a predetermined or up to a certain period, and in certain circumstances may extend the contracted term for a period of time equal to the suspension period. Such suspension provisions may provide for a reduced dayrate, or no dayrate, and may require a rig to be ready for redeployment at the customer’s option. Certain customer contracts may outline specific termination provisions, which usually include a notice period and may also include termination payments and fees. Termination payments, if applicable, vary from contract to contract and can include the payment of a certain percentage of the contract dayrate for either a contractually specified number of days or the number of firm contract days remaining on the contract. However, in certain contracts the termination fee paid can be refunded or reduced (or infrequently, eliminated) if we are able to secure a subsequent contract for the rig with a different operator. Additionally, contracts customarily provide for automatic or optional customer termination for cause, often without the payment of any termination fee. These provisions can be triggered under pre-defined circumstances such as non-performance or material breach of the contract, for reasons including but not limited to operational or safety performance issues, equipment failure and sustained downtime related to force majeure events.

Contract terms range in length from the time necessary to drill or workover one well up to multiple wells or many years. We seek to secure long-term agreements providing enhanced stability and deeper customer relationships rather than the highest possible dayrates on a shorter-term basis. Typically, contracts with NOCs are for longer terms when compared to contracts with IOCs and independent oil and natural gas companies, although in certain countries annual government budget approval cycles may limit the term of these contracts.

The type of contract can also impact the length and predictability of a contract term. “Greenfield exploration” consists of exploration of unchartered territory, where mineral deposits are not confirmed to exist, and such projects are generally considered an investment in developing a future production field. “Brownfield projects” consist of drilling or workover activity on producing assets, and such projects are generally considered part of ongoing operations. Greenfield exploration tends to be shorter term and more closely linked to prevailing commodity prices and success of exploration activities than brownfield projects, as customers are often unwilling to make investments in unproven fields during periods of low oil prices. Decommissioning projects consist of plugging and abandonment of mature oil and natural gas wells at the end of their lives by removing existing well equipment and sealing off producing zones. Shallow water fields are generally mature and therefore consist of more brownfield projects than greenfield projects and decommissioning projects in shallow water represent a growing segment of the jack-up market.

The methods through which we pursue new business opportunities vary significantly. Small IOCs and independent oil and natural gas companies are generally less likely to require formal tender processes, while large IOCs and NOCs are more likely to require participation in full tender exercises prior to awarding new contracts. We believe that extending current contracts or entering into additional contracts with existing customers benefits both us and our customers, due to the following factors:

- Readily available rigs and crews for the customer's work site, eliminating additional mobilization expense and risk;
- Available equipment, which meets customer specifications both from an operational and a safety perspective;
- Employees familiar with the customer's policies and procedures and
- Simplified process for contract negotiations and related legal and administrative requirements.

We believe that our ability to maintain relationships with, and to win repeat business from, our existing customers is critical to our stability and growth of cash flows. If an existing customer fails to renew a contract, we will seek to secure a new contract for that rig.

Our current customer base includes Saudi Arabian Oil Company ("Saudi Aramco"), Chevron Corporation, Oil and Natural Gas Corporation Limited, Equinor ASA, Ente Nazionale Idrocarburi S.p.A, TotalEnergies SE and Qatargas Liquefied Gas Company Limited, who contract our rigs for varying durations.

For the year ended December 31, 2023, of the 16 contract awards or contracts or extensions we entered into, eight represented contract renewals with the existing customer. Based on customer contracts in place as of December 31, 2023, eight are scheduled to expire during 2024, 13 during 2025, seven in 2026 and seven in 2027 or later. As of December 31, 2023, our shortest remaining contract term was approximately less than a month and the longest remaining contract term was approximately seven years.

Customers are typically invoiced monthly, based on the dayrates applicable to the specific activities we perform on an hourly basis, and have 30 to 60 day payment terms. Lump-sum contract preparation, capital upgrade and mobilization fees are typically invoiced at the commencement or initial phase of the contract. Demobilization and termination fees are typically billed at the completion of a contract if certain stipulated conditions are present. Some contracts also provide for price adjustments tied to material changes in specific costs or variations in the average price of Brent crude oil or natural gas.

Our contracts provide for varying levels of indemnification for both us and our customers. We believe the terms of such indemnification provisions are standard for the industry. In general, the parties assume liability for their respective personnel and property. Our customers typically assume responsibility for, and indemnify us against, well control and subsurface risks under dayrate contracts, which includes indemnifying us from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages, arising from operations under the contract and originating below the surface of the water, including as a result of blow-outs or cratering of the well. However, in certain cases, we may retain limited risk for damage to customer or third-party property on our rigs and retain liability for third-party damages resulting from surface pollution or contamination originating from our equipment. Additionally, we may have contractually agreed upon certain limits to our indemnification rights and can be responsible for damages up to a specified maximum amount. We generally indemnify customers for pollution that originates from our rigs that is within our control (e.g., diesel fuel or other fluids stored onboard for the use of the rig). However, all contracts are individually negotiated, and the degrees of indemnification and/or risk retention can vary from contract to contract, and prevailing market conditions and customer requirements, among other factors, existing when the contract was negotiated can influence such contractual terms. In most instances in which we are indemnified for damages to the well, we are obligated to re-drill the well at a reduced dayrate. However, in certain circumstances our customers may be financially or otherwise unable to honor their contractual indemnity obligations to us and contractual indemnification may not prevent government authorities or other third-parties from taking action against us or naming the Company in a lawsuit.

The interpretation and enforceability of a contractual indemnity depend upon the specific facts and circumstances involved, as governed by applicable laws, and may ultimately need to be decided by a court or other proceeding, considering the specific contract language, the facts and applicable laws. The law generally considers contractual indemnity for criminal fines and penalties to be against public policy. Regardless of indemnification provisions, local jurisdiction regulations may require us to post surety bonds, letters of credit and parent company guarantees for contract performance. In addition, certain jurisdictions in which we operate, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation. In certain jurisdictions, such customs and laws also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate, we enter into agency or sponsorship agreements, in such jurisdictions. We are currently party to five joint ventures, one in Malaysia, one in Indonesia, two in Nigeria and one in Angola. Although we may not control all aspects of these joint ventures, we are an active participant in and are the primary beneficiary of each of these joint ventures. For more information regarding joint ventures, see "Note 17 – Variable Interest Entities" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

The above description of our customer contracts and indemnification provisions is a general summary of the types of such provisions as of December 31, 2023 and does not contain sufficient details to fully understand our contractual and indemnification risks. For additional information, including but not limited to a discussion of the risk that the indemnification provisions in our contracts may not adequately mitigate our risks, see "Risk Management and Insurance" below and "Item 1A. Risk Factors".

Strategy and Competitive Strengths

Our strategy is to maintain a sole focus on shallow water drilling services, leveraging decades of industry experience and an outstanding track record to provide best-in-class operations for our customers. Our vision is to be the international jack-up contractor of choice by delivering outstanding performance through our "fit-for-purpose" business strategy.

Our "fit-for-purpose" business strategy is focused on having the right assets in the right locations, operated by a right sized organization with high national content and appropriate policies, procedures and processes. This allows us to meet our customers' specific needs in an efficient and cost-effective manner.

We believe that the size of our fleet, coupled with the balance of premium, shallow draft and standard jack-ups, is well-suited to provide the right asset for various customer requirements across our operating regions. Our diverse fleet of jack-up rigs possesses proven operating capabilities and an increasing number of rigs have been outfitted with new technology and equipment aimed at reducing emissions in line with our sustainability goals. We continuously evaluate and enhance our fleet with "smart upgrades" to meet specifications for the markets in which we intend them to operate. Additionally, we are able to customize our rig equipment and operations to meet the specific technical needs of our customers, including for example the unique specifications for plugging and abandonment of mature wells, or installing offshore structures.

In recent years, we have enhanced our active fleet through the opportunistic acquisition of premium jack-up rigs complementary to our fleet and available at historically low acquisition prices. From 2016 through 2021, we added nine premium jack-up rigs to our fleet at significantly lower prices than the historic cost of construction for comparable newbuild rigs. In 2022, we added another six premium jack-up rigs at attractive prices, five of which are high-specification, harsh environment capable units built for the North Sea ("Acquisition"). Additionally, we have previously selectively sold rigs to improve the Company's financial flexibility and reduce the cost outlay for certain non-working assets and assets near the end of their useful lives. We believe our actions to maintain and upgrade our fleet, customize our rigs to customer requirements and selectively acquire and dispose rigs allows us to deploy a competitive fleet that can meet the needs of our customers.

Our exclusive focus on jack-up rig operations has expanded geographically in 2022 into the North Sea following the Acquisition, adding to our previous core operating regions of MENAM, Southeast Asia, India and West Africa. The concentration of our fleet of rigs in these key geographic markets allows us to maintain critical mass and drive our significant market share in these operating regions. In addition, we believe activities in our core regions are generally characterized by low production costs, low carbon intensity and short cycle times have largely experienced significant upturn in rig demand throughout 2023, and will continue to show relatively favorable rig supply and demand fundamentals in the coming years.

We maintain a right sized organization with centralized and streamlined systems and processes geared to the specific needs of our business and fleet. Our strategically positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for numerous regional offices. Our centralized structure allows us to coordinate our supply chain networks to serve all our geographies, standardize equipment and spares across our fleet and centralize management of key engineering and maintenance activities, all of which are key drivers of our industry leading low-cost structure. In addition, since our inception, we have maintained our practice of building high national content through hiring and developing talents locally from the countries in which we operate, including among our regional leadership teams. These local hiring practices minimize the additional costs of bringing in expatriate workers, while enhancing the stability of our operations and closely aligning our goals with the interest of the governments, customers, and local communities where we work. We believe that our centralized organizational structure and high national content provide us with an advantage over our competitors.

We apply our "fit-for-purpose" business strategy in a way that is consistent with our fundamental ethical values and with respect for individuals, the environment and society. We do this through our three strategic priorities and our three essential values.

Our three strategic priorities are as follows:

- Focus – Jack-up operations are our sole focus.
- Reliability – With safety and operational performance at the forefront of everything we do, we strive to create an environment where no one gets hurt.
- Relationships – Our goal is to develop long-term and mutually beneficial relationships with customers and suppliers. We provide development for our people to support their long-term career goals.

Our three essential values are as follows:

- Protect – Protect yourself, your team, your asset, and our environment.
- Lead – We conduct business ethically, with responsibility and accountability.
- Execute – We consistently deliver outstanding performance for our customers and other stakeholders.

We believe that our centralized structure and focus on jack-up rig operations have significantly contributed to the reliability of our operations as seen through our emphasis on safety and operational performance. We had a TRIR of 0.12 for the year ended December 31, 2023, which was the best ever TRIR in the Company's history and significantly below the average of 0.51 reported by the International Association of Drilling Contractors ("IADC"). Our safety track record has consistently exceeded the industry benchmark since inception. See also "Risk Management and Insurance" below. Additionally, we achieved a fleet uptime of 98.8% in 2023 and have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012. Through ongoing training, appropriate incentive structures at all levels and our Make It Safe Today or "MIST" program, we continue to improve our safety and operational performance as we strive to further reduce workplace incidents.

We have well-established relationships with our customers, and we believe that our customers prefer to work with contractors who have strong safety and operating uptime track records. We are proactive and flexible in addressing our customers' specific needs and seek collaborative and innovative solutions to achieve customer objectives. We also work with our customers to improve efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for our customers. Our ability to maintain relationships with, and to win repeat business from, our existing customers is a competitive strength.

The members of our executive management team lead the organization with a commitment to ethical business practices, responsibility and accountability and have been involved with the Company since our inception. Our four executive officers are knowledgeable operations and finance executives with extensive experience in the global oil and natural gas industry with over 120 years of collective industry and financial experience. They have held leadership positions at highly regarded offshore drilling and oilfield services companies, including Schlumberger Ltd., Transocean Ltd., Noble Drilling plc and Wellstream Holdings plc.

Our "fit-for-purpose" strategy is underpinned by our large and high-quality versatile fleet, operated in our core geographic regions by a right sized organization with centralized, efficient operations and high national content. We operate our business in accordance with our strategic priorities and values that deliver ethical business practices, safe and reliable operations and strong customer relationships, which provides us with a strong competitive advantage and contributes to our contracting and operational success.

Risk Management and Insurance

Our operations are subject to hazards inherent in the drilling, completion, maintenance and decommissioning of shallow water oil and natural gas wells. These hazards include, but are not limited to, blowouts, punch through, loss of control of the well, abnormal conditions, mechanical or technological failures, seabed cratering, fires and pollution. These conditions can cause personal injury or loss of life, pollution, damage to or destruction of the environment, property and equipment, the suspension of operations, loss of revenues and could result in claims or investigations by regulatory bodies, customers, employees and others affected by such events. In addition, claims for loss of oil or natural gas production and damage to formations can occur. If a serious accident were to occur at a location where our services and equipment are being used, it could result in us being named as a defendant in lawsuits asserting large claims and incurring costs and losses associated with such claims.

Despite our efforts to maintain high safety standards, from time-to-time, we have suffered accidents, and there is a risk that we will experience accidents in the future. The frequency and severity of incidents, and/or the level of any resulting compensatory payments, could adversely affect the cost of, or our ability to obtain liability, workers' compensation and other forms of insurance and could negatively impact our operating costs and our relationships with regulatory agencies, customers, employees and others. Such events and their impacts could have a material adverse effect on our financial condition, results of operations and cash flows.

We maintain insurance coverage which we believe is customary in the industry, including general business liability, hull and machinery, cargo, casualty and third-party liability insurance. Our insurance policies typically consist of twelve-month policy periods, and the next renewal date for a substantial portion of our insurance program is scheduled for November 2024. Our insurance policies may not be adequate to cover all losses and have deductibles, limits of liabilities and exclusions of coverage for certain losses. Further, some pollution and environmental risks are generally not completely insurable. In addition, we may not be able to maintain adequate insurance coverage or obtain insurance for certain risks at rates we consider reasonable and commercially justifiable or with terms comparable to our current arrangements. Our fleet is insured for its estimated fair market value and we periodically evaluate risk exposures, insurance limits and self-insured retentions. As of December 31, 2023, the insured value of our fleet was $2.7 billion.

The above description of our insurance program is a general summary of the types of such policies in effect as of December 31, 2023 and does not contain sufficient details to fully understand our insurance risks. For additional information, including but not limited to a discussion of the indemnification provisions in our customer contracts and the risk that our insurance policies may not adequately mitigate our risks, see "Customers and Customer Contracts" above and "Item 1A. Risk Factors".

Health, Safety and Environment

Consistent with our strategic priorities and core values, we are guided by the highest ethical standards and are firmly committed to excellence in the fields of workplace health and safety, environmental sustainability, social responsibility and responsible business conduct. The safety of our employees, contractors, customer representatives and other service providers is our greatest responsibility. Our Health, Safety and Environment ("HSE") policy statement lays the foundation for the Company's commitment and our employees' obligations to maintain a safe and healthy work environment. Our Management and employees are responsible for creating and working in an environment that results in an incident-free workplace where no one gets hurt. All employees are given the necessary training, tools and empowerment to be individually responsible for the safety of themselves, their co-workers and the environment.

We have implemented comprehensive HSE policies, processes and systems which are in line with industry best practice. We place a high priority on managing the risks inherent in the offshore drilling industry and are committed to compliance with the highest national and international health, safety, and environment standards. Our integrated HSE management system is implemented throughout all offshore and onshore operations covering quality, health, safety and environmental principles and objectives of our business. The system monitors our HSE performance and continuously improves the necessary safeguards to protect our employees, assets, service providers and customers and to minimize our impact on the environment. We believe we are an industry leader in HSE due to a commitment to develop, promote and sustain a culture which operates in a manner true to our essential values, including to "protect yourself, protect your team, protect your asset and our environment". We have implemented comprehensive HSE processes, including a corporate operational support plan, emergency response plans, medical evacuation response plans and a major emergency management and safety leadership training program (based on a focused training matrix). Senior management strives to provide strong, demonstrable leadership and commitment to HSE. Participation in specific meetings with staff and contractors, joint management inspection visits and regular HSE audits all encourage a strong focus on HSE in the workplace.

The anchors of our HSE culture are:

- Planning first – To achieve perfect execution, we must plan every task right the first time.
- Plan, brief, execute and debrief process – Process to promote task planning and continuous improvement where lessons learnt must be captured and included in the planning phase.
- One team one goal philosophy – Embedded one team one goal philosophy across all aspects of the business and operation.
- Human performance principles – Principles that shape and guide every action we take. Introduction of human error trap concept in the risk assessment and incident investigation process.
- Make it safer today – Safety awareness and recognition program to enhance safety leadership for proactive identification and reporting of hazard & risk at workplace.

- Time out for safety – All employees have the obligation to call a time out for safety.
- Safety conversations - All employees are required to discuss with their co-workers any time there is an opportunity to reinforce a safe behavior or change an unsafe behavior.
- Management HSE tours – Visible safety leadership through coaching and mentoring to empower employees and support our safety culture.
- Self-Audits and debrief – Systematic approach to self-evaluation and continuous improvement.
- Training – Developing our employees as safety leaders.

We track health, safety and environment performance on a monthly basis by way of a monthly HSE report, tracking, trending and investigations which are stored in our custom designed safety database. The Company is a member of the IADC and participates in its incident statistics program. The Company's total absences due to sickness, including COVID-19, were minimal during the year ended December 31, 2023.

Our operations are subject to numerous comprehensive environmental HSE laws and regulations in the form of international conventions and treaties, national, state and local laws and various multi-jurisdictional regulations in force where our rigs operate or are registered. We are also required to obtain HSE permits from governmental authorities for our operations. To date, we have not incurred material costs to comply with environmental regulations. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions, the suspension or termination of our operations or other liabilities.

The following is a summary of certain applicable international conventions and other laws, which serve as examples of the various laws and regulations to which we are subject. We believe that all our rigs are compliant in all material respects with all HSE regulations to which they are subject. For a discussion on the possible effects of environmental regulation on our business, see "Item 1A. Risk Factors".

Greenhouse gas regulation

There is increasing attention worldwide concerning the issue of climate change and the effect of greenhouse gas emissions. The 1992 treaty of the United Nations Framework Convention on Climate Change ("UNFCCC") provides a foundation for the global efforts to combat climate change. In 2005, the Kyoto Protocol to the 1992 UNFCCC became the first binding treaty under international law to reduce greenhouse gas emissions. In 2015, the conference of the UNFCCC in Paris resulted in the creation of the Paris Agreement. The Paris Agreement, which entered into force on November 4, 2016, requires countries to set "nationally determined contributions" toward emissions reductions and includes a "global stocktake" or evaluation of collective progress made toward share climate goals. The setting of nationally determined contributions and the global stocktake of progress occur every five years beginning in 2020 and 2023, respectively. In 2021, the UNFCCC met at the Glasgow climate change conference, where participating nations adopted the Glasgow Climate Pact. The pact contained various provisions such as funding climate action in developing countries, a commitment to reducing the gap between existing emission reduction plans and the targets needed to achieve stated goals and completion of the Paris Agreement rulebook. The rulebook provisions included reaching an agreement governing the workings of carbon markets and concluding negotiations on the enhanced transparency framework, which provides the format for tracking and reporting targets and emissions.

While it is not possible at this time to predict how the Paris Agreement, the Glasgow Climate Pact and other new treaties and legislations that may be enacted to address greenhouse gas emissions would impact our business, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploratory or developmental drilling for oil and gas could materially adversely affect our operations by limiting drilling opportunities or imposing materially increased costs. Moreover, incentives to conserve energy or use alternative energy sources could have a negative impact on our business if such incentives reduce the worldwide demand for oil and natural gas or redirects resources to renewable energy alternatives.

In 2020, we formally launched our sustainability program with the publication of our 2019 Annual Report. We monitor and record the CO_2 emissions from our rigs and offices by measuring the fuel and electricity consumption.

In 2022, we established a goal to reduce our emissions intensity (average daily per rig Scope 1 emissions) by 20% over the next 5 years, from our 2021 baseline. We achieved an emissions intensity reduction of 5.5% in 2022 over the 2021 baseline. In 2023, our emissions intensity increased by 1.5% over the 2022 results and did not meet the yearly target of 4% reduction. This increase can be primarily attributed to a changes in activity from performing plug and abandonment and / or asset retirement operations for most part of 2022 to development drilling in 2023, primarily in one region.

United Nations' International Maritime Organization ("IMO") regulatory regime

The international conventions, laws and regulations of the IMO govern shipping and international maritime trade. IMO regulations have been widely adopted by United Nations member countries, and in some jurisdictions in which we operate, these regulations have been expanded upon. International conventions, laws and regulations applicable to our operations include the International Convention for the Prevention of Pollution from Ships of 1973, as amended ("MARPOL"), the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended ("CLC"), and the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, as amended ("BUNKER") that impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products and hazardous substances. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection, and in certain circumstances, may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault.

MARPOL regulates harmful air emissions from ships and is also applicable to shallow water rigs. Recent amendments to MARPOL require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines in the future. Our rigs are also subject to BUNKER, which holds us strictly liable for pollution damage caused by discharges of bunker fuel in jurisdictional waters of ratifying states.

The IMO's Ballast Water Management Convention (the "BWM Convention") may also impose obligations on our operations. The regulations from the BWM Convention call for a phased introduction of mandatory ballast water exchange requirements beginning in 2009, to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017, at which time all vessels in international traffic were to comply with the ballast water exchange standard and to comply with the more stringent ballast water performance standard no later than the vessel's next intermediate or renewal survey. The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations.

National and local health, safety and environmental regulation

Certain aspects of our operations also are governed by the laws and regulations of the countries and localities where our rigs operate. These laws and regulations may establish additional HSE obligations for our operations and impose liability for noncompliance and other events resulting in harm to the environment or human health, such as oil spills and other accidents.

Other regulations

Our operations are subject to various other international conventions, laws and regulations in various countries, including laws and regulations relating to the importation and operation of rigs and equipment, currency conversions and repatriation, oil and natural gas exploration and development, environmental protection, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of rigs and other equipment.

Our People

Overview

We strongly believe that our success depends on a healthy, engaged and competent workforce. We strive to provide our employees with a professional, safe and trusted working environment in which all individuals are respected and treated fairly, and with dignity. Our employees and contractors have extensive technical, operational and management experience in the jack-up segment of the offshore drilling industry. We seek to attract and retain the best talent with recruitment through our robust selection and induction process, retention through our competitive compensation and benefits packages and development through our comprehensive training and development program.

The following table presents our employees and contractors by category as of December 31, 2023:

	Company employees	Contractors	Total
Rig-based/offshore	2,426	1,276	3,702
Shore-based	271	54	325
Corporate	138	64	202
Total	2,835	1,394	4,229

Approximately 88% of our employees and contractors comprise offshore rig-based crew members who carry out day-to-day operations. Our offshore crews include supervisors as well as trained and competent technical specialists in the areas of operations, safety, maintenance and marine support. Offshore crews typically work rotation schedules which vary according to jurisdiction and local practice.

The remaining 12% of our employees and contractors are shore-based or corporate, with the largest concentration employed at our corporate headquarters in Dubai. Our corporate headquarters houses centralized teams, who ensure the consistent implementation of our operations processes, HSE and policy management systems worldwide as well as administrative personnel who provide technical and functional support to both the rigs and shore-based employees in other countries. The other shore-based employees and contractors work in the offices and yards that support our activities in the various countries in which we operate. They provide support in operations, commercial and marketing, technical, finance, human resources, procurement, HSE and information technology to our rigs, crews and our customers. Employees in some of the countries in which we operate are represented by trade unions and arrangements, including but not limited to collective bargaining agreements.

Nationalization/Local Employment

A focus on nationalization remains central to our strategy. We view nationalization as important both to ensuring a sustainable business, and to contributing to the communities in which we operate. We are committed on building high national content through hiring and developing nationals from the countries in which we operate, including across our leadership teams. The continued drive and commitment to build high national content has resulted in nationals representing 89% of our offshore employees and contractors as of December 31, 2023. This enables us to strengthen customer and governmental relationships, particularly with NOCs, and results in a lower cost base. In addition, through significant positive impacts on the local economies including increased income and employment, our nationalization strategy directly supports our commitment to the United Nations' Sustainable Development Goals.

The following table shows the percentage of national employees and contractors in our key markets as of December 31, 2023:

	National employees and contractors
MENAM	78%
North Sea	100%
Southeast Asia	95%
India	100%
West Africa	89%

Diversity, Equal Opportunity and Labor and Human Rights

We are committed to equal opportunity employment for all employees and applicants for employment and welcome the variety of experiences they bring to the Company. We recruit, hire, train, promote, and compensate without regard to race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category of persons to the extent protected by applicable laws.

Our operations in Nigeria have continued to focus on recruitment and development of women in offshore roles. Likewise, our India operations recently initiated a women offshore program targeting petrochemical graduates, aiming to bolster diversity by encouraging their entry into rig-based positions.

We are committed to establishing and maintaining a work environment in which all individuals are respected and treated with dignity. We have a zero tolerance for discrimination or harassment in the workplace or any other work-related environment which governs all terms, conditions and actions related to employment. We prohibit all harassment, including verbal, written, or electronic dissemination of materials which are offensive or disparaging of others based on race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category, whether the harassment is directed at a subordinate, co-worker, supervisor, customer, agent, guest, contractor or vendor. We recognize that discrimination can be indirect or unintentional and therefore strive to create awareness and educate our people in order to develop and maintain a truly inclusive and high performing culture. Our initiatives include mandatory training sessions for select employees on unconscious bias, diversity & inclusion, workplace harassment, reporting and non-retaliation, supplemented by awareness posters defining the characteristics of a truly inclusive workplace culture.

We respect labor rights as described in the fundamental conventions of the International Labor Organization, including freedom of association and collective bargaining as well as freedom from forced and compulsory labor, child labor and discrimination in respect of employment and occupation. We are committed to respecting and protecting labor rights as well as fundamental human rights as described in the United Nation's guiding principles on business and human rights, both in our internal business as well as those of our business partners, suppliers, customers and others who are directly affected by our activities. We are committed to important issues such as non-discrimination, the right to privacy, employment contracts, protection against harassment and management-employee collaboration. We engage with the relevant employee representative groups, which operate in certain jurisdictions, and encourage active ongoing dialogue to ensure alignment of our collective interests. In 2023, we published our first transparency act statement reflecting the outcomes of salient human rights assessment we conducted in 2022. The statement outlines our commitment to human rights, the diligence processes, actions taken, and future plans. Further, in 2023, we launched a comprehensive human rights training for our global shore-based and identified offshore employees. This training equips them with the knowledge and skills to identify and respond to potential adverse human rights issues and risks across our operations.

Through our ongoing speak-up initiative we encourage our employees and third parties to ask compliance and ethics questions, raise concerns and report any actual or suspected misconduct, unethical or illegal behavior, or violations to our code of business conduct and its supporting policies or applicable laws, or seek advice on how to handle such situations. The Company has established various channels through which employees and third parties, such as suppliers, agents, and business partners, can report their concerns. The employees are always encouraged to talk openly and freely with their supervisors first or they can reach out to the head of compliance and ethics or the executive vice president. The Company has also made available the ethics helpline, which enables filing of confidential reporting of complaints, concerns and incidents either through the toll-free multilingual telephone hotline or a web-based form. The helpline is operated 24/7 by an independent third-party provider to help maintain confidentiality and, when requested, anonymity. In 2023, we took several steps to enhance our reporting mechanisms, including the introduction of a QR code-enabled mobile platform for easy and secure reporting, catering to our expanding global presence. Furthermore, we upgraded our ethics incident management system to streamline and enhance intake and tracking of concerns across multiple channels, ensuring thorough review and investigation of all reported incidents while maintaining strict confidentiality. A link to the helpline is also available on our website and intranet.

Well being

We are committed to foster a culture of respect, tolerance, integrity, and psychological safety where every individual is empowered to contribute and grow. That encompasses our commitment to supporting the health and wellbeing of our people. We provide comprehensive health insurance and benefits to all our employees to ensure that they have access to the necessary resources for maintaining their physical health and wellbeing. Recognizing the importance of work-life balance, we offer flexible work arrangements, where possible, to accommodate the diverse needs of our employees.

Furthermore, in 2023, we launched our global employee assistance program, which provides 24/7 emotional and psychological support & solutions to all employees. Leveraging a global network of resources and partners, the program offers solutions tailored to individual needs and is available in multiple languages across all our locations. The rollout of the program was supported by various in-person presentations and trainings, and we will continue to proactively promote the importance of mental health and well-being.

We also expanded our mental health awareness initiative through comprehensive training sessions conducted for larger employee groups across various locations. Through this initiative, we continue to develop mental health champions who actively promote awareness and advocate for mental health within our organization and are equipped with knowledge and skills to identify and support colleagues facing mental health challenges.

Training and Development

We value continuous learning and professional growth for our entire workforce. Our training initiatives cover diverse aspects of company policies, fostering a strong ethical framework through guidelines on business conduct, ethics, anti-corruption and conflict of interest.

For offshore employees, we provide access to a comprehensive training and development program that enables employees to progress from entry level positions through to the most-senior level on a rig. Employees acquire skills, knowledge and experience following a highly structured training matrix that specifies the training required for each role and responsibility. This is channeled into four main categories: on the job training, competency assessments, shore-based professional courses and regulatory and marine licensing training courses. Employee progress toward the next level and compliance with defined training targets are tracked through our online reporting system. Specific programs, such as the offshore development program, the fast track program, the engineer development program, aim to support the development and the promotion of high potential candidates. Regular reviews are held between the field and corporate management teams on an ad-hoc basis and as part of a structured annual succession planning process to ensure progress towards achieving the designated nationalization objectives as well as the development of adequate bench strength for key positions.

Our fast track program was of particular importance in 2023 to mitigate the impact of incremental demand for competent offshore employees. Throughout the year, we had a total of 165 participants, with 32 graduating in 2023 and assuming key offshore roles.

For shore-based and corporate employees, development plans are specific to the individual, their current role and potential future opportunities. In 2023, we have introduced management skills trainings for all manager level employees at corporate, as well as various coaching programs for selected employees across our workforce. For 2024, we are planning further specific trainings for shore-based employees at corporate and in field offices to enhance efficiency, management, and leadership skills.

Operating Expenses, Capital Expenditures and Deferred Costs

Our business consists of providing services to our customers, often over multi-year service periods using a variety of specialized and high-value rigs and related equipment. As such, our business is capital intensive, requiring significant expenditures to purchase, operate, upgrade and maintain our fleet. Costs can be expensed, capitalized, or deferred depending on their specific nature.

- *Expensed* – Operating costs and routine expenditures for minor asset replacements and repairs and maintenance that do not increase the asset life or functionality are expensed as incurred. Additionally, mobilization and demobilization costs to relocate rigs without binding commitments are expensed when incurred.
- *Capitalized* – Capital expenditures include the cost of acquiring or constructing our property and equipment, which primarily consists of rigs and equipment. Expenditures for purchases, additions, improvements and substantial enhancements, are capitalized along with other costs to bring the asset to the condition and location necessary for its intended use. Capital expenditures are included in property and equipment and are depreciated over the estimated useful life of the asset.
- *Deferred* – Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls that are expected to be recoverable are deferred. Deferred costs are included in other current assets and other long-term assets on the consolidated balance sheets and are amortized on a straight-line basis over either the contract term or the period until the next planned similar expenditure is made or for a period of five years for major equipment overhauls, as appropriate.

See "Note 2 – Significant Accounting Policies" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for further discussion of our operating expenses, deferred costs and property and equipment, net.

In conducting our business, we incur operating costs and expenses, which consist primarily of operating and maintenance expenses. Our operating and maintenance expenses can be classified as rig related or shore-based.

Rig-related expenses are directly related to the operation of our rigs and include:

- *Rig personnel expenses* – These expenses consist of compensation, transportation, training and personnel safety equipment costs, as well as catering costs while the crews are on the rig. Such expenses vary by type of rig and from country-to-country reflecting the number of employees, the percentage of expatriate and national employees, local market rates, unionized trade arrangements and local regulatory requirements regarding payroll related taxes and charges, social security or similar programs and end of service benefits.
- *Rig maintenance expenses* – These consist of expenses related to operating and maintaining our rigs, other than personnel costs, such as the cost of repairs and maintenance, consumables and other costs, including the associated freight and customs duties.
- *Other rig-related expenses* – These expenses include all remaining operating expenses such as insurance, professional services, communication, short-term equipment rentals, lease expense, mobilization and demobilization costs and other miscellaneous costs.

Shore-based expenses include costs incurred by local shore-based offices in direct support of our rigs and operations in each associated jurisdiction and include the costs of shore-based personnel and facilities.

Our general and administrative expenses primarily include expenses related to our corporate headquarters in Dubai and personnel costs including compensation, benefits and share-based compensation related to our centralized projects teams and administrative departments. Centralized projects teams include HSE, marine operations, engineering, electrical, maintenance, supply chain and other technical and functional process experts. Administrative departments include executive management, legal, finance and accounting, human resources, information technology and other support departments. Expenses also include directors' fees, provision for credit losses, and other general and administrative costs.

Item 1A. Risk Factors.

Summary of Principal Risk Factors

Users of this Form 10-K Equivalent should carefully consider the following risk factors in addition to the other information included in this document. Each of these risk factors could affect one or more of the following: our business, financial condition, results of operations and cash flows, and could also affect an investment in our Company. Our principal risk factors include risks related to our business and industry and risks related to our structure, which may differ from risks affecting other companies, as well as general risk factors that affect most businesses. The following is a summary of our principal risk factors.

Risks Related to our Business and Industry

- Our business largely depends on the level of activity in the shallow water drilling industry, which is significantly affected by volatile oil and natural gas prices that drive activity in the oil and natural gas exploration and production industry.
- The industry has been historically competitive, cyclical and subject to price competition. If we are unable to compete successfully with our competitors, we may be materially adversely impacted.
- Supply chain disruptions such as supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase our operating costs, decrease our revenues and adversely impact our operations.
- Our future business performance depends on our ability to renew contracts with existing customers and secure new contracts for our fleet of rigs.
- If customers reduce activity levels, terminate, suspend or seek to renegotiate contracts, or if market conditions dictate that we

enter into contracts with unfavorable terms or increased risks, we may be materially adversely impacted.
- Our future contracted revenue, or backlog, may not ultimately be realized.
- We rely on a relatively small number of customers for a substantial portion of our current and future revenues.
- Our purchase of existing jack-up rigs carries risks associated with the condition and quality of those rigs.
- Newbuild rig projects and reactivation of stacked rigs, as well as upgrade, refurbishment and repair projects are subject to various risks, which could cause delays or cost overruns.
- We may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Company and our future growth.
- We may not be able to keep pace with technological developments and make adequate capital expenditures in response to newer and/or higher specification rigs or more fuel efficient/low-emission rigs being deployed within the industry and therefore our fleet may not satisfy the requirements of some customers.
- Climate change, the regulation of greenhouse gases and increasing development of renewable energy alternatives could have a negative impact on our industry, business and/or reputation.
- Compared to companies with greater resources, we may be at a competitive disadvantage.
- There may be limits to our ability to mobilize drilling rigs between geographic areas, and the duration, risks and associated costs of such mobilizations may be material to our business.
- The fair market value of our long-lived assets, including our drilling rigs and any rigs we acquire in the future, may decrease, which could result in impairments or cause us to incur a loss on the sale of such assets.
- Our labor costs and the operating restrictions that apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.
- Our business involves numerous operating hazards; our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events and our insurance may become more expensive or may become unavailable in the future.
- Our international operations in the shallow water drilling sector involve additional risks, which could adversely affect our business.
- Any failure to comply with the complex laws and regulations governing international trade, including import, export, anti-corruption, economic sanctions and embargoes could adversely affect our operations.
- We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.
- If we or our customers are unable to acquire or renew permits and approvals required for drilling operations, we may be forced to suspend or cease our operations, which may adversely affect our profitability.
- Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.
- We are dependent upon cash flows from our operating subsidiaries to meet our obligations, including repayment of our debt. Our corporate structure and operations in multiple jurisdictions may impose limitations on the transfer of funds. If we become unable to pay our interest or debts as they become due or to obtain further credit, we may become subject to insolvency proceedings.
- To service and refinance our indebtedness, fund our capital and liquidity needs or pay any dividends, we may not generate sufficient cash or have access to sufficient funding.
- We rely on proper functioning of our computer and data processing systems that must be regularly updated or replaced, and a

large-scale malfunction could result in material adverse disruptions to our business.

- Developing and expanding data security and privacy requirements could increase our operating costs, and any failure by us or our vendors to maintain the security of certain customer, employee and business-related information could result in damage to our reputation, be costly to remediate and result in regulatory action.
- We depend heavily upon the security and reliability of our technology systems and those of our service and equipment vendors, and such systems are subject to cyber-security risks and threats.
- Technology disputes could negatively impact our operations or increase our costs.
- Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.
- If any part of our business is moved outside of its current operative jurisdiction our overall tax exposure may change, which may affect our alleged compliance with applicable tax laws.

Risks Related to our Structure and Ownership of our Common Stock

- We are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to our U.S. shareholders.
- Subsequent to our initial public offering in 2018, we are subject to both Cayman Islands regulatory requirements and the requirements applicable for Companies listed on the OSE, and any subsequent changes to these requirements, and, as such, we may be subject to review by the relevant authorities.
- Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the U.S., and our shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights under the laws of other jurisdictions.
- Certain of our shareholders own a significant proportion of our common shares, and their interests may conflict with those of ours or other shareholders.
- In the recent past, we have not paid any dividends on our common shares, our ability to pay dividends is subject to certain restrictions and the availability and timing of future dividends, if any, is uncertain, which could influence the price of our common shares.
- Future issuances of our common shares or other securities could dilute the holdings of holders of our common shares and could materially affect the price of our common shares, and preemptive rights are not available to holders of our common shares.
- The transfer of our common shares and their underlying assets is subject to restrictions under the securities laws of the U.S. and other jurisdictions.
- Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway.

General Risk Factors

- We are exposed to the credit risks of our key customers and certain other third parties.
- We are dependent on our senior management team, other key employees and Directors of our Board, and the business could be negatively impacted if we are unable to attract and retain personnel necessary for our success.
- We are dependent on the availability and retention of skilled personnel, which may be adversely affected by increases in labor costs.
- We may be subject to litigation and disputes that could have a material adverse impact on our business, financial condition, results of operations and cash flows.

- Any relevant change in tax laws, regulations, or treaties, and relevant interpretations thereof, for any country in which we operate, earn income, generate losses or are considered to be a tax resident, and/or the loss of any major tax dispute, or a successful challenge to our intercompany pricing policies or operating structures could have an adverse impact on our financial condition, results of operations and cash flows.

Please see below for a more detailed description of the risks affecting our Company.

Risks Related to our Business and Industry

Our business largely depends on the level of activity in the shallow water drilling industry, which is significantly affected by volatile oil and natural gas prices that drive activity in the oil and natural gas exploration and production industry.

The level of activity of the offshore oil and natural gas industry is cyclical, volatile and impacted by oil and natural gas prices. Oil and natural gas prices are unpredictable and are affected by numerous factors beyond our control, including the worldwide demand for oil and natural gas and worldwide production of oil and natural gas.

Worldwide demand for oil and natural gas is impacted by:

- global economic growth and the health of the global economy, including financial instability or recessions;
- the occurrence or threat of epidemic or pandemic diseases and any related business and government responses;
- technical advances and increased adoption of alternative and renewable energy sources; and
- technological improvements that improve energy efficiency and reduce consumption and the development and exploitation of alternative fuels.

Worldwide production of oil and natural gas is impacted by:

- expectations regarding future energy prices;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- advances in exploration, development and production technologies;
- the discovery rate of new oil and gas reserves and their locations;
- increased supply of oil and gas resulting from growing onshore hydraulic fracturing activity and shale development;
- the diversification of IOCs and the shifting of budget allocations away from traditional oil and gas exploration and development projects into renewable energy and other non-core business projects;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) to set, comply and maintain production levels and pricing and the level of production in non-OPEC countries;
- merger and divestiture activity among oil and gas producers;
- weather conditions, including natural disasters;
- the availability of, and access to, suitable locations from which our customers can explore and produce hydrocarbons and available pipeline and other oil and gas transportation capacity;
- tax laws, regulations and policies or speculation regarding future laws or regulations, including the policies and regulations of various governments regarding exploration and development of their oil and natural gas reserves;
- activities by non-governmental organizations to restrict the exploration, development and production of oil and natural gas so as to reduce the potential harm to the environment from such activities, including emission of carbon dioxide, a greenhouse gas and
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, Russia or other geographic areas or further acts of

terrorism in the regions in which we operate, or elsewhere.

There is no guarantee that prices, and the corresponding demand for our services and dayrates we can charge, will improve, remain at the current levels or not decline in the future. Significant declines in global oil and natural gas prices and sustained periods of low prices typically cause a reduction in the exploration, development and production activities of most of our customers and their spending on our services. Oil and natural gas companies' capital expenditure budgets are dependent on cash flows from such activities and are therefore sensitive to changes in energy prices and cuts in their spending curtail drilling programs, reducing the demand for our services, the rates we can charge and the utilization of our rigs, which can have a material adverse effect on our business, financial condition, results of operations and cash flows.

The industry has been historically competitive, cyclical and subject to price competition. If we are unable to compete successfully with our competitors, we may be materially adversely impacted.

Historically, the shallow water drilling industry has been cyclical with periods of high demand, limited supply and high dayrates alternating with periods of low demand, excess supply and low dayrates. Periods of low demand and excess supply intensify competition in the industry and may result in some drilling rigs being stacked or earning substantially lower dayrates for long periods of time. We have idled and stacked rigs in response to market conditions and may idle and stack additional rigs in the future, and such rigs may not return to service in the near term or at all. In addition, we have in the past and may in the future enter into lower dayrate drilling contracts in response to market conditions which reduces the revenues we earn from such contracts. The offshore drilling industry is also influenced by volatile oil and natural gas prices that drive activity in the oil and natural gas exploration and production industry, as discussed above. Prolonged periods of low utilization and dayrates, as well as extended periods when rigs are stacked, could reduce demand for our services and materially adversely affect our revenues, financial condition, results of operations or cash flows.

The shallow-water drilling industry in which we operate is extremely competitive with numerous industry participants, and contracts have traditionally been awarded on a competitive bid basis. Price competition is frequently a major factor in determining a contract award. Customers may also consider unit availability and location, operational and safety performance records and age, condition and suitability of equipment. In addition, if our competitors enter into joint venture agreements with some of our largest customers, this could make it more difficult for us to obtain additional contracts from these customers. Competition for offshore rigs is typically global, as drilling rigs are mobile and may be moved from areas of low utilization and dayrates to areas of greater activity and corresponding higher dayrates. Costs connected with relocating drilling rigs for these purposes are sometimes substantial and are generally borne by the contractor. The over-supply of marketed jack-up rigs, which can be increased by new rigs under construction or reactivation of stacked rigs, increases competition and can lead to lower dayrates. The inability to compete successfully with our competitors could have a material adverse effect on our revenues, results of operations and cash flows.

Supply chain disruptions such as supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase our operating costs, decrease our revenues and adversely impact our operations.

Our reliance on third-party suppliers, manufacturers and service providers to secure equipment used in our drilling operations exposes us to volatility in the quality, price and availability of such items. Certain specialized parts and equipment we use in our operations may be available only from a single or small number of suppliers. A disruption in the deliveries from such third-party suppliers, capacity constraints, production disruptions, price increases, defects or quality-control issues, recalls or other decreased availability or servicing of parts and equipment could adversely affect our ability to meet our commitments to customers, resulting in uncompensated downtime, reduced dayrates or the cancellation or termination of contracts and could adversely impact our operations and increase our costs. Any of these impacts could have a material adverse impact our revenues, results of operations and cash flows.

Our future business performance depends on our ability to renew contracts with existing customers and secure new contracts for our fleet of rigs.

Our ability to secure contract renewals where we are the incumbent rig provider, and to win tenders for new contracts is affected by a number of factors both within and outside of our control. Negotiations and tenders can be impacted by various factors including market conditions, rig specifications, safety record requirements, competition and governmental approvals required by customers. While our preference is generally to renew contracts with our existing customers, if the customer decides not to renew its contract, we then seek to secure a new customer contract for that rig. While we actively market our rigs prior to the expiry of their existing contracts, there can be no assurance that we will be able to renew or extend existing contracts or secure new arrangements before the original contract lapses. Re-contracting a rig may involve participation in either a direct renegotiation with the customer or in a new tender process.

If we are unable to renew contracts or we are not selected for new contracts, or if the contracts we enter into are delayed, workflow may be interrupted and our business, financial condition and results of operations may be materially adversely affected. Based on 35 customer contracts in place as of December 31, 2023, eight are scheduled to expire before December 31, 2024, 13 are scheduled to expire during 2025, with a further 14 contracts scheduled to expire at times subsequent to December 31, 2025. Failure to renew a contract could lead to a rig being stacked and/or having to enter into a new contract at lower dayrates, shorter terms or in other geographical areas and could materially adversely affect our revenues, financial condition, results of operations and cash flows.

If customers reduce activity levels, terminate, suspend or seek to renegotiate contracts, or if market conditions dictate that we enter into contracts with unfavorable terms or increased risks, we may be materially adversely impacted.

Customers may seek to renegotiate, suspend or terminate their contracts, and during periods of unfavorable market conditions, including low oil and natural gas prices and over-supply of rigs, we are subject to an increased risk of our customers taking such actions. Certain of our customers may have the right to suspend or terminate contracts without limitations. Additionally, certain contracts may contain clauses allowing for termination due to downtime or operational problems above the contractual limits, safety-related issues, if the drilling rig is not delivered to the customer within the specified time period or in other specified circumstances, which may include events beyond our control. Some of these contracts may require us to pay penalties, which could be material. Certain of our contracts provide for cancellation at the option of the customer upon payment of a penalty to us, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in a drilling rig being idle for an extended period of time. Customers without favorable termination language may seek to renegotiate existing contracts, including for some of the termination reasons described above. During periods of unfavorable market conditions, a customer may no longer need a rig that is under contract or may be able to obtain a comparable rig at a lower dayrate. As a result, customers may seek to renegotiate the terms of their existing contracts to shorten the length of the contract or lower the dayrate or customers may seek to suspend, terminate or otherwise avoid their obligations under those contracts.

Currently, our drilling contracts are dayrate contracts, where we charge a fixed rate per day regardless of the number of days needed to drill the well. While we plan to continue to perform services on a dayrate basis, market conditions may dictate that we enter into contracts that provide for payment based on a footage basis, where we are paid a fixed amount for each foot drilled regardless of the time required or the problems encountered in drilling the well, or enter into turnkey contracts whereby we agree to drill a well to a specific depth for a fixed price and bear some of the well equipment costs. These types of contracts would expose us to greater risk than dayrate contracts, as we would be subject to down hole geologic conditions in the well that cannot always be accurately determined and subject us to greater risks associated with equipment and down hole tool failures. Exposure to these risks may result in significant cost increases or may result in a decision to abandon a well project and forfeit the associated revenues.

Any successful efforts by our customers to reduce activity levels, terminate, suspend, or renegotiate contract terms and any changes in our contracts that subject us to unfavorable terms and increased risks could have a material adverse effect on our revenues, financial conditions, results of operations and cash flows.

Our future contracted revenue, or backlog, may not ultimately be realized.

The contract backlog relating to our rigs was approximately $2.3 billion as of December 31, 2023. The amount of contract backlog does not necessarily indicate future earnings, and the contract backlog may be adjusted up or down depending on various factors both within and outside of our control.

The contract drilling dayrate used in the calculation of contract backlog may be higher than the actual dayrate we ultimately receive. Actual dayrates earned may be lower than the standard operating dayrate, and may consist of alternative dayrates such as a waiting-on-weather rate, repair rate, standby rate, force majeure rate or moving rate. The contract drilling dayrate may also be higher than the actual dayrate earned because of factors resulting in lost dayrate revenue, including scheduled or unscheduled rig downtime or suspension of operations. Additionally, renegotiation of dayrates or contracts that provide for periodic adjustments of contract dayrates, including those linked to oil or natural gas prices, may cause a difference in actual revenues as compared to contract backlog.

The days of backlog revenue used in the calculation of contract backlog may also be higher or lower than the actual number of days the rig earns a dayrate. The number of days can be extended due to contract extensions or the exercise by the customer of extension options or the award of new contracts. Contract provisions that allow the customer to extend the term of the contract to finish drilling a well in progress can also result in an increase, as this additional time is not included in the calculation of the contract backlog. Early cancellation of existing contracts (for which we may not be entitled to compensation or notice), failure by customers to complete existing contracts, unscheduled downtime, or the unavailability of rigs and equipment to fulfill a contract may result in a lower than expected number of contract days.

Any changes in the dayrate and number of days used to calculate contract backlog could result in materially lower revenues than indicated by the contract backlog.

We rely on a relatively small number of customers for a substantial portion of our current and future revenues.

Our customer base includes NOCs and IOCs, together with a small number of independent oil and gas companies. The drilling industry is subject to the usual risks associated with having a limited number of customers. Our top three customers accounted for 78% of contract backlog and 59% of revenues for the year ended December 31, 2023. Our business, financial condition, results of operations and cash flows could be materially adversely affected if any of these customers were to reduce their contractual commitments to us or suspend or withdraw their approval for us to provide services for them.

Our growth is also closely connected to the growth in activity of our customers and our results may be impacted if certain key customers were to significantly reduce their growth strategy. Furthermore, if any of our major customers failed to compensate us for our services, terminated contracts, failed to renew existing contracts or refuse to enter into new contracts with us, or if a customer were unable to perform due to liquidity or solvency issues, and similar contracts with new customers were not forthcoming, our revenues, financial condition, results of operations and cash flows would be materially adversely affected.

Our purchase of existing jack-up rigs carries risks associated with the condition and quality of those rigs.

We have acquired, and may acquire in the future, existing jack-up rigs as a way of renewing and expanding our fleet. Unlike newbuild rigs, existing rigs typically do not carry warranties with respect to their condition. While we generally inspect any existing rig prior to purchase, such an inspection would normally not provide us with as much knowledge of its condition as if the rig had been built for us and operated by us during its life. Repairs and maintenance costs for existing rigs are difficult to predict and may be more substantial than for rigs that we have operated since they were built. In addition, we may not be able to obtain indemnification and warranties from the sellers for any rigs that we acquire. These costs could adversely affect our results of operations and cash flows.

Newbuild rig projects and reactivation of stacked rigs, as well as upgrade, refurbishment and repair projects are subject to various risks, which could cause delays or cost overruns.

We have in the past and could in the future increase the size of our fleet through the purchase, lease or construction of newbuild rigs. In addition, we may choose to reactivate rigs which may be stacked in the future.

We incur upgrade, refurbishment and repair expenditures for our fleet from time to time, including when upgrades are required by industry standards and/or by law. Such expenditures are also necessary in response to requests by customers, inspections, regulatory or certifying authorities or when a rig is damaged. We also regularly make certain upgrades or modifications to our drilling rigs to meet customer or contract specific requirements.

The construction or outfitting of purchased newbuild rigs or reactivation of stacked rigs and upgrade, refurbishment and repair projects are subject to project management execution risks of delay and cost overruns inherent in any large construction project from numerous factors, including:

- project management and execution risk;
- unexpectedly long delivery times for, unexpected costs or shortages of, key equipment, parts and materials;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- unforeseen design and engineering problems;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- labor disputes and work stoppages at the shipyard;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders (scope creep);
- HSE accidents/incidents or other safety hazards;
- failure or delay of third-party service providers;
- disputes with the constructing shipyard or other suppliers;
- last minute changes to the customer’s specifications;

- failure or delay in obtaining acceptance of the rig by our customer;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society, certificate of inspection, or other regulatory approvals or permits and
- mobilization between the shipyard and the contract operating site, including any restrictions on the movement of personnel.

Failure to complete a newbuild, reactivation, upgrade, refurbishment or repair project on time may result in the delay, renegotiation or cancellation of an existing contract and could put at risk the planned arrangements to commence operations on schedule. Further, significant delays could have a negative impact on our reputation and customer relationships. We also could be exposed to contract termination or penalties for failure to complete the project and commence operations in a timely manner. In addition, our rigs undergoing upgrade, refurbishment or repair generally do not earn a dayrate during the period they are out of service. Significant cost overruns or delays, loss of reputation, penalties, and failure to minimize lost dayrates could all have a material adverse effect on our revenues, financial condition, results of operations and cash flows.

We may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Company and our future growth.

Part of our strategy to grow the business is dependent on our ability to successfully obtain and integrate additional rigs, including acquired newbuild and existing rigs and leasing rigs, to generate additional revenues. The consummation and timing of obtaining additional rigs will depend upon, among other things, the availability of attractive targets in the marketplace, our ability to negotiate acceptable agreements, our ability to obtain financing on acceptable terms and our ability to integrate any assets and operations into our fleet. We may not be able to consummate any future acquisition or lease, which may limit our future growth, and such agreements may not achieve the benefits we seek.

Further, obtaining and integrating additional rigs could expose us to a number of risks, for which we may be unable to obtain sufficient indemnification and warranties to mitigate, including:

- incorrect assumptions regarding the future results of such rigs or expected cost reductions or other synergies expected to be realized as a result of obtaining rigs;
- incorrect assumptions about the cost to operate such rigs, including repairs and maintenance costs;
- failing to integrate assets and operations successfully and timely;
- undetected defects, particularly when acquiring or leasing existing rigs for which condition and operating history may be difficult to determine;
- diversion of management’s attention from existing operations or other priorities and
- unforeseen consequences or other external events beyond our control.

Leasing rigs may expose us to additional risks. Outfitting leased rigs may require significant operation readiness projects to make the leased assets suitable for use, which is subject to the same risks as newbuild rigs and reactivation of stacked rigs, as discussed above. We may make significant investments in leased assets, which are owned by the lessor, and which would only benefit us during the term of the leases. As lease terms can be significantly shorter than the life of the leased rigs, any costs would have to be expensed over a shorter period and, as a result, could have a greater impact on our profitability. Additionally, we may be unable to renew such leases, exercise purchase options or negotiate the purchase of leased rigs on terms acceptable to us, or at all. Lease agreements may also require us to maintain the leased rigs, exposing us to risks of increased repairs and maintenance costs, or to expend certain costs to return the rig to the owner at the termination of the lease. These factors could materially adversely affect our financial position, results of operations and cash flows.

We may not be able to keep pace with technological developments and make adequate capital expenditures in response to newer and/or higher specification rigs or more fuel efficient/low-emission rigs being deployed within the industry and therefore our fleet may not satisfy the requirements of some customers.

The market for our services is characterized by technological developments which result in improvements in the functionality and performance of rigs and equipment. Customers may require higher specification rigs, other classes of rigs with different capabilities or the ability to operate in different environments, such as deep water. Customers may demand the services of newer rigs, and may in the future impose restrictions on the maximum age of contracted rigs. Additionally, in response to climate change, more fuel efficient or low-emission rigs may be introduced or may become standard in the industry or customers may institute stricter requirements such as specifications for rig design, emissions output or chemical usage. Customer demands for newer, higher specification rigs might also result in a bifurcation of the market, with newer rigs operating at higher overall utilization rates and dayrates.

Our future success and profitability will depend, in part, upon our ability to keep pace with these and other technological developments and customer requirements. As we have a number of older rigs, we may be required to increase capital expenditure to maintain and improve existing rigs and equipment, retire obsolete or outdated equipment earlier than previously anticipated and/or purchase and construct newer, higher specification drilling rigs to meet the increasingly sophisticated needs of customers. To the extent that we are unable to negotiate agreements for customer reimbursement for the cost of increasing the specification of our drilling rigs, we could be incurring higher capital expenditures than planned. If, in response to technological developments or changes in standards in the industry, we are not successful in acquiring new equipment or upgrading existing equipment in a timely and cost-effective manner, we could lose business and profits. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could materially adversely affect our revenues, financial condition, results of operations and cash flows.

Climate change, the regulation of greenhouse gases and increasing development of renewable energy alternatives could have a negative impact on our industry, business and/or reputation.

The scientific community has concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere are producing climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events. Such events could have a materially adverse effect on our operations, especially given that our rigs may need to curtail operations or suffer damage during significant weather events.

Current and future regulations relating to greenhouse gases and climate change also may result in increased compliance costs or additional operating restrictions on our business. The negative impacts of greenhouse gases and climate change have resulted in adverse publicity for the oil and natural gas industry and could cause damage to our reputation. In addition, because our business depends on the level of activity in the offshore oil and natural gas industry, existing or future regulations or other agreements related to greenhouse gases and climate change, including carbon taxes or greenhouse gas fees or incentives to conserve energy or use renewable energy alternatives, could decrease the demand for oil and natural gas or decrease exploration activity.

Any of the factors discussed above could materially adversely affect our business, reputation, financial condition, results of operations and cash flows.

Compared to companies with greater resources, we may be at a competitive disadvantage.

Certain of our competitors in the shallow water drilling industry may have more diverse fleets and greater financial and other resources and assets than we do. Similarly, some of these competitors may be significantly better capitalized than we are, which may make them more able to keep pace with technological developments and make more substantial improvements in the functions and performance of rigs and equipment than we can. In addition, such competitors may be a preferable alternative for customers concerned about counterparty credit risks, including a partner's ability to cover potentially significant liabilities. Further, competitors with more diversified fleets or who have successfully acquired or upgraded their existing rigs or equipment in a more timely and cost-effective manner than us, may be better positioned to withstand unfavorable market conditions. Additionally, we may be at a competitive disadvantage to those competitors that are better capitalized to withstand the effects of a commodity price down-cycle. As a result, our competitors may have competitive advantages that may adversely affect our ability to compete with them in our efforts to contract our rigs on favorable terms, if at all, and correspondingly have a material adverse impact on our revenues, financial condition, results of operations and cash flows.

There may be limits to our ability to mobilize drilling rigs between geographic areas, and the duration, risks and associated costs of such mobilizations may be material to our business.

The offshore drilling market is generally a global market as drilling rigs may be moved from one area to another. However, the ability to mobilize drilling rigs can be impacted by several factors including, but not limited to, governmental regulation and customs practices, the significant costs and risk of damage related to moving a drilling rig, availability of suitable tow vessels to move the rigs, weather conditions, political instability, civil unrest, military actions and the technical capability of the drilling rigs to relocate and operate in various environments. Additionally, while a jack-up rig is being mobilized from one geographic market to another, we may not be paid for the time that the jack-up rig is out of service or be reimbursed for costs attributable to such relocation. Further, despite the ability to move rigs, not all of our rigs are designed to work in all regions, in all water depths or over all types of seafloor conditions. We may speculatively relocate a rig to another geographic market without a customer contract, which could result in costs that are not reimbursable by future customers, which could have a material adverse effect on our revenues, financial condition, results of operations and cash flows.

The fair market value of our long-lived assets, including our drilling rigs and any rigs we acquire in the future, may decrease, which could result in impairments or cause us to incur a loss on the sale of such assets.

We evaluate our property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We consider the general economic and business environment, industry specific indicators, Company specific factors and conditions related to specific assets or asset groups to determine when we need to test our assets for impairment. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Our largest value assets are our rigs.

The fair market value of any rigs that we own may increase or decrease depending on a number of industry and market factors, including:

- general economic and market conditions affecting the offshore drilling industry, including the price of oil and natural gas and competition from other offshore drilling companies;
- prevailing level of contract dayrates and industry rig utilization rates;
- types, sizes and ages of drilling rigs available in the market, including specifications and condition;
- supply and demand for drilling rigs;
- costs of newly built rigs;
- liquidity of the market for drilling rigs;
- governmental or other regulations and
- technological advances.

Such factors could cause us to record an impairment loss on a rig, which could materially adversely affect our financial condition and results of operations. If we sell a drilling rig at a time when prices for drilling rigs have fallen, such a sale may result in a realized loss, and lower than expected proceeds, which could materially adversely affect our financial condition, results of operations and cash flows.

Our labor costs and the operating restrictions that apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.

Some of our employees in Egypt and Nigeria are represented by unions and may, from time to time, work under collective bargaining agreements. Employees in other countries have in the past and may in the future be represented by labor unions. In addition, some of our contracted labor works under collective bargaining agreements. As part of the legal obligations in some of these collective bargaining agreements, we are required to contribute certain amounts to retirement funds and are restricted in our ability to dismiss employees. In addition, where our employees are represented by unions, we may be required to negotiate wages with union representatives. Efforts may be made from time to time to unionize additional portions of our workforce. Negotiations with unions relating to collective bargaining agreements and other labor related matters could result in higher personnel costs, other increased costs or increased operating restrictions, or even labor stoppages, strikes or slowdowns.

We may be required to make significant capital and operating expenditures to comply with laws and the applicable regulations, and standards of labor laws and regulations and customer and government implementation of minimum local content requirements in the various jurisdictions in which we operate. Such laws and regulations may change without notice, and the cost of compliance could be higher than anticipated.

Labor costs changes due to unions and collective bargaining agreements and the costs of complying with labor laws and regulations could materially adversely affect our financial condition, results of operations and cash flows.

Our business involves numerous operating hazards; our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events and our insurance may become more expensive or may become unavailable in the future.

Our operations are subject to the usual hazards inherent in the drilling, completion and operation of oil and natural gas wells. These hazards include, but are not limited to blowouts, punch through, loss of control of the well, abnormal drilling conditions, mechanical or technological failures, seabed cratering, fires and pollution and failure of our employees to comply with internal HSE guidelines. Operations may be suspended because of machinery breakdowns, abnormal operating conditions, failure of subcontractors to perform and personnel shortages.

In addition, our operations are subject to perils peculiar to marine operations including capsizing, grounding, collision, sinking and loss or damage from severe weather, including monsoons. Severe weather could have a material adverse effect on our operations, damaging our rigs from high winds, turbulent seas, or unstable sea bottom conditions.

Damage to the environment could result from our operations, particularly through blowouts, oil spillage or extensive uncontrolled fires.

The occurrence of any of these events may result in the suspension of operations, loss of dayrate revenues, lower utilization rates, severe damage or destruction of property and equipment, injury or death to personnel, environmental damage, increased insurance costs, fines or penalties, personal injury and other claims by personnel, and claims or investigations by the operator, regulatory bodies and others affected by such events. We may also be subject to fines or penalties (for which indemnification may not be available) resulting from property, environmental, natural resource and other damage claims by governments, environmental organizations, oil and natural gas companies and other businesses operating offshore and in coastal areas, including claims by individuals living in or around coastal areas. Damage or destruction of our property and equipment could potentially cause us to curtail operations for significant periods of time while repairs are completed. Any of which could have a material adverse impact on our revenues, financial condition, results of operations and cash flows.

As is customary in the offshore drilling industry, we have undertaken to mitigate the risks of our operations through insurance and contractual indemnities from our customers. However, insurance policies have limits and exclusions and may not provide full coverage for, and, most of our customer contracts do not fully indemnify us from, all losses or liabilities resulting from our operations. Further, we may experience increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries, including for hurricane, monsoon, or cyclone-related damage or loss. Because insurers in general also struggle with eliminating risks of events that lead to correlated losses through insurance pooling, such as natural hazards, many insurers refrain from insuring these risks. The severity of correlated risks is also difficult to predict, leading to high-priced and unfavorable insurance premiums and/or deductibles with those insurers who do offer coverage for such losses. Insurance costs may increase in the event of ongoing patterns of adverse changes in weather or climate. Moreover, we may not be able to maintain adequate insurance or obtain insurance coverage for certain risks in the future at rates we consider reasonable or at all, our customers may not be willing or able to indemnify us against all these risks or we may not be able to enforce contractual indemnities due to legal or judicial factors. Although we believe that our insurance covers many risks common to our industry, we do not have insurance coverage or indemnification for all risks and we may not be adequately covered for certain losses. If a significant accident or other event occurs, including but not limited to severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage, that results in a loss which is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our business, financial condition, results of operations and cash flows.

Our international operations in the shallow water drilling sector involve additional risks, which could adversely affect our business.

We operate in various regions throughout the world and as a result we may be exposed to political and other uncertainties, including risks of:

- terrorist acts, armed hostilities, geopolitical events, military actions, war and civil disturbances, including in the Middle East;
- acts of piracy affecting ocean-going rigs, particularly in areas that have historically been impacted by piracy, such as West

Africa and Southeast Asia;

- significant governmental influence over many aspects of local economies;
- repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest or revolutions;
- monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls and imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond our control;
- corruption;
- natural disasters;
- public health threats, including pandemic events and
- claims by employees, third parties or customers.

In addition, international drilling operations are subject to various laws and regulations of the countries in which we operate, including laws and regulations relating to:

- the equipping and operation of rigs;
- repatriation of foreign earnings;
- oil and natural gas exploration and development;
- taxation of offshore earnings and the earnings of expatriate personnel and
- use and compensation of local employees and suppliers by foreign contractors.

Some governments favor or effectively require (i) the awarding of drilling contracts to local contractors or to rig owners that are majority-owned by their own citizens, (ii) the use of a local agent or (iii) foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Furthermore, our business operations require authorizations from various national and local government agencies. Obtaining these authorizations can be a complex, time-consuming process, and we cannot guarantee that we will be able to obtain or renew the authorizations required to operate our business in a timely manner or at all. This could result in the suspension or termination of operations or the imposition of material fines, penalties or other liabilities.

These factors may adversely affect our ability to compete in those regions. We are unable to predict future governmental regulations which could adversely affect the international drilling industry. The actions of governments may adversely affect our ability to compete effectively. As such, we may be unable to effectively comply with applicable laws and regulations, including those relating to sanctions and import/export restrictions, which may result in a material adverse effect on our business, financial condition, results of operations and cash flows.

Any failure to comply with the complex laws and regulations governing international trade, including import, export, anti-corruption, economic sanctions and embargoes could adversely affect our operations.

The shipment of equipment and materials required for shallow water drilling operations across international borders subjects us to extensive import and export laws and regulations governing our assets, equipment and materials, including those enacted by the U.S. and/or countries in which we operate. Moreover, many countries control the export/import and re-export of certain goods, services and technology and may impose related export/import recordkeeping and reporting obligations. Governments also may impose economic sanctions and/or embargoes against certain countries, persons and other entities that may restrict or prohibit transactions involving such countries, persons and entities.

These various jurisdictional laws and regulations regarding export/import controls and economic sanctions are complex, constantly changing, may be unclear in some cases and may be subject to changing interpretations. They may be enacted, amended, enforced or interpreted in a manner that could materially impact our operations. Materials shipments and rig import/export may be delayed and denied for a variety of reasons, some of which are outside our control, and include our failure to comply with existing legal and regulatory regimes. Delays or denials could cause unscheduled operational downtime or termination of customer contracts. Any failure to comply with applicable legal and regulatory international trade obligations could also result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, seizure of shipments and loss of import/export privileges, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We operate drilling rigs in a number of countries, including in some developing economies, which can involve inherent risks associated with fraud, bribery and corruption and where strict compliance with anti-corruption laws may conflict with local customs and practices. As a result, we may be subject to risks under the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010 and similar laws in other jurisdictions that generally prohibit companies and their intermediaries from making, offering or authorizing improper payments to government officials for the purpose of obtaining or retaining business. We are required to do business in accordance with applicable anti-corruption laws as well as sanctions and embargo laws and regulations (including U.S. Department of the Treasury-Office of Foreign Assets Control requirements) and we have adopted policies and procedures, including a code of business conduct and ethics, which are designed to promote legal and regulatory compliance with such laws and regulations. However, either due to our acts or omissions or due to the acts or omissions of others, including our employees, agents, joint venture partners, local sponsors or others, we may be determined to be in violation of such applicable laws and regulations or such policies and procedures. Any such violation could result in substantial fines, sanctions, deferred settlement agreements, civil and/or criminal penalties and curtailment of operations in certain jurisdictions and the seizure of our rigs and other assets and might, as a result, materially adversely affect our business, financial condition, results of operations and cash flows.

Our customers in relevant jurisdictions could seek to impose penalties or take other actions adverse to our interests. In addition, actual or alleged violations could damage our reputation and ability to do business and could cause investors to view us negatively and adversely affect the market for our common shares. Furthermore, detecting, investigating and resolving actual or alleged violations are expensive and can consume significant time and attention of senior management regardless of the merit of any allegation. We may also be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S. and other laws and regulations and our own policies prohibit us from using.

We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous stringent HSE laws and regulations in the form of international conventions and treaties, national, state and local laws and regulations in force in the jurisdictions in which our drilling rigs operate or are registered, which can, directly or indirectly, significantly affect the ownership and operation of the rigs. These requirements include, but are not limited to, MARPOL, CLC, BUNKER and various international, national and local laws and regulations that impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products, asbestos, polychlorinated biphenyls and other hazardous substances that may be present at, or released or emitted from, our operations. Furthermore, the IMO, at the international level, or national or regional legislatures in the jurisdictions in which we operate, including the European Union (“EU”), may pass or promulgate new environmental laws or regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful life of our rigs. We are required to obtain HSE permits from governmental authorities for our operations, and we may have difficulty in obtaining or maintaining such permits.

We may also incur additional costs in order to comply with other existing and future laws or regulatory obligations, including, but not limited to, costs relating to air emissions, including greenhouse gases, management of ballast waters, rig maintenance and inspection, management of solid and hazardous materials and waste, and development and implementation of emergency procedures for, and liability and compensation schemes related to, accidents, pollution and other catastrophic events.

Laws and regulations protecting the environment have generally become more stringent over time. In the event we were to incur additional costs to comply with existing or future laws or regulatory obligations, these costs could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, existing or future laws could increase costs for our customers, our vendors or our service providers, which could result in lower demand for our services, lower dayrates, or increasing costs.

A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of operations. Environmental laws often impose strict liability, which could subject us to liability without regard to negligence or fault. For example, in certain jurisdictions, owners, operators and bareboat-charterers may be jointly and severally strictly liable for the discharge of oil in territorial waters, including the 200 nautical mile exclusive economic zone. In addition, laws and regulations may impose liability on generators of hazardous substances, and as a result we could face liability for cleanup costs at third-party disposal locations. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents and the insurance may not be sufficient to cover all such risks. Environmental claims against us could result in a material adverse effect on our business, financial condition, results of operations and cash flows.

Although some of our rigs are separately owned by subsidiaries, under certain circumstances a parent company and all of the rig-owning affiliates in a company under common control could be held liable for damages or debts owed by one of the affiliates, including liabilities for oil spills under environmental laws. Therefore, it is possible that we could be subject to liability upon a judgment against us or any one of our subsidiaries.

Our operations could cause the accidental release of oil or hazardous substances. Any releases may be large in quantity, above the permitted limits or occur in protected or sensitive areas where public interest groups or governmental authorities have special interests. Any releases of oil or hazardous substances could result in substantial fines and other costs and liabilities, such as costs to upgrade rigs, clean up the releases and comply with more stringent requirements in our discharge permits, claims for natural resource, personal injury or other damages, and material adverse publicity. Although our contracts generally provide for indemnification from our customers for some of these costs, the inability or other failure of our customers to fulfill any indemnification obligations they have, or the unenforceability of our contractual protections could have a material adverse effect on our financial condition, results of operation and cash flows. Moreover, these releases may result in customers or governmental authorities suspending or terminating our operations in the affected area.

If a major incident were to occur in our industry, such as a catastrophic oil spill or other accident subject to international media attention, this could lead to an industry-wide regulatory response which may result in increased operating costs. Any changes to existing laws in the jurisdictions in which we operate prompted by such a future event could increase our operating costs and future risk of liability. In addition, we may be required to post additional surety bonds to secure performance, tax, customs and other obligations relating to our rigs in jurisdictions where bonding requirements are already in effect and in other jurisdictions where we may operate in the future. These requirements would increase the cost of operating in these countries.

Any of the above could materially adversely affect our business, reputation, financial condition, results of operations and cash flows.

If we or our customers are unable to acquire or renew permits and approvals required for drilling operations, we may be forced to suspend or cease our operations, which may adversely affect our profitability.

Oil and natural gas exploration and production operations require numerous permits and approvals for us and our customers from governmental agencies in the areas in which we operate. In addition, many governmental agencies have increased regulatory oversight and permit requirements in recent years. Obtaining and maintaining compliance with all necessary permits and approvals may require substantial expenditures and time. If we or our customers are not able to obtain necessary permits and approvals in a timely manner, our operations will be adversely affected. In addition, future changes to, or an adverse change in the interpretation of, existing permit and approval requirements may delay or curtail our operations, require us to make substantial expenditures to meet compliance requirements, or create a risk of expensive delays or loss of value if a project is unable to function as planned, any of which could have a material adverse impact on our revenues, financial condition, results of operations and cash flows.

Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

As of December 31, 2023, we had a total principal amount of indebtedness of $243.8 million of 10.25% senior secured notes, due October 2025 (“10.25% Senior Secured Notes), $1,095.0 million of 9.625% senior secured notes, due April 2029 (“9.625% Senior Secured Notes), and $33.3 million of term loan, due June 2024 (“Term Loan”). The level of our indebtedness and the terms of the agreements governing our existing indebtedness contain covenants that may restrict our ability to take various actions, such as to:

- incur or guarantee additional indebtedness or issue certain preferred shares;
- pay dividends or make other distributions on, or redeem or repurchase, any equity interests;

- make other restricted payments;
- make certain acquisitions or investments;
- create or incur liens;
- transfer or sell assets;
- incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;
- enter into certain transactions with affiliates and
- consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of our assets or certain subsidiaries' assets.

Our ability to comply with these covenants may be affected by many factors, both within and beyond our control, including but not limited to our future performance, falling oil and natural gas prices, prolonged periods of low dayrates, the possible termination or loss of contracts and reduced values of our rigs. We may not satisfy these or other covenants in our existing indebtedness. Our failure to comply with the obligations under the agreements governing our existing indebtedness could result in an event of default under such agreements, which could result in the acceleration of our indebtedness, in whole or in part. In addition, our existing debt agreements contain cross-default provisions whereby acceleration or payment default by us under one of our debt agreements, could allow creditors to declare us in default of our other existing debt or financing agreements. This could lead to an acceleration and enforcement of such agreements by all or substantially all of our creditors.

These debt covenants and restrictions could also limit our ability to plan for, or react to, market conditions, meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest.

We are dependent upon cash flows from our operating subsidiaries to meet our obligations, including repayment of our debt. Our corporate structure and operations in multiple jurisdictions may impose limitations on the transfer of funds. If we become unable to pay our interest or debts as they become due or to obtain further credit, we may become subject to insolvency proceedings.

We conduct operations through, and most of our assets are owned by, our operating subsidiaries. Our operating income and cash flows are generated by these subsidiaries, and as a result, the cash generated from our subsidiaries is the principal source of funds necessary to meet our obligations, including our debt obligations. Contract provisions or laws, as well as our subsidiaries' financial condition, operating requirements and debt requirements may limit our ability to access cash from subsidiaries needed to pay expenses or to meet our current or future debt service obligations. Applicable tax laws may also subject such payments by subsidiaries to further taxation.

The inability to transfer cash from our subsidiaries may mean that, even though we may have sufficient resources on a consolidated basis to meet our obligations, we may not be permitted to make the necessary transfers from certain legal entities and jurisdictions to meet our debt and other obligations. The terms of certain of the agreements governing our existing indebtedness also place restrictions on our cash balances and require us to maintain reserves of cash which could inhibit our ability to meet our obligations.

Although our current indebtedness limits our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and do not apply uniformly to our subsidiaries, and under certain circumstances, debt incurred in compliance with these restrictions could be substantial. To the extent that we incur additional indebtedness, the risks described above associated with our substantial leverage, including the possible inability to service our debt, would increase.

If our operating subsidiaries experience sufficiently adverse changes in their financial position or results of operations, or we otherwise become unable to pay our interest or debt principal payments as they become due, this could result in a reduction of our long-term corporate credit ratings. These downgrades in our corporate credit ratings could raise the cost of issuing new debt. As a consequence, we may not be able to issue additional debt in reasonable amounts and terms, or at all. Default on our existing debt agreements and failure to obtain further credit could result in the commencement of insolvency proceedings. Any such proceedings would have a material adverse impact on our financial condition, results of operations and cash flows. Additionally, this could limit our ability to pursue business opportunities and could have a significant negative impact on the market prices of our common shares.

To service and refinance our indebtedness, fund our capital and liquidity needs or pay any dividends, we may not generate sufficient cash or have access to sufficient funding.

To service and refinance our indebtedness, fund our capital and liquidity needs or pay dividends (if any), we will require a significant amount of cash. Our ability to raise capital is, to a certain extent, subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our business may not generate sufficient cash flows from operations, and future borrowings or alternative financing may not be available to us on favorable terms, or at all, in an amount sufficient to enable us to service and refinance, at or before maturity, our indebtedness, fund our capital and liquidity needs or pay dividends (if any), which would have a material adverse effect on us.

We rely on proper functioning of our computer and data processing systems that must be regularly updated or replaced, and a large-scale malfunction could result in material adverse disruptions to our business.

We rely primarily on globally and locally functioning information technology systems across our value chain, including for management financial information and various other processes and transactions. Our ability to effectively manage our business depends on the security, reliability and capacity of these systems. An attack on, or other problems with, our systems could result in the disclosure of proprietary information about our business or confidential information concerning our customers, vendors or employees, which could result in significant damage to our business and reputation.

We have put in place security measures designed to protect against the misappropriation or corruption of our systems, intentional or unintentional disclosure of confidential information, or disruption of our operations. However, these security measures may prove ineffective. Current employees have, and former employees may have, access to a significant amount of information regarding our operations, which could be disclosed to our competitors or otherwise used to harm our business. Any breach of our security measures could result in unauthorized access to and misappropriation of our information, corruption of data or disruption of operations or transactions, any of which could materially adversely affect our reputation, business, financial condition, results of operations and cash flows.

We have and will continue to expend resources, and dedicate personnel, to upgrade and maintain our information technology systems to protect against threatened or actual security breaches. In addition, we could be required to expend significant amounts to respond to unanticipated information technology issues. Failure to appropriately implement measures that could protect against all significant risks could materially adversely affect our business, financial condition, results of operations and cash flows.

Developing and expanding data security and privacy requirements could increase our operating costs, and any failure by us or our vendors to maintain the security of certain customer, employee and business-related information could result in damage to our reputation, be costly to remediate and result in regulatory action.

We are required to manage and process information related to our employees, customers and vendors in the ordinary course of business, and our operations depend upon secure retention and the secure transmission of information over public networks. This information is subject to the continually evolving risk of intrusion, tampering, and theft. Although we maintain systems to prevent or defend against these risks, these systems require ongoing monitoring and updating as technologies change, and security could be compromised, personal or confidential information could be misappropriated, or system disruptions could occur. A compromise of our security systems could adversely affect our reputation and disrupt our operations and could also result in litigation or the imposition of penalties.

We have a dedicated cyber-security team and program that focuses on current and emerging data security and data privacy matters. We continue to assess and invest in the growing needs of our cyber-security team through the allocation of skilled personnel, ongoing training and support of the adoption and implementation of technologies coupled with cyber-security risk management frameworks.

We may, from time to time, provide certain confidential, proprietary and personal information to third parties. While we seek to obtain assurances and safeguards from these third parties to protect this information, there is a risk that the security of data held by third parties could be breached, resulting in liability for us.

Heightened legislative and regulatory focus on data privacy and security in the EU, U.S. and elsewhere presents a growing and fast-evolving set of legal requirements. The increasing legal and regulatory burden presents material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. In particular, where the EU General Data Protection Regulation ("GDPR") applies, the penalties for breaches are significant. In addition, legislation similar to GDPR is being considered or adopted in other jurisdictions relevant to our operations. In cases of personal information security breaches, the costs of investigation, dealing with regulators and taking steps to mitigate or remediate its effects may also be high. The majority of the personal information we process is that of our employees.

Any significant breach in our data security or a failure to protect private information could have a material adverse impact on our reputation, financial condition, results of operations and cash flows.

We depend heavily upon the security and reliability of our technology systems and those of our service and equipment vendors, and such systems are subject to cyber-security risks and threats.

We depend heavily on technologies, systems and networks that we manage, and others that are managed by our third-party service and equipment vendors, to conduct our business and operations. Cyber-security risks and threats to such systems continue to grow in sophisticated ways may be difficult to anticipate, detect, prevent or mitigate. If any of the security systems used by us or our vendors for protecting against cyber-security threats prove to be insufficient, our business and financial systems could be compromised, confidential or proprietary information in our possession could be altered, lost or stolen, or our (or our customers') business operations or safety procedures could be disrupted, degraded or damaged. A cyber-security breach or failure could also result in injury (financial or otherwise) to people, loss of control of, or damage to, our (or our customers') assets, harm to the environment, reputational damage, breaches of laws or regulations, litigation and other legal liabilities. In addition, we may incur significant costs to prevent, respond to or mitigate cyber-security risks or events and to defend against any investigations, litigation or other proceedings that may follow such events. Such a failure or breach of our systems could materially adversely impact our reputation, business, financial position, results of operations and cash flows.

Technology disputes could negatively impact our operations or increase our costs.

Rigs use proprietary technology and equipment which can involve potential infringement of a third party's rights, including patent rights. In the event that we or one of our suppliers or sub-suppliers become involved in a dispute over infringement rights relating to equipment owned or used by us, we may lose access to repair services or replacement parts, or we could be required to cease use of some equipment or forced to modify our rigs. We could also be required to pay license fees or royalties for the use of equipment. Technology disputes involving us or our suppliers or sub-suppliers could adversely impact our financial condition, results of operations and cash flows.

Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.

We may experience realized currency exchange losses when cash is received or expenses are paid in currencies other than our U.S. dollar functional currency, when we do not hedge our exposure to such foreign currency or when the result of a hedge is a loss. We may also incur losses as a result of an inability to collect revenues due to a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

If any part of our business is moved outside of its current operative jurisdiction our overall tax exposure may change, which may affect our alleged compliance with applicable tax laws.

We and most of our subsidiaries are incorporated in the Cayman Islands. We also have subsidiaries in various other jurisdictions. Our consolidated effective tax rate is dependent on where profits are earned and taxed or losses are generated, as different countries have different tax systems and statutory tax rates. Different jurisdictions also have different tax laws and interpretations thereof. If we move some of our operations into a new jurisdiction or acquire companies in jurisdictions in which we do not already operate, our overall effective tax rate may be affected. Further, we may also become exposed to changes in tax policies and amendments to tax legislation, prospectively and/or retroactively, in such jurisdictions.

There can be no assurance that the relevant tax authorities in the jurisdictions in which we operate will agree with our tax calculations and judgements. If a relevant tax authority disputes our assumptions, judgements or calculations, we may incur additional tax expense, including any related interest and penalties. Any changes in our tax exposure may affect our alleged compliance with applicable tax law, and any non-compliance could have a material adverse impact on our financial condition, results of operations and cash flows.

Risks Related to our Structure and Ownership of our Common Stock

We are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to our U.S. shareholders.

For U.S. federal income tax purposes, a foreign corporation will be treated as a Passive Foreign Investment Company ("PFIC"), if either (i) at least 75.0% of its gross income for any taxable year (including its proportionate share of the gross income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation's stock) consists of certain types of "passive" income or (ii) at least 50.0% of the average value of the corporation's assets (including its proportionate share of the assets of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation's stock) either produce or are held for the production of those types of "passive" income. Passive income for these purposes includes certain rents and royalties, dividends, interest, net gains from the sale or exchange of investment property, and net gains from commodities and securities transactions. Passive income does not include income derived from the performance of services.

We believe that we will not be treated as a PFIC for any relevant period as any income we receive from offshore drilling service contracts should be treated as "services income" rather than as passive income under the PFIC rules. In addition, the assets we own and utilize to generate this "services income" should not be considered passive assets.

Although there is significant legal authority supporting our position, including relevant statutory provisions, legislative history, case law and various pronouncements from the U.S. Internal Revenue Service ("IRS"), there is a possibility that the IRS may still characterize this income as "passive" income in light of a prior case characterizing income from the time chartering of vessels as rental income rather than services income for other tax purposes. However, the IRS has subsequently formally announced that it does not agree with the decision in that case. Despite this IRS announcement, no assurance can be given that the IRS or a relevant court will accept our position that we are not a PFIC.

If we were to be treated as a PFIC for any relevant period, our U.S. shareholders may face adverse U.S. tax consequences. Under the PFIC rules, a U.S. shareholder would be liable to pay U.S. federal income tax at the highest applicable rates on ordinary income upon the receipt of certain "excess" distributions and upon any gain from the disposition of our shares, plus certain interest and penalties. Although shareholders can make certain elections to mitigate the application of the PFIC rules, these elections can themselves cause other adverse tax consequences to the electing shareholder.

Subsequent to our initial public offering in 2018, we are subject to both Cayman Islands regulatory requirements and the requirements applicable for Companies listed on the OSE, and any subsequent changes to these requirements, and, as such, we may be subject to review by the relevant authorities.

From the time of our June 25, 2018 initial public offering, we are subject to both the Cayman Islands regulatory requirements and the requirements applicable for companies listed on the OSE. These requirements affect our financial statements, corporate governance, communications with shareholders, transactions involving our common stock, such as dividends and stock repurchases, and other items as per the relevant laws and regulations. Any of these documents or actions may be subject to review by the relevant authorities. Compliance with these requirements and any subsequent changes in the requirements or the interpretation of requirements by relevant authorities could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the U.S., and our shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights under the laws of other jurisdictions.

Our corporate affairs are governed by our Articles of Association ("Articles") and by the laws governing companies incorporated in the Cayman Islands. The rights of our shareholders and the responsibilities of members of the Board of Directors under Cayman Islands law may not be as clearly established as under the laws of other jurisdictions. In addition, the rights of shareholders as they relate to, for example, the exercise of shareholder rights, are governed by Cayman Islands law and our Articles and differ from the rights of shareholders under other jurisdictions, including Norway and the U.S. The holders of our common shares may have more difficulty in protecting their interests in the face of actions by the Board of Directors than if we were incorporated in the U.S. or Norway. Additionally, it could be difficult for a common shareholder to prevail in a claim against us under, or to enforce liabilities predicated upon, securities laws in jurisdictions other than the Cayman Islands.

Certain of our shareholders own a significant proportion of our common shares, and their interests may conflict with those of ours or other shareholders.

Our largest shareholders are affiliates of Castle Harlan, Inc. (“Castle Harlan”) and China Merchants Industry Holdings Company Limited (“China Merchants”). These shareholders beneficially own, collectively, a significant proportion of our common shares. The Company’s Articles contain certain preferential governance rights for Castle Harlan, including the right to appoint and remove directors, subject to certain ownership thresholds being met. Additionally, as of December 31, 2023, China Merchants was our largest shareholder and has representation on the Board of Directors. Accordingly, Castle Harlan and China Merchants can exercise significant influence over our affairs.

If circumstances arise where the interests of Castle Harlan or China Merchants conflict with the interests of other shareholders, the other shareholders could be disadvantaged by the ability of these large shareholders to influence actions contrary to the other shareholders' interests. Specifically, the level of voting influence of Castle Harlan and China Merchants may impact other shareholders' ability as minority shareholders to have an influence on the result of special resolutions which shall be required for certain types of transactions, such as the increase or reduction of our share capital, certain share transactions or the approval for a merger, or that involve an actual or potential change of control of us, including transactions in which shareholders might receive a premium for their shares over prevailing market prices.

In the recent past, we have not paid any dividends on our common shares, our ability to pay dividends is subject to certain restrictions and the availability and timing of future dividends, if any, is uncertain, which could influence the price of our common shares.

In recent years, we have not issued dividends to our common shareholders, and we did not distribute any dividends for the financial year ended December 31, 2023. Agreements governing our existing indebtedness place certain restrictions on our ability and the ability of our restricted subsidiaries to pay dividends. Consequently, the only opportunity for an investor in our common stock to achieve a return on their investment may be to sell the common shares at a price greater than the price paid. In addition, any amendments to our existing debt agreements or any new debt arrangements may also prohibit or further restrict our ability to pay dividends on our common shares.

Subject to such prohibitions and restrictions, the Board of Directors will determine the amount and timing of dividends on our common shares, if any, that we may pay in future periods. In making this determination, the Board of Directors will consider all relevant factors, including the amount of cash available for dividends, capital expenditures, covenants, prohibitions or limitations with respect to dividends, applicable law, general operational requirements and other variables. We cannot predict the amount or timing of any future dividends, and if we do commence the payment of dividends, we may be unable to pay, maintain or increase dividends over time. Therefore, investors may not be able to realize any return on their investment in our common shares for an extended period of time, if at all.

The annual dividend yield of our common stock as compared to yields on other financial instruments, which may fluctuate with market interest rates, could influence the market price of our common shares. As such, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of our common shares.

Future issuances of our common shares or other securities could dilute the holdings of holders of our common shares and could materially affect the price of our common shares, and preemptive rights are not available to holders of our common shares.

We may in the future decide to offer additional common shares or other securities in order, among other needs, to finance new capital-intensive projects, in connection with unanticipated liabilities, as currency in merger and acquisition transactions, for employee share-based awards, for regulatory requirements, to fund our expenses or for any other corporate purposes.

There can be no assurance that we will not decide to conduct further offerings of securities in the future. Under Cayman Islands law and our Articles, holders of our common shares do not have preemptive rights that maintain their relative ownership percentages prior to the issuance of any new common shares. Without preemptive rights and depending on the structure of any future offering, certain common shareholders may not have the ability to purchase additional equity securities. Future issuances of common shares or other securities may result in substantial dilution in the ownership percentage of, and may have the effect of diluting the value of, holdings and voting interests of common shareholders. Additionally, such transactions could have an adverse effect on market value of our common shares.

The transfer of our common shares and their underlying assets is subject to restrictions under the securities laws of the U.S. and other jurisdictions.

Our common shares or underlying assets have not been registered under the Securities Exchange Act of 1934 in the U.S. or any U.S. state securities laws or any other jurisdiction outside of Norway and the Cayman Islands, and may not be registered in the future. As such, our common shares or underlying assets may not be offered or sold in the U.S. except pursuant to an exemption from the registration requirements of the Securities Exchange Act of 1934 in the U.S. and other applicable securities laws. In addition, common shareholders residing or domiciled in the U.S. and/or other jurisdictions may not be able to participate in future capital increases.

Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway.

We are an exempted company, limited by shares and incorporated under the laws of the Cayman Islands. The members of the Board of Directors and management reside in the U.S., Saudi Arabia, Australia, China, the U.K. and the UAE. As a result, it may be impossible for investors to effect service of process or to enforce judgments obtained in non-Cayman Islands or non-Norwegian courts against us, our Board of Directors or our management.

General Risk Factors

We are exposed to the credit risks of our key customers and certain other third parties.

We are subject to risks of loss resulting from non-payment or non-performance by third parties. Although we monitor and manage credit risks, some of our customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. During more challenging market environments, we are subject to an increased risk of customers seeking to repudiate contracts. Our customers' ability to meet their contractual obligations may also be adversely affected by restricted credit markets and economic downturns. As of December 31, 2023, our allowance for credit losses was $8.5 million. If one or several key customers or other parties were to default on their obligations to us, our business, financial condition, results of operations and cash flows could be materially adversely impacted.

We are dependent on our senior management team, other key employees and the Directors of our Board, and the business could be negatively impacted if we are unable to attract and retain personnel necessary for our success.

Our performance is, to a large extent, dependent on highly qualified personnel, including management, other key employees and Directors of our Board ("Key Personnel"), and our continued ability to compete effectively, implement our strategy and further develop our business depends on our ability to attract new and qualified Key Personnel and to retain and motivate existing Key Personnel. Attracting qualified personnel has proved increasingly important as our industry has developed and become more advanced. An important factor contributing to our leading position and global footprint has been our ability to retain qualified employees throughout our organizational structure.

Further, the competition for Key Personnel is intense from competitors within the oil and natural gas industry, as well as from businesses outside this industry. We may not be able to retain our Key Personnel nor attract and retain replacements for Key Personnel in the future, or the cost to attract and retain Key Personnel may increase. Our competitors may actively seek to recruit management personnel or other key employees and may succeed in such efforts. Financial difficulties and other factors might have further negative impacts on our ability to retain Key Personnel or recruit new talent.

Any loss of the services of management, other key employees, or Directors of our Board, particularly to competitors, the inability to attract and retain highly skilled key personnel and the increased costs to replace such Key Personnel could have a material adverse impact on our business, financial condition, results of operations and cash flows.

We are dependent on the availability and retention of skilled personnel, which may be adversely affected by increases in labor costs.

We require highly skilled personnel to operate and provide technical services and support for our operations. Many of our customers require specific minimum levels of experience and technical qualification for certain positions on rigs which they contract. We are also subject to nationalization programs in various countries, whereby we must hire a certain percentage of local personnel within a specified time period. Hiring and retaining qualified employees can be especially difficult during periods of high utilization and demand for drilling services, when there is increasing competition for personnel. Such difficulties and increased costs to recruit and retain qualified employees could have a material adverse effect on our results of operations and cash flows.

We may be subject to litigation and disputes that could have a material adverse impact on our business, financial condition, results of operations and cash flows.

From time to time, we are involved in litigation and disputes. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment disputes, tax matters and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any dispute, claim or other litigation matter. We may not have insurance for litigation or claims that may arise, or our insurance coverage may not be sufficient, insurers may not remain solvent, other claims may exhaust some or all of the insurance available to us or insurers may interpret our insurance policies such that they do not cover certain claim losses. Litigation may result in adverse outcomes, substantial defense costs, the diversion of management's resources and other impacts inherent in litigation or relating to the claims that may arise, any of which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Any relevant change in tax laws, regulations, or treaties, and relevant interpretations thereof, for any country in which we operate, earn income, generate losses or are considered to be a tax resident, and/or the loss of any major tax dispute, or a successful challenge to our intercompany pricing policies or operating structures could have an adverse impact on our financial condition, results of operations and cash flows.

Our business is incorporated in the Cayman Islands and operates through our many subsidiaries in various countries throughout the world. Our income tax exposure is based upon the relevant tax laws, regulations and treaties that apply to the various countries in which we operate or earn income or are deemed to be a tax resident.

Our income tax returns are subject to examination and review and our effective tax rate may be impacted if:

- there are any significant changes to applicable tax laws, regulations or tax treaties, and the interpretation thereof in the various countries in which we operate, earn income, generate losses or are deemed to be a tax resident;
- any tax authority successfully challenges our intercompany pricing policies or operating structures;
- any tax authority interprets a treaty in a manner that is adverse to our structure or previous tax positions;
- any tax authority successfully challenges the taxable presence of any of our key subsidiaries in a relevant jurisdiction; or
- we lose a key tax dispute in a jurisdiction.

Transactions taking place between our companies and related companies must be carried out in accordance with arm's length principles in order to avoid adverse tax consequences. There can be no assurance that the tax authorities will conclude that our transfer pricing policies are calculated using appropriate arm's length prices for intercompany transactions. Any changes in intercompany pricing could change our taxable income or losses in various jurisdictions, which could change our effective tax rate and tax expense.

Any of the above factors could cause a significant change to our local statutory tax rates and/or our effective tax rate on worldwide earnings. In addition, if a local statutory tax rate changes, we may need to revalue our deferred tax assets and liabilities or recalculate our valuation allowances, liabilities for uncertain tax positions or other tax allowances and reserves relevant to that jurisdiction. Additionally, if we do not generate sufficient income in jurisdictions with tax loss carryforwards or other changes are made regarding their value or utilization, we may be required to reduce the value of these tax assets. Any of these changes could have a material adverse impact on our financial position, results of operations and cash flows.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Overview

Our properties consist primarily of our mobile fleet of jack-up rigs and related equipment that is located and operates across five core operating regions; MENAM, India, West Africa, Southeast Asia and North Sea. We also own or lease office space for our corporate headquarters in Dubai, UAE and shore-based facilities in UAE, Saudi Arabia, Bahrain, Egypt, Italy, Hungary, Indonesia, Malaysia, Vietnam, Singapore, Thailand, Mauritius, India, Nigeria, Angola, Qatar, Denmark, Norway and United Kingdom to support rig operations.

Fleet

Our fleet consists of 36 ILC jack-up rigs as of December 31, 2023. The ILC design allows each leg to be independently raised or lowered and permits the drilling platform to be extended out from the hull to perform operations over certain types of pre-existing platforms or structures. We believe these design features provide greater operational flexibility, safety and efficiency than alternative designs. Many of our jack-up rigs further feature proven, reliable technology and processes, utilizing mechanical features with generally lower operating costs compared to newer, higher-specification rigs. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers' typical shallow water operations.

We have taken steps in recent years to enhance our fleet, including our construction of newbuild rigs and acquisition of premium jack-up rigs. From 2016 through 2022, we added 15 premium jack-up rigs to our fleet at prices significantly less than the historic cost of construction for comparable newbuild rigs, including:

- In 2016, the newbuild rig Shelf Drilling Chaophraya was delivered;
- In 2017, the newbuild rig Shelf Drilling Krathong was delivered and the Shelf Drilling Mentor, Shelf Drilling Tenacious, and Shelf Drilling Resourceful were acquired;
- In 2018, the Shelf Drilling Scepter was acquired;
- In 2019, the Shelf Drilling Achiever and Shelf Drilling Journey were acquired. Shelf Drilling Journey was subsequently and opportunistically sold in February 2021;
- In 2020, the Shelf Drilling Enterprise was acquired; and
- In 2022, the Shelf Drilling Victory, Shelf Drilling Barsk, Shelf Drilling Fortress, Shelf Drilling Odyssey, Shelf Drilling Perseverance and Shelf Drilling Winner were acquired.

Maintenance and Certifications

Our organizational objective is to maintain our assets to provide optimal operating performance while minimizing out of service time and total capital expenditures. Each of our rigs is subject to the maintenance and inspection regime governed by the IMOs Code for the Construction and Equipment of Mobile Offshore Drilling Units. Our rigs are subject to periodic testing with a major inspection every five years under the International Association of Classification Societies Special Periodic Survey ("SPS") requirements. This inspection typically takes six to twelve weeks and is often scheduled between customer contracts to minimize downtime. Our fleet is also subject to Underwater Inspections in Lieu of DryDocking ("UWILD"), intermediate surveys and annual inspections between each SPS. The marine equipment of our fleet is certified according to international safety standards under the International Safety Management Code and is certified by the American Bureau of Shipping classification society, enabling universal recognition of our equipment as being qualified for international operations, however our equipment maintenance standards are governed by the guidelines, recommendations and standards provided by the American Petroleum Institute.

The following table sets forth certain information concerning our rig fleet as of December 31, 2023:

Rig Name	Design	Year Built / Last Upgrade	Maximum Water Depth (feet)	Maximum Drilling Depth (feet)	Location
		NORTH SEA			
Shelf Drilling Winner	Friede & Goldman JU-3000N	2014	400	35,000	Denmark
Shelf Drilling Barsk	GustoMSC CJ70-X150-ST	2016	492	32,810	Norway
Shelf Drilling Fortress	Friede & Goldman JU-3000N	2014	400	35,000	United Kingdom
Shelf Drilling Perseverance (1)	Friede & Goldman JU-2000E	2008	400	30,000	United Kingdom
		MENAM			
Rig 141	MLT 82-SD-C	1982	250	20,000	Egypt
Trident 16	Modec 300-C38	1982 / 2012	300	25,000	Egypt
Key Manhattan	MLT 116-C	1980 / 2010	350	25,000	Italy
Shelf Drilling Resourceful	LeTourneau Super 116 C	2008 / 2017	350	30,000	Italy
Shelf Drilling Odyssey	Friede & Goldman JU-3000N	2014	400	35,000	Qatar
Harvey H. Ward	F&G L-780 Mod II	1981 / 2023	300	25,000	Saudi Arabia
High Island II	MLT 82-SD-C	1979 / 2011	270	20,000	Saudi Arabia
High Island IV	MLT 82-SD-C	1980 / 2021	270	20,000	Saudi Arabia
High Island V	MLT 82-SD-C	1981 / 2013	270	20,000	Saudi Arabia
High Island IX	MLT 82-SD-C	1983 / 2012	250	20,000	Saudi Arabia
Main Pass I	F&G L-780 Mod II	1982 / 2013	300	25,000	Saudi Arabia
Main Pass IV	F&G L-780 Mod II	1982 / 2021	300	25,000	Saudi Arabia
Shelf Drilling Achiever	GustoMSC CJ46-X100-D	2019	350	30,000	Saudi Arabia
Shelf Drilling Victory	Baker Marine Pacific Class 375	2008 / 2023	375	30,000	Saudi Arabia
Trident II (2)	MLT 84-SC Mod	1977 / 1985	300	21,000	UAE
		India			
C.E. Thornton	MLT 53-SC	1974 / 1984	300	21,000	India
Compact Driller	MLT 116-C	1992 / 2019	300	25,000	India
F.G. McClintock	MLT 53-SC	1975 / 2002	300	21,000	India
J.T. Angel	F&G L-780 Mod II	1982	300	25,000	India
Key Singapore	MLT 116-C	1982 / 2015	350	25,000	India
Parameswara	Baker Marine BMC 300-IC	1983 / 2001	300	25,000	India
Ron Tappmeyer	MLT 116-C	1978	300	25,000	India
Trident XII	Baker Marine BMC 300-IC	1982 / 1992	300	21,000	India
		West Africa			
Shelf Drilling Tenacious	Baker Marine Pacific 375	2007 / 2022	375	30,000	Angola
Baltic	MLT Super 300	1983 / 2015	375	25,000	Cameroon
Adriatic I	MLT 116-C	1981 / 2014	350	25,000	Nigeria
Shelf Drilling Mentor	LeTourneau Super 116 E	2010 / 2017	350	30,000	Nigeria
Shelf Drilling Scepter	Keppel FELS Super B	2008 / 2019	350	35,000	Nigeria
Trident VIII	Modec 300-C35	1981 / 2018	300	21,000	Nigeria
		Southeast Asia			
Shelf Drilling Chaophraya	LeTourneau Super 116E	2016	350	30,000	Thailand
Shelf Drilling Enterprise	Baker Marine Pacific Class 375	2007 / 2020	375	30,000	Thailand
Shelf Drilling Krathong	LeTourneau Super 116E	2017	350	30,000	Thailand

(1) Rig was in a planned shipyard in Singapore as of March 4, 2024, preparing for the new contract in Vietnam.
(2) Rig was in India as of March 4, 2024 expecting to start operations in early March 2024.

Item 3. Legal Proceedings

Information regarding legal proceedings is set forth in “Note 12 – Commitments and Contingencies” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data”.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

tem 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the OSE under the ticker symbol “SHLF”. The number of holders of record of our common stock as of February 26, 2024 was 3,088. The number of beneficial shareholders is substantially greater than the number of holders as a large portion of our common stock is held through brokerage firms.

Oslo Børs is a stock exchange listing which complies with EU requirements and Norwegian stock exchange legislation. On December 29, 2023, the last reported sale price of our common shares on the OSE was 29.00 NOK per share, which was equivalent to approximately $2.85 per share based on the Bloomberg Composite Rate of 10.17 NOK to $1.00 in effect on that date. The following table sets forth the high and low close prices for our common shares as reported on the Oslo Stock Exchange for the periods listed below. Share prices are presented in $ per common share based on the Bloomberg Composite Rate on each day of measurement.

	2023	
	High	Low
First quarter	$ 3.22	$ 2.08
Second quarter	$ 2.47	$ 1.66
Third quarter	$ 3.55	$ 1.92
Fourth quarter	$ 3.42	$ 2.40

	2022	
	High	Low
First quarter	$ 1.67	$ 0.74
Second quarter	$ 2.41	$ 1.31
Third quarter	$ 1.93	$ 1.10
Fourth quarter	$ 2.58	$ 1.50

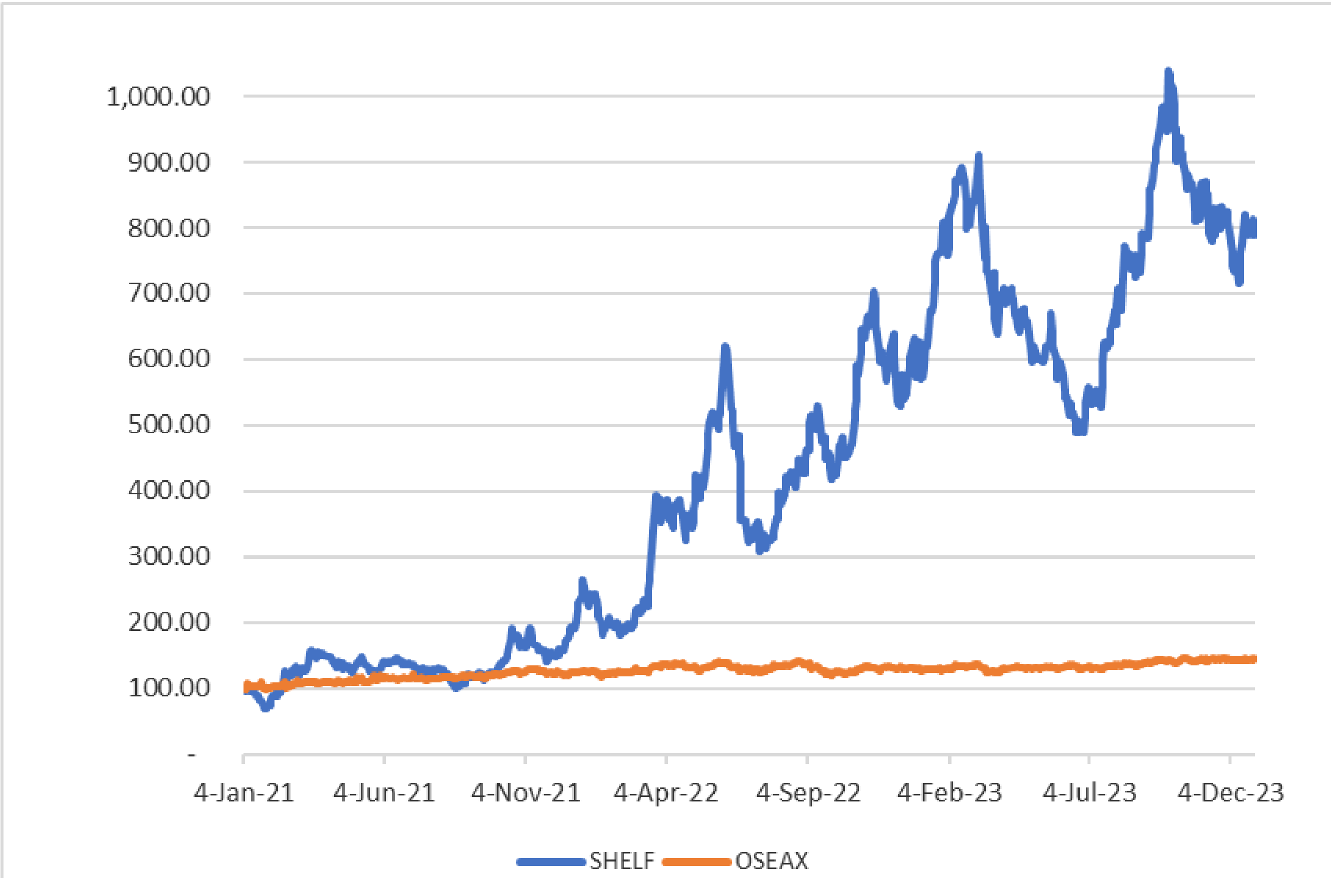
Dividends

In recent years, the Company has not issued dividends to its common shareholders, and the Company did not distribute any dividends for the financial year ended December 31, 2023. The Company’s future dividend policy is within the discretion of the Board of Directors, who will consider issuing dividends to holders of common shares with other relevant considerations and factors, including but not limited to the Company’s working capital and capital expenditure needs, results of operations, financial condition and investment opportunities. Certain of the Company’s debt agreements contain covenants that limit the payment of dividends.

See Note 9 – Debt and Note 13 – Equity to our Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” for additional information.

Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock, with the cumulative total return on the Oslo Stock Exchange All Share Index (“OSEAX”) for the period ending on December 31, 2023. The graph assumes an investment of $100 at the beginning of this period. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



Item 6. [Reserved]

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our results of operations, liquidity and capital resources includes a comparison of the years ended December 31, 2023 and 2022. This information should be read in conjunction with the information contained in "Part I. Item 1. Business", "Part I. Item 1A. Risk Factors" and the audited consolidated financial statements and the notes thereto included under "Item 8. Financial Statements and Supplementary Data" elsewhere in this Form 10-K Equivalent.

Overview

We are 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 both benign and harsh environments, in water depths of up to 500 feet, and our fleet consists of 36 ILC jack-up rigs as of December 31, 2023.

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. This focus allows us to concentrate our rigs in the most promising geographic markets, promoting operational efficiency and driving an efficient cost structure. This strategy relies on three key pillars: positioning and upgrading rigs where they are ideally suited to customer needs in the areas in which we operate, designing a right-sized, lean and effective organization, and developing national content as a part of our commitment to create a significant positive impact on local communities. This "fit-for-purpose" strategy provides substantial value to our customers and local communities, improves the productivity of our rigs and employees and advances our industry leading cost structure and safety performance. This, in turn, drives repeat customer business and new contract wins, as we strive to be the international jack-up contractor of choice.

Our fleet is well-suited to our core operating regions. The MENAM, Southeast Asia, India and West Africa markets are generally characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure. The rigs acquired as part of the Acquisition are extremely well suited to operate in the North Sea harsh environment.

We have one reportable segment, Contract Services, which reflects how we manage our business and that our market is dependent upon the worldwide oil and natural gas industry. The rigs comprising our fleet operate in a single market and are mobile. As a result, our rigs can be deployed globally to meet the changing needs of our customers, which largely consists of NOCs, IOCs and independent oil and gas companies.

See “Item 1. Business” for more information about our business, including discussions of our recent events; operations; customers and customer contracts; strategy and competitive strengths; risk management and insurance; health, safety and environment; our people and operating expenses, capital expenditures and deferred costs.

Outlook

Brent crude oil prices, the key driver in the demand for shallow water drilling activity, averaged $82 per barrel during 2023. World oil demand grew by 2.3 million barrels per day in 2023, surpassing pre-pandemic levels, and further growth in consumption is expected in 2024. In spite of this improving demand scenario for oil, oil price declined 17% year over year. The greater than expected production volumes from onshore US, offshore Guyana and Brazil more than offset the oil demand increase and has prompted OPEC to continue to cut production quotas in an effort to maintain price. In January 2024, Saudi Aramco announced a reduction in its planned maximum oil production capacity from 13 million barrels a day (“mmbd”) to 12 mmbd with the implication that there will be some reduction in the Aramco’s activity in 2024 and beyond.

The global number of contracted jack-up rigs increased from 352 in December 2021 to 407 in February 2024 and marketed utilization improved from 85% to 94% over the same period. The Middle East region was the primary driver of this growth in demand, with significant rig count additions in both Saudi Arabia and UAE. We are yet to see any impact on rig demand from the recent announcement by Saudi Aramco. Jack-up activity is expected to increase in other markets, notably India and Southeast Asia, so we anticipate utilization will remain at elevated levels for the foreseeable future. Following the recent surge in demand and years of rig retirements, the jack-up supply overhang from the last decade has been effectively eliminated. Dayrates on new jack-up fixtures have accelerated across regions and asset classes, and we expect the market to remain strong in 2024.

Beginning in late 2022, the Company undertook a significant upgrading, expansion and repositioning of the fleet, which resulted in higher capital spending and lower levels of effective utilization during the first half of 2023. In October 2023, the Company successfully completed a comprehensive debt refinancing transaction, which will provide greater flexibility to manage future working capital needs and facilitate deleveraging of our balance sheet through annual debt repayments in our new notes. Given the strength in the price and demand outlook for oil and natural gas, we continue to have an optimistic outlook for the industry in 2024. Our streamlined capital structure, combined with our execution capabilities and financial discipline, will enable the Company to take full advantage of the constructive underlying market fundamentals to generate free cash flow and create long-term value for all its stakeholders.

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.

- *Total recordable incident rate* ("TRIR") is the number of recordable safety incidents per 200,000 man-hours.

- *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.

- *Uptime* is the period during which we perform well operations without stoppage due to mechanical, procedural or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency and directly related to our current and future revenues and profit generation.

- *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.

Selected operating measures were as follows:

	As of December 31,		
	2023	2022	2021
Total contract backlog (in millions)	$ 2,340	$ 2,682	$ 1,679
Weighted average backlog dayrate (in thousands)	$ 83.4	$ 78.6	$ 67.7
Average contract days per rig	801	974	885
Number of contracted rigs	35	35	28

Contract backlog as of December 31, 2023 is expected to be recognized over the periods as per the following table, subject to certain limitations and adjustments as discussed above:

	2024	2025	2026	Thereafter	Total
Contract backlog (in millions)	$ 918	$ 606	$ 279	$ 537	$ 2,340

Selected operating measures were as follows:

	Years ended December 31,		
	2023	2022	2021
TRIR	0.12	0.16	0.16
IADC Average TRIR	0.51	0.67	0.57
Average dayrate (in thousands)	$ 76.9	$ 63.4	$ 60.5
Average marketable rigs	34.7	31.0	30.6
Uptime	98.8%	99.3%	99.3%
Effective utilization	83%	83%	73%

Financial measures

In addition to terms under generally accepted accounting principles in the United States of America ("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, except Adjusted EBITDA Margin):

	Years ended December 31,		
	2023	2022	2021
Net loss	$ (17.2)	$ (24.2)	$ (78.6)
Add back:			
Interest expense and financing charges, net of interest income (1)	165.3	114.2	113.0
Income tax expense	29.7	34.1	18.5
Depreciation	83.3	62.2	65.8
Amortization of deferred costs	61.5	64.3	38.9
Loss on disposal of assets	2.1	3.3	0.1
Amortization of intangible liability	(14.2)	(7.6)	—
EBITDA	310.5	246.3	157.7
One-time corporate transaction costs (2)	1.0	2.3	0.6
Adjusted EBITDA	$ 311.5	$ 248.6	$ 158.3
Adjusted EBITDA Margin	35%	36%	30%

(1) Represents interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt, net of interest income. This also includes the $27.7 million and $10.1 million loss on debt extinguishment in relation to our debt refinancing transactions during the years ended December 31, 2023 and 2021, respectively.

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

Our restricted subsidiaries accounted for 97%, 93% and 100% of our Adjusted EBITDA for the years ended December 31, 2023, 2022 and 2021, respectively. Our restricted subsidiaries accounted for 84% and 75% of our assets as of December 31, 2023 and 2022, respectively.

Operating Results for the Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022 (In millions, except percentages)

	Years ended December 31, 2023	Years ended December 31, 2022	Change	% change
Revenues				
Operating revenues	$ 853.9	$ 662.1	$ 191.8	29%
Other revenues	54.1	33.1	21.0	63%
	908.0	695.2	212.8	31%
Operating costs and expenses				
Operating and maintenance	512.9	385.7	127.2	33%
Depreciation	83.3	62.2	21.1	34%
Amortization of deferred costs	61.5	64.3	(2.8)	(4%)
General and administrative	64.3	57.2	7.1	12%
Loss on disposal of assets	2.1	3.3	(1.2)	(36%)
	724.1	572.7	151.4	26%
Operating income	183.9	122.5	61.4	50%
Other (expense) / income, net				
Interest income	3.2	0.6	2.6	433%
Interest expense and financing charges	(168.5)	(114.8)	(53.7)	47%
Other, net	(6.1)	1.6	(7.7)	(481%)
	(171.4)	(112.6)	(58.8)	52 %
Income before income taxes	12.5	9.9	2.6	26 %
Income tax expense	29.7	34.1	(4.4)	(13%)
Net loss	$ (17.2)	$ (24.2)	$ 7.0	(29%)

Revenues

Total revenues for 2023 increased by $212.8 million compared to the same period in 2022 primarily due to revenues from the six rigs acquired in 2022, higher average earned dayrates mainly in Saudi Arabia and Nigeria, higher utilization across the fleet primarily for two rigs that commenced new contracts in late 2022 or 2023 and higher recharges and amortization of intangible liability. This was partially offset by lower amortization of mobilization, demobilization, capital upgrades and planned out of service for one rig in Italy that started contract in August 2023.

Operating and maintenance

Total operating and maintenance increased by $127.2 million primarily due to higher operating costs for the six rigs acquired in 2022, higher maintenance and shipyard expenses mainly for eight rigs ahead of commencement of new contract or contract extensions in 2023 and early 2024, and higher inflationary pressure across our global operations.

Depreciation

Depreciation expense for 2023 increased by $21.1 million primarily due to higher depreciation from rigs acquired in 2022.

Amortization of deferred costs

The $2.8 million decrease in amortization of deferred costs in 2023 compared to the same period in 2022 was primarily related to lower amortization on rigs which completed contracts in late 2022 or in 2023, partially offset by higher amortization of contract preparation expenses for six rigs in Nigeria, Italy, Saudi Arabia and Thailand in 2023.

General and administrative

General and administrative expenses increased by $7.1 million in 2023 compared to the same period in 2022 primarily due to increased provision for credit losses and additional corporate costs for the rigs acquired in 2022.

Other (expense) / income, net

Interest expense and financing charges in 2023 were $53.7 million higher compared to the same period in 2022, primarily due to the $27.7 million loss on debt extinguishment related to the termination of the 8.25% Senior Unsecured Notes and 8.875% Senior Secured Notes partially offset by the $21.7 million lower interest on these debts, $26.1 million higher interest on the new debts issued in October 2023 and $21.5 million higher interest on the 10.25% Senior Secured Notes issued in September 2022. Other, net expense increased by $7.7 million during 2023 compared to the same period in 2022 primarily due to a $6.3 million foreign currency exchange loss from the fluctuations against the U.S Dollar in the current year.

Income tax expense

The $4.4 million lower income tax expense in 2023 compared to the same period in 2022 was primarily due to deferred tax benefit in a certain jurisdiction resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and more favorable currency fluctuations for prior period tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar, partially offset by an increase in tax expense due to higher revenues and liabilities for uncertain tax positions and due to new legislation in a certain jurisdiction resulting in the write-off of certain deferred tax assets.

Liquidity and Capital Resources

Sources and uses of liquidity

We had $98.2 million and $140.8 million in cash and cash equivalents as of December 31, 2023 and 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 debt financing, debt servicing and income taxes.

In February 2023, the Company completed the issuance of 17.6 million common shares resulting in net proceeds of $44.1 million. In October 2023, the Company completed the issuance of 19.4 million common shares resulting in net proceeds of $57.5 million. The net proceeds were used for debt refinancing and general corporate purposes.

Restricted cash generally consists of cash deposits held related to bank guarantees and are recorded according to the maturity date plus expected extensions and renewals as either other current assets or other long-term assets in the consolidated balance sheets. As of December 31, 2023, we had restricted cash of $0.9 million and $7.9 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 of $27.7 million as of December 31, 2023 as compared to December 31, 2022, was primarily due to the $23.0 million release of restricted cash following completion of debt refinancing in October 2023.

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

Going concern assumption as per Oslo Bors reporting requirements

As a result of our current financial position, the improvement in utilization, upward momentum in dayrates, establishment of the Credit Facility 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 for the year ended December 31, 2023 compared to the year ended December 31, 2022

The following table sets out certain information regarding our cash flows for the years December 31, 2023 and 2022 (in millions):

	Years ended December 31,		
	2023	**2022**	**Change**
Net cash provided by operating activities	$ 86.1	$ 19.8	$ 66.3
Net cash used in investing activities	(106.0)	(457.4)	351.4
Net cash (used in) / provided by financing activities	(49.6)	361.7	(411.3)
Exchange rate change effect on cash, cash equivalents and restricted cash	(0.8)	—	(0.8)
Net decrease in cash, cash equivalents and restricted cash	$ (70.3)	$ (75.9)	$ 5.6

Net cash provided by operating activities

Net cash provided by operating activities increased by $66.3 million in 2023 compared to 2022, primarily due to an increase in revenues when compared to the prior year combined with the receipt of mobilization fees in the current period, partially offset by an increase in deferred costs for rigs undergoing contract preparation projects.

During 2023 and 2022, we made cash payments of $140.7 million and $101.8 million, respectively, each in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $22.4 million and $25.9 million in income taxes included in other operating assets and liabilities, net during 2023 and 2022, respectively.

Net cash used in investing activities

Net cash used in investing activities decreased by $351.4 million in 2023 compared to 2022. Cash used for capital expenditures totaled $103.1 million and $453.7 million in 2023 and 2022, respectively. The $350.6 million decrease was primarily due to the higher cash outflows related to the $375.0 million Acquisition and the $30.0 million purchase of Shelf Drilling Victory in 2022 partially offset by higher capital expenditures for reactivation and shipyard projects ahead of long-term contracts with customers in 2023.

Net cash (used in) / provided by financing activities

Net cash used in financing activities was $49.6 million in 2023 compared to net cash provided by financing activities of $361.7 million in 2022.

Net cash used in financing activities in 2023 consisted of proceeds from the $1,075.1 million issuance of the 9.625% Senior Secured Notes, net of discount, $101.6 million from the issuance of 37.0 million common shares, $50.0 million from the Term Loan proceeds, partially offset by payments of $900.0 million and $310.0 million for the extinguishment of the 8.25% Senior Unsecured Notes and 8.875% Senior Secured Notes, $6.3 million principal repayment for the 10.25% Senior Secured Notes, $23.3 million for debt issuance costs, $19.9 million for debt extinguishment costs and $16.7 million principal payment for the Term Loan.

Net cash provided by financing activities in 2022 consisted of $242.5 million in proceeds from issuance of the 10.25% Senior Secured Notes, net of discount, less $4.5 million in debt financing costs, $75.4 million of net proceeds from the issuance of SDNS common shares to non-controlling interests and $48.3 million of net proceeds from the issuance of 38.4 million common shares in June 2022.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases, 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 consolidated balance sheets 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 for the years ended December 31, 2023 and 2022 (in millions):

	Years ended December 31,	
	2023	2022
Regulatory and capital maintenance (1)	$ 89.4	$ 66.1
Contract preparation (2)	76.9	32.7
Fleet spares, transition costs and other (3)	30.7	12.0
	197.0	110.8
Rig acquisitions (4)	28.8	476.4
Total capital expenditures and deferred costs	$ 225.8	$ 587.2

(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 (ii) costs related to recently acquired rigs and (iii) 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 $225.8 million and $587.2 million in 2023 and 2022, respectively. The decrease of $361.4 million was mainly due to $447.6 million lower rig acquisition expenditures primarily related to the acquisition of five high-specification and harsh environment jack-up rigs from Noble in 2022 and rig readiness expenditures for the Shelf Drilling Victory acquired in 2022, partially offset by $67.5 million higher regulatory, capital maintenance and contract preparation costs primarily for five rigs that commenced new contracts in 2023 and the planned out of service projects for two rigs, and $18.7 million higher spending in fleet spares, transition costs and other.

Material Cash Requirements

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of December 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 December 31, 2023, we had a total principal amount of indebtedness of $1.4 billion which related to the 9.625% Senior Secured Notes, 10.25% Senior Secured Notes and Term Loan. Interest related to each of these note issuances is payable semi-annually. The principal payments began in October 2023 for the 10.25 % Senior Secured Notes, in December 2023 for the Term Loan and will begin in October 2024 for the 9.625% Senior Secured Notes. See “Note 9 – Debt” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

As of December 31, 2023, we had operating lease obligations outstanding of $11.8 million. See “Note 8 – Leases” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

We routinely have material spending on capital expenditures and deferred costs to support our business and we expect this will continue. Capital expenditures and deferred costs can vary from quarter-to-quarter and year-to-year depending upon the requirements of existing and new customers, the number and scope of out-of-service projects, the timing of regulatory surveys and inspections, and the number of rig reactivations. Although certain custom equipment may have long lead times, we do not typically commit to significant capital purchases in advance.

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

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

	As of December 31,	
	2023	2022
Total	$ 98.9	$ 99.2
Outstanding	$ 42.4	$ 72.6

Certain Financial Information of Restricted Subsidiaries

The following tables present certain financial information for SDHL excluding unrestricted subsidiaries in relation to our outstanding debt. SDHL and certain of its restricted subsidiaries agreed to grant post-closing guarantees and security with respect to such indebtedness. The process for granting these guarantees and security was completed in December 2023. In addition, the process to arrange for SDHL's restricted subsidiaries in Egypt to grant post-closing guarantees and security is on-going as required under such agreements.

Consolidated Statements of Operations
(In millions)

	Years ended December 31, 2023	Years ended December 31, 2022
Revenues		
Operating revenues	$ 748.8	$ 627.1
Other revenues	22.2	19.3
	771.0	646.4
Operating costs and expenses		
Operating and maintenance	420.0	365.9
Depreciation	64.7	58.0
Amortization of deferred costs	61.4	64.3
General and administrative	42.9	48.8
Loss on disposal of assets	2.1	3.3
	591.1	540.3
Operating income	179.9	106.1
Other (expense) / income, net		
Interest income	2.0	0.6
Interest expense and financing charges	(139.3)	(107.1)
Other, net	(5.0)	2.1
	(142.3)	(104.4)
Income before income taxes	37.6	1.7
Income tax expense	29.1	33.0
Net income / (loss)	$ 8.5	$ (31.3)

Consolidated Balance Sheets
(In millions)

	As of December 31,	
	2023	2022
Assets		
Cash and cash equivalents	$ 65.6	$ 86.3
Accounts and other receivables	209.2	152.3
Less: allowance for credit losses	5.1	3.8
Accounts and other receivables, net	204.1	148.5
Accounts and other receivables, net - related parties	7.4	—
Other current assets	88.0	79.5
Total current assets	365.1	314.3
Property and equipment	1,749.7	1,667.2
Less: accumulated depreciation	667.0	607.4
Property and equipment, net	1,082.7	1,059.8
Deferred tax assets	7.0	2.8
Other long-term assets	302.7	282.1
Total assets	$ 1,757.5	$ 1,659.0
Liabilities and equity		
Accounts payable	$ 94.5	$ 97.2
Accounts payable - related parties	0.4	—
Interest payable	23.8	31.6
Accrued income taxes	12.1	8.4
Current maturities of long-term debt	70.2	—
Other current liabilities	70.5	36.2
Total current liabilities	271.5	173.4
Long-term debt	1,018.9	1,197.9
Deferred tax liabilities	6.5	7.9
Other long-term liabilities	109.0	47.2
Total long-term liabilities	1,134.4	1,253.0
Commitments and contingencies		
Additional paid-in capital	1,066.4	964.5
Accumulated losses	(714.8)	(731.9)
Total equity	351.6	232.6
Total liabilities and equity	$ 1,757.5	$ 1,659.0

Off Balance Sheet Arrangements

Contingent liabilities

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 12 – Commitments and Contingencies” and “Note 16 – Income Taxes” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”. As of December 31, 2023, we are not exposed to any contingent liabilities that are expected to result in a material adverse effect on our consolidated financial position, results of operations or cash flows.

Derivative Instruments

The Board of Directors has approved policies and procedures for derivative instruments that require the approval of our Chief Financial Officer prior to entering into any derivative instruments. From time to time, we may choose to enter into a variety of derivative instruments in connection with the management of our exposure to fluctuations in interest rates and currency exchange rates. We do not enter into derivative transactions for speculative purposes; however, we may enter into certain transactions that do not meet the criteria for hedge accounting.

Off-balance Sheet Financing

We had no off-balance sheet arrangements during the years ended December 31, 2023 and 2022, respectively.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the 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 consolidated financial statements and the reported amounts of revenues and exposure during the reporting period. Certain accounting policies involve judgements 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 judgements about the carrying values of assets and liabilities that are readily apparent from other sources. Actual results could differ from these estimates and assumptions used in the preparation of our consolidated financial statements.

We identify our critical accounting policies as those that are significant to our results of operations, financial condition and cash flows and that require management's most difficult, subjective or complex estimates and judgements in matters that are inherently uncertain. We believe that our more critical accounting policies include revenue recognition, operating expenses and deferred costs, property and equipment, assets held for sale, leases and impairment of long-lived assets.

Our significant accounting policies are included in "Note 2 – Significant Accounting Policies" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

Revenue Recognition

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets or contract liabilities, as appropriate on the Company's consolidated balance sheets.

The Company's services provided under each contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:

Operating Revenues

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of services related to drilling, completion, maintenance and decommissioning of oil and natural gas wells. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a period could vary based on the actual operations. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed to the extent it is probable that a significant revenue reversal will not occur. We have applied the disclosure practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

The Company may earn lump-sum fees relating to contract preparation, capital upgrades and mobilization in certain contracts, which are typically invoiced at the commencement or initial phase of the contract. These activities are not considered to be revenue generating activities distinct from the performance of services under the contract. Therefore, such revenues are recorded as a contract liability and amortized on a straight-line basis over the initial firm contract term. Certain customers may also make advance payments of dayrate revenues, which are deferred and recognized when the related dayrate services are provided. Upfront fees for contract preparation, capital upgrades and mobilization and advance payments from customers for future services are recorded as contract liabilities in other current liabilities and other long-term liabilities, as appropriate, in the consolidated balance sheets.

The Company may earn lump-sum fees relating to contract demobilization, which are typically invoiced at the end of the contract and may contain provisions stipulating conditions that must be present for such revenues to be received. The Company assesses the likelihood of receiving this revenue based on prior experience and knowledge of market conditions and other factors. Demobilization fees are recorded when it is unconditional and probable that there will not be a material cumulative revenue reversal, which typically occurs near the end of the contract term. Once the recognition criteria are met, the demobilization revenues are recorded as operating revenues over the remaining contract term and a contract asset is recorded for any revenue recognized prior to invoicing.

Many contracts have termination and/or extension options which can be exercised at the option of the customer. In certain cases, the Company can charge an early termination fee if a contract is terminated by the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. Revenues related to an extension option are typically accounted for as a contract modification as a separate contract.

Other Revenues

Other revenues consist of amounts billed for goods and services such as catering, additional equipment and personnel, consumables or accommodations. The Company may use third parties for the provision of such goods and services. Judgement is involved in identifying the performance obligations in these customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customer. The Company generally is considered to be a principal in revenue transactions when it obtains control of a good or service before it is transferred to the customer. The Company typically acts as a principal in the provision of catering, accommodation services, additional personnel and the provision of additional equipment and consumables directly used to provide integrated services to the customer. The Company generally acts as an agent in the provision of other equipment and consumables for the customer. See also Note 4 – Revenues.

Operating Costs and Expenses and Deferred Costs

Operating costs and expenses are recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs in other current assets or other long-term assets, as appropriate, on the consolidated balance sheets.

Deferred contract costs include certain contract preparation and upfront mobilization expenditures for rigs entering binding services contracts. Such costs are considered costs to fulfil the Company's future performance obligations under the related contract and are therefore deferred and amortized on a straight-line basis over the contract term. Certain deferred contract costs are related to contractually required inspections, and such costs are amortized on a straight-line basis over the time period until the next scheduled inspection. See Note 4 – Revenues. Demobilization costs which are incurred at the end of a contract and costs associated with rig preparation and of mobilization of without a firm contract are expensed as incurred.

Non-contractual deferred costs include costs of inspections incurred to obtain regulatory certifications to operate the rigs and periodic major overhauls of equipment. Regulatory certifications, including special periodic surveys ("SPS") and underwater inspections in lieu of dry-docking ("UWILDs"), are deferred and amortized on a straight-line basis over the time period until the next survey or inspection, generally 30 to 60 months. Periodic major overhauls are deferred and amortized on a straight-line basis over a period of five years.

Property and Equipment, Net

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the functionality or life of the asset are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment. Property and equipment is subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of the asset.

The estimated useful lives of property and equipment are as follows:

	Years
Rigs	30
Equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. The remaining estimated average useful life of existing drilling rigs in the Company’s fleet as of December 31, 2023 is 11 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Leases

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception. The Company considers all relevant contractual provisions, including renewal and termination options, to determine the term of the lease. Renewal or termination options that are reasonably certain of exercise by the lessee and those controlled by the lessor are included in determining the lease term. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option. See also Note 8 – Leases.

Short-Term Leases

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Expenses for short-term leases are recognized on a straight-line basis over the lease term under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

The Company as a Lessee

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases for which it is a lessee at the lease commencement date. Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company’s incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. For any contract considered predominantly a lease, all non-lease components are included in the initial measurement of the lease liability. Finance lease and operating lease liabilities are recorded separately. The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets. Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made. Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

The Company as a Lessor

The Company’s contracts with customers contain lease components related to the underlying rigs and equipment, in addition to service components of labor and expertise to operate the rig and equipment. The service component of operating a rig is predominant in the Company’s contracts, therefore, the Company accounts for its revenues from contracts with customers as service revenues with a single performance obligation. See “Revenue Recognition” above. See also Note 4 – Revenues.

Impairment of Long-Lived Assets

The Company evaluates property and equipment, right-of-use assets and other long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment indicators can include changes in the general economic and business environment, industry specific indicators, Company specific factors or conditions related to a specific asset or asset group. An impairment loss on an asset or asset group is recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset’s carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets, deferred costs and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company’s asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment 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 rate as well as cost inflation assumptions. The Company estimates the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Liquidity Risk

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

Interest Rate Risk

We are exposed to interest rate risk related to the fixed rate on our debt. 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 maturing debt is refinanced with new debt.

We have in the past and may in the future utilize interest rate swaps to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's borrowings, for which we maintain documented policies and procedures to monitor and control the use of derivative instrument. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign Currency Risk

The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with receivables from customers, compensation costs of the Company's employees and purchasing costs from suppliers in currencies other than the U.S. dollar.

The 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. In addition, the Company can utilize forex contracts to manage foreign exchange risk related to certain currencies. We maintain documented policies and procedures to monitor and control the use of the derivative instruments. Our forex contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract fixing date. We are not engaged in derivative transactions for speculative or trading purposes.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, restricted cash and accounts receivables. We generally maintain cash and cash equivalents and restricted cash at commercial banks with high credit ratings.

Our trade receivables are with a variety of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. We perform ongoing credit evaluation of our customers, and generally do not require material collateral. We may from time-to-time require our customers to make an advance payment or issue a bank guarantee/letter of credit in our favor to cover the risk of non-payment under our contracts. 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.

Item 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements as of December 31, 2023 can be found in the Exhibits section pages F-1 to F-51.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

We are not required to report this Item.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth information concerning our executive officers and directors, including their ages, as of December 31, 2023:

Name	Age as of December 31, 2023	Position
Ernie Danner	69	Chairman of the Board
David Mullen	65	Director and Chief Executive Officer
John K. Castle	83	Director
Xianzhi Mei	43	Director
David B. Pittaway	72	Director
John Reynolds	53	Director
Benjamin Sebel	53	Director
Usama Trabulsi	78	Director
David Williams	70	Director
William Hoffman	63	Executive Vice President and Chief Operating Officer
Gregory O'Brien	37	Executive Vice President and Chief Financial Officer
Ian Clark	64	Executive Vice President

Directors

Ernie Danner, Chairman of the Board

Mr. Danner joined our board of directors in October 2013 and has served as Chairman of the Board since November 2018. Since January 2018 Mr. Danner has served as an Operating Partner of SCF Partners, a private equity firm focused on oil service investments, which he joined in October 2012. Currently Mr. Danner serves as Chairman of the board of directors of Nine Energy Service, Inc., a NYSE listed company providing completion services to oil and gas producers in North America and Chairman of the board of directors of BCCK Engineering, Inc, a private company that designs, fabricates and installs gas processing plants in North America. Mr. Danner also serves as Chairman of the board of directors of Pipeline Plastics LLC, a manufacturer of HDPE pipe. Mr. Danner served as President and Chief Executive Officer of Exterran Holdings Inc. from July 2009 to October 2011 and as a member of its board of directors from 1998 to October 2011. He also served as President, Chief Executive Officer and a director of Exterran GP LLC the general partner of Exterran Partners L.P. Mr. Danner has a Masters of Accounting and Bachelor of the Arts degree from Rice University.

David Mullen, Director & Chief Executive Officer

Mr. Mullen has over 40 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a UK listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. degree in Geophysics from University College Galway.

John K. Castle, Director

Mr. Castle joined our board of directors in November 2012 and has served as Chairman of the Nomination Committee since February 2019. Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. since 1987, and as Chairman and Chief Executive Officer of Branford Castle, Inc since 1986. Prior to forming Castle Harlan, Inc., Mr. Castle was President and Chief Executive of investment banking firm Donaldson, Lufkin & Jenrette, Inc. Mr. Castle is a board member of various private equity companies, and he has previously been a director of numerous private and public companies. He also served as a Director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a Life Member of the Corporation of the Massachusetts Institute of Technology. Previously, he had served for 22 years as a Trustee of New York Medical College, including 11 of those years as Chairman of the board. Mr. Castle is a Trustee and Chairman of the Executive Committee of the St. Patrick's Cathedral in New York

City and is a member of the Finance Council of the Archdiocese of New York. From 2000 to 2018, Mr. Castle was a Director of Castle Harlan Australian Mezzanine Partners Pty Ltd and a Director of CHAMP Group Holdings Pty Ltd. He has served on various visiting committees at Harvard University, including the Harvard Business School. Mr. Castle received his Bachelor's degree from the Massachusetts Institute of Technology, his M.B.A. as a Baker Scholar with High Distinction from Harvard University, and has four Honorary Doctorate Degrees of Humane Letters.

Xianzhi Mei, Director

Mr. Xianzhi Mei joined our board of directors in June 2023. He has been with China Merchants for more than twenty years, bringing extensive experience in the shipbuilding and manufacturing industry. Currently serving as Deputy General Manager of China Merchants since June 2022, he oversees the Planning Operations and Digital functions, driving strategic initiatives and leading digital transformation efforts. Mr. Mei's career began in 2002 as a Repair Supervisor and Project Manager at Yiulian Dockyards in Shenzhen, China. He then advanced to managing various senior positions including the Production Department Deputy Manager overseeing the ship repairing segment of the business. Following China Merchants acquisition of Yiulian Dockyards in November 2011 (renamed CMHI Shenzhen), Mr. Mei assumed the role of General Manager Assistant at CMHI Shenzhen. From 2015-2021, he served as Deputy General Manager at CMHI Jiangsu, another shipyard under China Merchants, and concurrently as the General Manager of China Merchants Cruise Shipbuilding Co. Lt., responsible for manufacturing and construction. In 2019, Mr. Mei was promoted to the General Manager of CMHI Jiangsu before relocating to China Merchants headquarters in Hong Kong SAR. Mr. Mei holds a bachelor's degree in ship and marine power plants from Wuhan University of Technology, and a Master's degree in Management Science and Engineering from Zhejiang University.

David B. Pittaway, Director

Mr. Pittaway joined our board of directors in July 2015. Mr. Pittaway is Vice Chairman and Senior Managing Director of Castle Harlan and has been with the firm since its founding in 1987. Prior to joining Castle Harlan, Mr. Pittaway was Vice President for Strategic Planning and Assistant to the President of Donaldson, Lufkin & Jenrette, Inc. Before joining DLJ, he was a management consultant in strategic planning with Bain & Company in Boston, Mass., and previously was an attorney with Morgan, Lewis & Bockius, specializing in labor relations. He is a former board member of Caribbean Restaurants, LLC and also served on the boards of multiple other Castle Harlan portfolio companies, including American Achievement Corporation, Statia Terminals Group N.V., Morton's Restaurant Group and United Malt Holdings Inc. He serves as Vice Chairman of Branford Castle, Inc. and Branford Chain, Inc. and is also currently a board member of The Cheesecake Factory Inc.. Mr. Pittaway's community interests include being a trustee of the University of Kansas Endowment Association. In addition, he served for twenty years in the United States Army Reserve and, upon retiring as a Major, he co-founded and acts as a director of the Armed Forces Reserve Family Assistance Fund, which provides needed support for families of American service members whose breadwinners are serving their country in overseas conflicts. He is a graduate of the University of Kansas (B.A. with Highest Distinction), and has both an M.B.A. with High Distinction (Baker Scholar) and a Juris Doctor degree from Harvard University.

John Reynolds, Director

Mr. Reynolds joined our board of directors in September 2012 and is co-founder and a Managing Director of Lime Rock Partners. He joined Goldman Sachs in 1992 and spent six years in the Investment Research Department where he had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector. He co-founded Lime Rock Partners in 1998. Based in Westport, Connecticut, Mr. Reynolds leads the Lime Rock Partners team's efforts in the global oilfield service sector. He is currently a director of Liquila Ventures and previously served on the board of directors of Archer, Blackjewel, Eastern Drilling, EnerMech, Hercules Offshore, IPEC, Noble Rochford Drilling, Patriot Drilling, Revelation Energy, Roxar, Sensa, Tercel Oilfield Products, Tesco Corporation, Torch Offshore, and VEDCO Holdings. Mr. Reynolds is a graduate of Bucknell University (B.A.) and serves as a member of its Board of Trustees.

Benjamin Sebel, Director

Mr. Sebel joined our board of directors in November 2012 and has served as Chairman of the Compensation Committee since May 2023. He is a Senior Advisor to Branford Castle Partners and was previously a Managing Director at CHAMP Private Equity, having been with the firm from 2005 until 2014. Immediately prior, Mr. Sebel was a Managing Director at Castle Harlan for seven years, and is experienced in all aspects of private equity investment including deal origination, realizations and fundraising in both the United States and Australia. Immediately prior to joining Castle Harlan, Mr. Sebel worked at Goldman Sachs & Co. in its Capital Markets Group. Previously, Mr. Sebel spent two years as Special Advisor to the Hon. Nick Greiner AC, a former premier of New South Wales, and commenced his career in the Management Consulting Services Group of PricewaterhouseCoopers (Australia), where he also qualified as a Chartered Accountant. Mr. Sebel is currently a director of Sunless (Australia) Pty Ltd, an Investment Committee Member at Commencer Capital and Glow Capital Partners and a Senior Advisor to Alceon Private Equity, based in

Sydney. Mr. Sebel holds a Bachelor of Commerce (First Class Honours) from the University of New South Wales, an M.B.A. from the Harvard Business School, and is a graduate of the Australian Institute of Company Directors.

Usama Trabulsi, Director

Mr. Trabulsi joined our board of directors in August 2017. Previously, he was a Managing Member of Integrated Renewable Energy Systems Ltd., a Saudi Arabia registered privately held limited liability company, the Chief Financial Controller (Deputy Minister Portfolio) of the Ministry of Petroleum and Mineral Resources, Riyadh, Saudi Arabia for over 14 years and the representative of the Minister of Petroleum and Mineral Resources to the Executive Committee, Auditing Committee and Compensation Committee of Saudi Aramco for over 13 years. Mr. Trabulsi served on the board of directors of Arabian Oil Company from 1996 to 2003 and Arabian Oil Holdings, Inc. Japan from 2003 to 2007, in each case as the representative of the Saudi Government. In addition, Mr. Trabulsi served as the Chairman of the board of directors of “PEMREF” Petromin-Mobil Oil Refinery Company Ltd., a joint venture company between Petromin (the State-owned National Oil Company) and Mobil Oil Company from 1990 to 1993. Meanwhile, Mr. Trabulsi served as Executive Vice President for Operation and Marketing of SUMED Oil Pipelines Co., a joint venture company between Egypt, Saudi Arabia, Kuwait, UAE and Qatar. He received his B.A. in Economics and Political Science from the King Saud University in 1965 and received his M.B.A. from Michigan State University in 1970.

David Williams, Director

Mr. Williams joined our board of directors in August 2017 and has served as Chairman of the Audit Committee since November 2018. He is a non-executive director of Tharsus Ltd of Newcastle upon Tyne (“Tharsus”) and Pipeline Technique Limited, trading as CRC Evans (“PTL”) where he also chairs the remuneration committee. Previously, Mr. Williams was the Chairman of PTL from 2019 to 2022, the Chairman of Tharsus from 2012 to 2022, the Chairman of Shepherd Group Ltd of York from 2014 to 2020, the Chairman of Ramco Ltd from 2013 to 2019, the Chairman of Frog Capital (previously known as Foursome Investments) for 13 years and the Interim Chief Executive Officer of Logstor Holdings A/S of Logstor, Denmark for two years. Prior to this, Mr. Williams was the Chairman, then Chief Executive, of Serimax Holdings SAS of Paris from June 2004 to June 2006 and June 2006 to October 2011, respectively. He also held several positions at 3i plc from 1985 to 2003, including regional managing director. Mr. Williams received a BSc (Hons) in Naval Architecture and Shipbuilding from the University of Newcastle upon Tyne in 1975, has a Certified Diploma in Accountancy and Finance and received an MSc from London Business School in 1985.

Executive officers

David Mullen, Director & Chief Executive Officer

Mr. Mullen has been our Chief Executive Officer since October 2012. See “- Directors.”

William (“Kurt”) Hoffman, Executive Vice President & Chief Operating Officer

Mr. Hoffman has worked on rigs around the world and has over 40 years’ experience in the global oil and gas drilling industry. Mr. Hoffman joined Shelf Drilling in October 2012. From August 2009 to April 2011, Mr. Hoffman was Senior Vice President and Chief Operating Officer of Seahawk Drilling, a Houston and Gulf of Mexico-based jack-up drilling provider where he was responsible for the company’s daily operations and strategic business plan implementation. From 1991 through August 2009, Mr. Hoffman spent 18 years with Noble Corporation where he held senior operational and executive roles, including Vice President of Worldwide Marketing, Vice President of Western Hemisphere Operations and President of Noble’s engineering services division, Triton Engineering Services. Mr. Hoffman received a B.S. degree from Southwest Texas State University.

Gregory O’Brien, Executive Vice President & Chief Financial Officer

Mr. O’Brien was appointed Executive Vice President and Chief Financial Officer in March 2016. Prior to his current role, Mr. O’Brien served as Director, Strategic Planning since 2014, in charge of Shelf Drilling’s corporate development efforts. Mr. O’Brien joined Shelf Drilling from Lime Rock Partners, where he focused on oilfield services and exploration & production investment opportunities internationally. Before that, Mr. O’Brien held energy investment banking roles with J.P. Morgan and SunTrust Robinson Humphrey. Mr. O’Brien graduated from the McIntire School of Commerce at the University of Virginia in 2008.

Ian Clark, Executive Vice President

Mr. Clark has over 40 years’ experience in the oil services business. Prior to joining Shelf Drilling in November 2012, Mr. Clark spent 12 years with Transocean Ltd. where he most recently served as Vice President of Human Resources and as part of its senior management team. Previous roles included Division Manager for Transocean Ltd.'s operations in Northeast Asia and also Managing Director for Nigeria. Before joining Transocean Ltd., Mr. Clark had a 20-year career with Schlumberger in various managerial, technical and marketing roles across Europe and Africa. Mr. Clark has a B.S. degree in Electrical and Electronic Engineering from Heriot-Watt University in Edinburgh, Scotland and completed both the Advanced Management Program at Harvard Business School and the Financial Times Non-Executive Director Diploma.

Item 11. Executive Compensation.

We are not required to report this Item.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders Matters.

We are not required to report this Item.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

We are not required to report this Item.

Item 14. Principal Accounting Fee and Services.

Our auditor for the fiscal year ended December 31, 2023 was PricewaterhouseCoopers. For the year ended December 31, 2023, we incurred $2.9 million for audit services and related expenses and $0.5 million for other services.

Part IV

Item 15. Exhibit and Financial Statement Schedules.

Financial Statements pages F-1 to F-51.

Material agreements governing indebtedness can be found on our website at www.shelfdrilling.com in the investor relations section under key documents.

Shelf Drilling, Ltd.

Consolidated Financial Statements

for the years ended December 31, 2023, 2022 and 2021

SHELF DRILLING

SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and December 31, 2022, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "Consolidated Financial Statements").

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and December 31, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements 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 Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the Consolidated Financial Statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists.

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***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements** (continued)*

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Consolidated Financial Statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Consolidated Financial Statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises information in the annual report, but does not include the Consolidated Financial Statements and our auditor's report thereon. Our opinion on the Consolidated Financial Statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the Consolidated Financial Statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers

PricewaterhouseCoopers Limited Partnership Dubai Branch
Dubai, United Arab Emirates
March 4, 2024

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

	Years ended December 31,		
	2023	2022	2021
Revenues			
Operating revenues	$ 853.9	$ 662.1	$ 515.1
Other revenues	54.1	33.1	11.5
	908.0	695.2	526.6
Operating costs and expenses			
Operating and maintenance	512.9	385.7	324.0
Depreciation	83.3	62.2	65.8
Amortization of deferred costs	61.5	64.3	38.9
General and administrative	64.3	57.2	46.4
Loss on disposal of assets	2.1	3.3	0.1
	724.1	572.7	475.2
Operating income	183.9	122.5	51.4
Other (expense) / income, net			
Interest income	3.2	0.6	0.1
Interest expense and financing charges	(168.5)	(114.8)	(113.1)
Other, net	(6.1)	1.6	1.5
	(171.4)	(112.6)	(111.5)
Income / (loss) before income taxes	12.5	9.9	(60.1)
Income tax expense	29.7	34.1	18.5
Net loss	(17.2)	(24.2)	(78.6)
Net (loss) / income attributable to non-controlling interest	(9.6)	4.6	—
Net loss attributable to controlling interest	$ (7.6)	$ (28.8)	$ (78.6)
Net loss per common share - basic and diluted	$ (0.04)	$ (0.18)	$ (0.57)
Weighted average common shares - basic and diluted	197.5	157.3	136.8

See notes to the consolidated financial statements.

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

	As of December 31, 2023	As of December 31, 2022
Assets		
Cash and cash equivalents	$ 98.2	$ 140.8
Accounts and other receivables	237.1	179.5
Less: allowance for credit losses	8.5	3.8
Accounts and other receivables, net	228.6	175.7
Other current assets	92.1	79.8
Total current assets	418.9	396.3
Property and equipment	2,176.8	2,087.9
Less: accumulated depreciation	689.7	611.5
Property and equipment, net	1,487.1	1,476.4
Deferred tax assets	9.3	4.8
Other long-term assets	183.4	168.8
Total assets	$ 2,098.7	$ 2,046.3
Liabilities and equity		
Accounts payable	$ 115.7	$ 114.3
Interest payable	28.0	38.3
Accrued income taxes	13.1	9.1
Current maturities of long-term debt	82.7	—
Other current liabilities	73.7	40.3
Total current liabilities	313.2	202.0
Long-term debt	1,242.7	1,436.7
Deferred tax liabilities	8.7	10.0
Other long-term liabilities	131.8	82.1
Total long-term liabilities	1,383.2	1,528.8
Commitments and contingencies (Note 12)	—	—
Common shares of $0.01 par value; 234.1 shares authorized as of both December 31, 2023 and 2022, respectively; 213.7 and 176.4 shares issued and outstanding as of December 31, 2023 and 2022, respectively	2.1	1.8
Additional paid-in capital	1,160.3	1,056.6
Accumulated losses	(830.4)	(822.8)
Total controlling interest shareholders' equity	332.0	235.6
Non-controlling interest	70.3	79.9
Total equity	402.3	315.5
Total liabilities and equity	$ 2,098.7	$ 2,046.3

See notes to the consolidated financial statements.

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

	Years ended December 31,		
	2023	2022	2021
Number of common shares			
Balance, beginning of year	176.4	137.1	136.2
Issuance of common shares	37.3	39.3	0.9
Balance, end of year	213.7	176.4	137.1
Common shares			
Balance, beginning of year	$ 1.8	$ 1.4	$ 1.4
Issuance of common shares	0.3	0.4	—
Balance, end of year	2.1	1.8	1.4
Additional paid-in-capital			
Balance, beginning of year	1,056.6	1,006.3	1,003.0
Issuance of common shares	101.3	47.8	—
Share-based compensation expense, net of forfeitures	2.4	2.5	3.3
Balance, end of year	1,160.3	1,056.6	1,006.3
Accumulated losses			
Balance, beginning of year	(822.8)	(794.0)	(715.4)
Net loss	(7.6)	(28.8)	(78.6)
Balance, end of year	(830.4)	(822.8)	(794.0)
Total controlling interest shareholders' equity			
Balance, beginning of year	235.6	213.7	289.0
Net loss	(7.6)	(28.8)	(78.6)
Issuance of common shares	101.6	48.2	—
Share-based compensation expense, net of forfeitures	2.4	2.5	3.3
Balance, end of year	332.0	235.6	213.7
Non-controlling interest			
Balance, beginning of year	79.9	—	—
Net (loss) / income	(9.6)	4.6	—
Subsidiary shares issuance to non-controlling interest	—	75.3	—
Balance, end of year	70.3	79.9	—
Total equity	$ 402.3	$ 315.5	$ 213.7

See notes to the consolidated financial statements.

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

	Years ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net loss	$ (17.2)	$ (24.2)	$ (78.6)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities			
Depreciation	83.3	62.2	65.8
Provision for credit losses, net	4.7	0.7	0.7
Amortization of deferred revenue	(29.8)	(43.6)	(15.4)
Amortization of intangible liability	(14.2)	(7.6)	—
Share-based compensation expense, net of forfeitures	2.4	2.5	3.3
Non-cash portion of loss on debt extinguishment	7.6	—	5.2
Loss on debt extinguishment	20.1	—	4.9
Amortization of debt issuance costs, premium and discounts	10.4	6.3	4.7
Loss on disposal of assets	2.1	3.3	0.1
Deferred tax (benefit) / expense, net	(5.8)	1.3	0.6
Changes in deferred costs, net*	(67.0)	(11.3)	(34.1)
Foreign currency transaction losses	0.8	—	—
Changes in operating assets and liabilities*	88.7	30.2	26.6
Net cash provided by / (used in) operating activities	86.1	19.8	(16.2)
Cash flows from investing activities			
Additions to property and equipment*	(103.1)	(453.7)	(45.9)
Advance payment for property and equipment	(4.1)	(5.5)	—
Proceeds from disposal of assets	1.2	1.8	69.4
Net cash (used in) / provided by investing activities	(106.0)	(457.4)	23.5
Cash flows from financing activities			
Proceeds from issuance of long-term debt	1,075.1	242.5	304.1
Payment of debt issuance costs	(23.3)	(4.5)	(7.3)
Payment of long-term debt	(1,216.3)	—	(80.0)
Payment of debt extinguishment costs	(19.9)	—	(4.9)
Proceeds from term loan	50.0	—	—
Repayment of term loan	(16.7)	—	—
Repayment of credit facility	—	—	(55.0)
Proceeds from issuance of common shares, net of issuance costs	101.6	48.3	—
Proceeds from subsidiary shares issuance to non-controlling interest, net of issuance costs	(0.1)	75.4	—
Net cash (used in) / provided by financing activities	(49.6)	361.7	156.9
Exchange rate change effect on cash, cash equivalents and restricted cash	(0.8)	—	—
Net (decrease) / increase in cash, cash equivalents and restricted cash	(70.3)	(75.9)	164.2
Cash, cash equivalents and restricted cash at beginning of year*	177.3	253.2	89.0
Cash, cash equivalents and restricted cash at end of year*	$ 107.0	$ 177.3	$ 253.2

* See Note 18 – Supplemental Cash Flow Information for a reconciliation of cash payments for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs, a breakout of the changes in operating assets and liabilities and a reconciliation of cash, cash equivalents and restricted cash balances.

See notes to the consolidated financial statements.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business

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 December 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.

Note 2 – Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The amounts are presented in United States dollar ("$") rounded to the nearest tenth of a million, unless otherwise stated.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those entities that meet the criteria for variable interest entities ("VIE") for which the Company is deemed to be the primary beneficiary. Intercompany balances and transactions are eliminated in consolidation. We separately present within equity on our consolidated balance sheets the ownership interests attributable to parties with noncontrolling interest in our consolidated subsidiaries, and we separately present net income attributable to such parties on our consolidated statements of operations.

As of December 31, 2023, the Company's consolidated financial statements include five entities that meet the definition of VIEs. See Note 17 – Variable Interest Entities**.** As of December 31, 2023, the Company does not have any investments which meet the criteria to be reported under the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but are not limited to, the following: collectability of receivables, depreciable or amortizable lives of assets, term of lease obligations, fair market value of acquired rigs and drilling contract intangibles, impairment assessment of assets, provision for income taxes, valuation of share-based compensation, postemployment benefits and contingencies. Actual results could differ from those estimates.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-level hierarchy of fair value measurement, which reflects the degree to which objective prices in external active markets are available to measure fair value, is as follows:

Level 1 — Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
Level 2 — Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
Level 3 — Unobservable inputs are used when little or no market data is available.

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Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the relevant fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Revenue Recognition

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets or contract liabilities, as appropriate on the Company's consolidated balance sheets.

The Company's services provided under each contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:

Operating Revenues

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of services related to drilling, completion, maintenance and decommissioning of oil and natural gas wells. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a period could vary based on the actual operations. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed to the extent it is probable that a significant revenue reversal will not occur. We have applied the disclosure practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

The Company may earn lump-sum fees relating to contract preparation, capital upgrades and mobilization in certain contracts, which are typically invoiced at the commencement or initial phase of the contract. These activities are not considered to be revenue generating activities distinct from the performance of services under the contract. Therefore, such revenues are recorded as a contract liability and amortized on a straight-line basis over the initial firm contract term. Certain customers may also make advance payments of dayrate revenues, which are deferred and recognized when the related dayrate services are provided. Upfront fees for contract preparation, capital upgrades and mobilization and advance payments from customers for future services are recorded as contract liabilities in other current liabilities and other long-term liabilities, as appropriate, in the consolidated balance sheets.

The Company may earn lump-sum fees relating to contract demobilization, which are typically invoiced at the end of the contract and may contain provisions stipulating conditions that must be present for such revenues to be received. The Company assesses the likelihood of receiving this revenue based on prior experience and knowledge of market conditions and other factors. Demobilization fees are recorded when it is unconditional and probable that there will not be a material cumulative revenue reversal, which typically occurs near the end of the contract term. Once the recognition criteria are met, the demobilization revenues are recorded as operating revenues over the remaining contract term and a contract asset is recorded for any revenue recognized prior to invoicing.

Many contracts have termination and/or extension options which can be exercised at the option of the customer. In certain cases, the Company can charge an early termination fee if a contract is terminated by the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. Revenues related to an extension option are typically accounted for as a contract modification as a separate contract.

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Other Revenues

Other revenues consist of amounts billed for goods and services such as catering, additional equipment and personnel, consumables or accommodations. The Company may use third parties for the provision of such goods and services. Judgement is involved in identifying the performance obligations in these customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customer. The Company generally is considered to be a principal in revenue transactions when it obtains control of a good or service before it is transferred to the customer. The Company typically acts as a principal in the provision of catering, accommodation services, additional personnel and the provision of additional equipment and consumables directly used to provide integrated services to the customer. The Company generally acts as an agent in the provision of other equipment and consumables for the customer. See also Note 4 – Revenues.

Operating Costs and Expenses and Deferred Costs

Operating costs and expenses are recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs in other current assets or other long-term assets, as appropriate, on the consolidated balance sheets.

Deferred contract costs include certain contract preparation and upfront mobilization expenditures for rigs entering binding services contracts. Such costs are considered costs to fulfil the Company's future performance obligations under the related contract and are therefore deferred and amortized on a straight-line basis over the contract term. Certain deferred contract costs are related to contractually required inspections, and such costs are amortized on a straight-line basis over the time period until the next scheduled inspection. See Note 4 – Revenues. Demobilization costs which are incurred at the end of a contract and costs associated with rig preparation and of mobilization of without a firm contract are expensed as incurred.

Non-contractual deferred costs include costs of inspections incurred to obtain regulatory certifications to operate the rigs and periodic major overhauls of equipment. Regulatory certifications, including special periodic surveys ("SPS") and underwater inspections in lieu of dry-docking ("UWILDs"), are deferred and amortized on a straight-line basis over the time period until the next survey or inspection, generally 30 to 60 months. Periodic major overhauls are deferred and amortized on a straight-line basis over a period of five years.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of cash on hand, cash in banks and highly liquid funds with an original maturity of three months or less. Other bank deposits, if any, with maturity of less than a year are classified as short-term bank deposits within other current assets in the consolidated balance sheets. Bank overdrafts, if any, are classified as current liabilities in the consolidated balance sheets.

Restricted cash consists of cash deposits held related to bank guarantees. Restricted cash balances are recorded, according to their maturity date, as either other current assets or other long-term assets in the consolidated balance sheets.

Accounts and Other Receivables, Net

The Company's accounts and other receivables consist primarily of trade accounts receivable from provision of services with original credit terms of less than one year. Accounts and other receivables are recorded in the consolidated balance sheets at their nominal amounts, net of allowance for credit losses, or the estimated net realizable value, which approximates fair value.

Allowance for Credit Losses

The Company applies the current expected credit losses ("CECL") model to financial assets measured on an amortized cost basis, primarily its trade accounts receivable, and off balance sheet exposures to credit losses. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information, as adjusted for future expectations.

The Company pools its receivable assets using its internal determination of collection risk, which is based on several factors, including the size and type of customer, the Company's prior collections experience with the customer, and the country or region in which the customer operates. Adjustments to the Company's historical loss rates were made for relevant customers and oil and gas industry specific factors, as needed. Management reviews its assumptions each reporting period and makes adjustments as needed to reflect changes in historical loss rates and expectations, which management believes provides a reasonable estimation of future losses. The pooling of assets and the adjustment of historical loss rates include a high degree of judgement and actual results can differ materially from these expectations.

For other financial instruments measured on an amortized cost basis and off balance sheet credit exposures, the Company considers quantitative and qualitative information, including historical experience and future expectations, which management believes provide a reasonable basis for the estimation of future losses.

The Company records a provision for credit losses in its general and administrative expenses in the consolidated statements of operations to reflect the net change in the allowance for credit losses during the period. Amounts determined to be uncollectible are written-off against the allowance for credit losses.

Intangible Liability

The Company acquired certain existing drilling contracts for future contract drilling services in connection with the Acquisition. See Note 6 – Property and Equipment for additional details. The terms of these contracts included fixed dayrates that were below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Intangible liability is recorded as current and non-current liability and amortized as operating revenue on a straight-line basis over the respective contract term. The Company immediately amortizes any remaining intangible liability balance upon cancellation of the underlying contract.

Property and Equipment, Net

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the functionality or life of the asset are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment. Property and equipment is subject to periodic impairment testing as discussed in "Impairment of Long-Lived Assets" below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of the asset.

The estimated useful lives of property and equipment are as follows:

	Years
Rigs	30
Equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. The remaining estimated average useful life of existing drilling rigs in the Company's fleet as of December 31, 2023 is 11 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

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Leases

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception. The Company considers all relevant contractual provisions, including renewal and termination options, to determine the term of the lease. Renewal or termination options that are reasonably certain of exercise by the lessee and those controlled by the lessor are included in determining the lease term. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option. See also Note 8 – Leases.

Short-Term Leases

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Expenses for short-term leases are recognized on a straight-line basis over the lease term under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

The Company as a Lessee

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases for which it is a lessee at the lease commencement date. Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. For any contract considered predominantly a lease, all non-lease components are included in the initial measurement of the lease liability. Finance lease and operating lease liabilities are recorded separately. The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets. Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in "Impairment of Long-Lived Assets" below. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made. Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

The Company as a Lessor

The Company's contracts with customers contain lease components related to the underlying rigs and equipment, in addition to service components of labor and expertise to operate the rig and equipment. The service component of operating a rig is predominant in the Company's contracts, therefore, the Company accounts for its revenues from contracts with customers as service revenues with a single performance obligation. See "Revenue Recognition" above. See also Note 4 – Revenues.

Impairment of Long-Lived Assets

The Company evaluates property and equipment, right-of-use assets and other long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment indicators can include changes in the general economic and business environment, industry specific indicators, Company specific factors or conditions related to a specific asset or asset group. An impairment loss on an asset or asset group is recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets, deferred costs and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company's asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment 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 rate as well as cost inflation assumptions. The Company estimates the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

Income Taxes

Provision for income taxes is based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. Current income tax expense reflects an estimate of the Company's income tax liability for the current year and includes prior period adjustments and changes in liabilities for uncertain tax positions. Liabilities for uncertain tax positions are recorded as long-term liabilities for tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to uncertain tax positions are included as a component of income tax expense.

Deferred income taxes reflect the "temporary differences" between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax effected by applying the relevant tax rate, based on enacted tax laws and rates applicable to the periods in which the reversal of such differences is expected to affect taxable income. The Company records net deferred tax assets to the extent the assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized.

The Company is subject to the tax laws, including relevant regulations, treaties and court rulings, of the countries and jurisdictions in which it operates. The provision for income taxes is based upon interpretation of the relevant tax laws in effect at the time the expense was incurred. If the relevant taxing authorities do not agree with the Company's interpretation and application of such laws, or if any such laws are changed retroactively, additional tax may be imposed which could significantly increase the Company's effective tax rate related to its worldwide earnings.

Share-Based Compensation

The Company issues share-based compensation under its 2017 Long-Term Incentive Plan (the "2017 LTIP"), generally in the form of nonqualified stock options ("NQSOs") and restricted share units ("RSUs"). Share-based compensation awards may contain a combination of time based, performance based and/or market based vesting conditions. Share-based compensation is recognized in the consolidated statements of operations based on the grant date fair value and the estimated number of options, shares or RSUs that are ultimately expected to vest.

The Company determines the grant date fair value of its NQSOs with time based vesting conditions, using the Black-Scholes-Merton model, using inputs and assumptions, including the market price of the shares on the date of grant, the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the expected term.

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The Company determines the grant date fair value of its RSUs with performance and/or market based vesting conditions using the Stochastic or Monte-Carlo valuation technique, using inputs and assumptions, including the market price of the shares on the date of grant, the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the remaining term prior to vesting.

The grant date fair value of the Company's share-based compensation awards that are ultimately expected to vest is recognized as an expense over the applicable vesting period. The Company has made an accounting policy election to recognize the expense for awards with a service condition and graded vesting features on a straight-line vesting method over the applicable vesting period. Any subsequent changes in the estimated number of shares or RSUs expected to vest will be recorded as cumulative catch-up adjustment to compensation cost in the period in which the change in estimate occurs. For awards with a market condition, compensation cost is recognized over the service period regardless of whether the market conditions are ultimately achieved. For awards which vest only after a specific event such as an exit event or Initial Public Offering ("IPO"), compensation expense is recognized upon the occurrence of the event. The Company has made an accounting policy election to account for any forfeitures in compensation expense as they occur.

The Company evaluates any modifications to its stock-based awards and accounts for them in the period of modification based on the appropriate service, performance, and/or market conditions. When the cancellation of an award is accompanied by the concurrent grant of a replacement award, it is accounted for as a modification of the terms of the cancelled award. The Company has made an accounting policy election to pool the costs and expenses of a cancelled award(s) and any concurrent replacement awards and expense them over the remaining vesting period of the replacement award, to the extent that the vesting period of the replacement award exceeds the remaining vesting period of the original award.

Employee Benefit Plans

The Company sponsors various employee benefit programs, including shore-based retention plans, defined contribution plans, end of service plans, and a defined benefit plan. See also Note 10 – Employee Benefit Plans.

Shore-Based Retention Plans

The Company has various shore-based retention plans for which associated payouts are typically made upon vesting, provided the participant is still employed by the Company. The retention plans consist of awards granted for certain employees that generally vest over a period ranging from one to four years. The Company recognizes these retention plan expenses over the plan's vesting period and accrues a liability for their ultimate payment. Expenses and the corresponding liability are reversed if an employee termination results in the forfeiture of accrued retention payments prior to vesting.

Certain of our Company retention plans are paid in advance of vesting and contain a repayment provision, which requires employees to repay the retention amount if employment is not maintained through the end of the vesting period, with certain exceptions. For retention plans paid in advance, the Company records an asset upon payment which is amortized as retention plan expenses over the vesting period. Expenses are reversed and a receivable from an employee is recorded if an employee termination results in the forfeiture of the retention award.

Defined Contribution Plans

The Company sponsors several defined contribution plans for certain employees in various jurisdictions. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. These plans include various plans under international jurisdictions. These plans include Company matching amounts, based on jurisdiction, and other Company payments, which may be based on job category or years of service. The Company's contributions are expensed as incurred and the Company has no further obligations for these plans.

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End of Service Plans

The Company offers end of service plans (defined benefit plans) to employees in certain countries in accordance with the labor laws in these countries or Company policies. The Company makes cash payments whenever the departure of an employee triggers the requirement to pay benefits. In certain countries for which management estimates that end of service liabilities are significant, the Company obtains a third-party valuation to estimate the end of service benefit liability based on actuarial assumptions that include an employee census and historical data.

Defined Benefit Plan

Certain employees are eligible for defined benefits under a Company plan and these benefits are fully vested. The employee’s benefit amount is calculated based on the employee’s base salary and various other factors, as outlined in the plan. The Company immediately recognizes any gains and losses from this plan and accrues a liability for the ultimate payments. Benefits are paid in a single lump sum cash payment when a participant is no longer employed by the Company.

The plan does not have any assets, nor does the Company intend to fund the plan. Amounts expected to be paid under the defined benefit plan are determined based on actuarial assumptions.

Debt

Premiums, discounts and debt issuance costs related to the issuance of term debt are deferred and recorded as an adjustment to the associated debt balance on the consolidated balance sheets. These amounts are amortized to interest expense using the effective interest method through the maturity of the related debt.

Debt issuance costs related to line-of-credit arrangements, regardless of whether there is any outstanding balance, are recorded under other long-term assets on the consolidated balance sheets and amortized to interest expense on a straight-line basis over the term of the line-of-credit arrangement.

In the event of early retirement of debt, any extinguishment costs and unamortized premiums, discounts and debt issuance costs associated with the retired debt are expensed as interest expense and financing charges in the consolidated statements of operations.

Net Income / (Loss) Per Common Share

Basic net income / (loss) per common share is calculated by dividing the net income or loss attributable to common shares by the weighted average number of common shares outstanding during the period, excluding contingently forfeitable unvested share-based compensation. The two-class method is used for participating securities, as applicable.

Diluted net income / (loss) per common share adjusts the weighted average number of common shares outstanding in the basic net income / (loss) per common share calculation for the effect of potential future issuances of common stock relating primarily to share-based compensation awards and other potentially dilutive instruments using the treasury stock method.

The dilutive effect of share-based awards using the treasury stock method consists of the total awards to be issued in a future period less an “assumed” buy back of shares. The “assumed” buy back of shares is computed using the average market price of common stock for the relevant period as the price per share and “assumed” proceeds which includes the award’s exercise price, if any, and the average unrecognized compensation expense of the award during the period. This calculation can result in a significantly lower dilutive effect than the stock-based awards currently outstanding and/or in certain awards being anti-dilutive. Anti-dilutive awards can become dilutive in future periods based on changes in the average market price of common stock and decreases in the unrecognized compensation costs.

In periods of net losses attributable to common shareholders, all potentially dilutive securities will be anti-dilutive, and therefore basic and diluted net income / (loss) per common share will be the same.

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Foreign Currency

The Company's functional currency is the U.S. dollar. As is customary in the oil and natural gas industry, the majority of the Company's revenues are denominated in U.S. dollars.

A significant amount of the Company's expenditures including interest expense and corporate expenses are denominated in U.S. dollars or are effectively denominated in U.S. dollars, as the payment currency is fixed to the U.S. dollar. However, certain subsidiaries have a significant amount of their operating expenses payable in local currencies. To limit the potential risk of currency fluctuations, when management believes that market conditions are favorable the Company may choose to enter into a series of monthly foreign currency forward contracts as discussed in "Derivative Financial Instruments" below. As such, the Company's exposure to non-U.S. dollar denominated currency exchange rate fluctuations may be limited by such derivatives. All transactions denominated in non-U.S. dollar currencies are recorded in U.S. dollars at the prevailing exchange rate. Realized transaction gains or losses and gains and losses from the remeasurement of assets and liabilities denominated in non-U.S. dollar currencies are reported as other, net in the consolidated statements of operations.

Derivative Financial Instruments

The Company's derivative financial instruments consist of foreign currency forward exchange contracts ("forex contracts") and interest rate swaps which the Company may designate as cash flow hedges. Each derivative contract is stated in the consolidated balance sheets at fair value. Derivatives with asset fair values are reported in other current assets or other long-term assets and derivatives with liability fair values are reported in other current liabilities or other long-term liabilities on the consolidated balance sheets, depending on their maturity date.

The Company has documented policies and procedures to monitor and control the use of the derivative instruments. The Company does not engage in derivative transactions for speculative or trading purposes.

Derivative gains and losses are reflected in the consolidated statements of operations except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of the derivative financial instruments to their fair value are recorded as a component of accumulated other comprehensive income / (loss) ("AOCIL"), in the consolidated balance sheets. These changes in fair value for each designated hedge included in the assessment of hedge effectiveness will remain in AOCIL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the forecast hedged transaction will not occur.

Foreign Currency Forward Exchange Contracts

The Company may enter into forex contracts when management believes that market conditions are favorable to purchase such contracts with the expectation that the contracts, when settled, will reduce the exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of these contracts are based on the monthly forecast of expenditures in which the Company conducts significant business and for which there is a financial market. These forward contracts are derivatives and any change in fair value included in the assessment of hedge effectiveness is recognized in AOCIL. The net gains / (losses) on forex contracts reclassified from AOCIL are recorded as operating and maintenance expense.

Note 3 – Recently Issued Accounting Pronouncements

Recently issued accounting standards

In November 2023, the FASB issued ASU No. 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires enhanced disclosures about significant segment expenses, enhanced interim disclosure requirements, new segment disclosure requirements for entities with a single reportable segment and contains other disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently reviewing the impact of the adoption on the consolidated financial statements.

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In December 2023, the FASB issued ASU No. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires a tabular reconciliation using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the statutory tax further broken out by nature and/or jurisdiction. This ASU also has disclosure requirements related to income taxes paid (net of refunds received), broken out between federal, state/local and foreign, and amounts paid to an individual jurisdiction when 5% or more of the total income taxes paid. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently reviewing the impact of the adoption on the consolidated financial statements.

Note 4 – Revenues

As of December 31, 2023, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through June 2031.

Lease revenue

On October 5, 2022, a subsidiary of the Company signed a bareboat charter agreement with a subsidiary of Noble Corporation ("Noble") for the Shelf Drilling Barsk rig. The Noble subsidiary leased the rig from the Company for the remaining term of its drilling contract with Equinor ASA until December 2023. The Company received payments of $2.0 million per month, which were trued up at periodic intervals for revenues and expenses per the terms of the agreement. The Company accounted for this operating lease and these variable lease payments under Accounting Standards Codification ("ASC") 842 Leases. The lease payments were recognized as revenue over the lease term as use of the asset occurred.

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

	Years ended December 31,		
	2023	2022	2021
Lease revenue [1]	$ 26.6	$ 12.1	$ —

(1) Recorded in the other revenues in the 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 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 consolidated balance sheets.

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

	As of December 31,	
	2023	2022
Current contract liabilities	$ 40.5	$ 4.9
Non-current contract liabilities	60.0	3.5
	$ 100.5	$ 8.4

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

	Years ended December 31, 2023	Years ended December 31, 2022
Balance, beginning of year	$ 8.4	$ 30.8
Increase due to contractual additions	136.8	23.5
Decrease due to amortization of deferred revenue	(29.8)	(43.6)
Decrease due to application of customer deposits and other	(14.9)	(2.3)
Balance, end of year	$ 100.5	$ 8.4

Revenues recognized of $4.9 million and $29.0 million during the years ended December 31, 2023 and 2022, respectively, were included in the beginning contract liabilities balances.

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

	As of December 31, 2023
2024	$ 40.5
2025	25.9
2026	16.8
2027	14.0
2028 and thereafter	3.3
	$ 100.5

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 December 31, 2023	As of December 31, 2022
Current deferred contract costs	$ 35.6	$ 14.8
Non-current deferred contract costs	42.9	17.3
	$ 78.5	$ 32.1

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

	Years ended December 31, 2023	Years ended December 31, 2022
Balance, beginning of year	$ 32.1	$ 36.7
Increase due to contractual additions	76.9	32.7
Decrease due to amortization of deferred contract costs	(30.5)	(37.3)
Balance, end of year	$ 78.5	$ 32.1

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Allowance for credit losses

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

	As of December 31,	
	2023	2022
Allowance for credit losses	$ 8.5	$ 3.8

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

	Years ended December 31,	
	2023	2022
Balance, beginning of year	$ 3.8	$ 3.2
Provision for credit losses, net	4.7	0.7
Write-off of uncollectible amounts	—	(0.1)
Balance, end of year	$ 8.5	$ 3.8

Note 5 – Net Loss Per Common Share

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

	Years ended December 31,		
	2023	2022	2021
Numerator for net loss per common share			
Net loss attributable to controlling interest	$ (7.6)	$ (28.8)	$ (78.6)
Denominator for net loss per common share			
Weighted average common shares:			
Weighted average common shares - basic and diluted	197.5	157.3	136.8
Net loss per common share - basic and diluted	$ (0.04)	$ (0.18)	$ (0.57)

Dilutive shares for the years ended December 31, 2023, 2022 and 2021 were not included as the effect would have been anti-dilutive. Dilutive shares were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Dilutive common shares	11.2	8.6	0.1

The NQSOs awarded in 2021 do not contain rights to dividends, and therefore would not be considered participating securities for purposes of computing earnings per share. The RSUs awarded contain forfeitable rights to dividends, and would not be considered participating securities for purposes of computing earnings per share. The NQSOs do not represent common shares outstanding until they are vested and exercised and the RSUs do not represent common shares outstanding until they are vested and converted into common shares. See Note 15 – Share-based Compensation.

For the year ended December 31, 2021, NQSOs to purchase 13.7 million common shares were not included in the computation of diluted loss per share as the effect of these NQSOs would have been anti-dilutive.

SHELF DRILLING

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Note 6 – Property and Equipment

Property and equipment consisted of the following (in millions):

	As of December 31, 2023	As of December 31, 2022
Rigs and equipment	$ 2,041.9	$ 1,936.2
Construction in progress	43.7	84.1
Spares	70.3	47.9
Land and building	2.2	2.2
Other	18.7	17.5
Total property and equipment	2,176.8	2,087.9
Less: Accumulated depreciation	689.7	611.5
Total property and equipment, net	$ 1,487.1	$ 1,476.4

The net carrying amount of rigs and equipment includes the Shelf Drilling Barsk which was under the bareboat charter agreement until December 2023. See Note 4 – Revenues for additional details. The carrying value and accumulated depreciation of this rig was as follows (in millions):

	As of December 31, 2023	As of December 31, 2022
Carrying value	$ 171.1	$ 169.4
Less: Accumulated depreciation	8.3	1.5
Net carrying value	$ 162.8	$ 167.9

Capital Expenditures

Amounts recorded for capital expenditures were as follows (in millions):

	Years ended December 31, 2023	2022	2021
Capital expenditures	$ 97.3	$ 511.6	$ 40.1

During the year ended December 31, 2022, the capital expenditures included $417.7 million related to the acquisition of five jack-up rigs from various subsidiaries of Noble ("Acquisition") and $58.1 million related to the purchase and rig readiness project for the Shelf Drilling Victory.

Rig Acquisitions

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

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

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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 under the ticker symbol SDNS.

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

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

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

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

(1) Recorded in property and equipment on the consolidated balance sheets.
(2) See Note 7 – Intangible Liability for details.

Disposal of assets

Disposal of assets were as follows (in millions):

	Years ended December 31,					
	2023		2022		2021	
Net carrying value	$	3.3	$	5.1	$	85.5
Net proceeds	$	1.2	$	1.8	$	85.4
Loss on disposal of assets	$	2.1	$	3.3	$	0.1

During the year ended December 31, 2021, the Company completed the sale of Shelf Drilling Journey, High Island VII, Trident 15, Key Hawaii, Galveston Key and Randolph Yost with a combined carrying value of $80.8 million for total net proceeds of $81.3 million, which resulted in a gain on disposal of $0.5 million.

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Note 7 – Intangible Liability

Following are the details of the intangible liability (in millions):

	As of December 31, 2023	As of December 31, 2022
Current portion [(1)]	$ —	$ 2.2
Non-current portion [(2)]	21.3	33.3
	$ 21.3	$ 35.5

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

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

	As of December 31, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of year	$ 43.1	$ (7.6)	$ 35.5
Amortization	—	(14.2)	(14.2)
Balance, end of year	$ 43.1	$ (21.8)	$ 21.3

	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

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

	As of December 31, 2023
2024	$ 12.8
2025	7.5
2026	1.0
	$ 21.3
Weighted average life (in years)	1.8

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

	Years ended December 31, 2023	2022	2021
Amortization of intangible liability [(1)]	$ 14.2	$ 7.6	$ —

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

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Note 8 – Leases

The Company has operating lease agreements principally for offices and yard space, employee accommodations, vehicles and rig and office equipment with either cancellable or non-cancellable lease terms. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases typically are for periods ranging from one to five years and are spread across multiple geographical locations where the Company operates. Most leases include extension and/or termination options, where the exercise of the lease renewal options is at the Company's discretion. Certain lease agreements include payments that are adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As of December 31, 2023 and 2022, the Company did not have any finance leases.

Operating right-of-use assets and operating lease liabilities

Right-of-use assets and lease liabilities are as follows (in millions):

	As of December 31,	
	2023	2022
Right-of-use assets		
Other long-term assets	$ 11.4	$ 12.2
Lease liabilities		
Other current liabilities	$ 7.3	$ 8.0
Other long-term liabilities	4.5	5.7
	$ 11.8	$ 13.7

Lease expense

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

	Years ended December 31,		
	2023	2022	2021
Operating lease right-of-use assets	$ 8.3	$ 6.6	$ 6.5
Short-term leases	8.8	9.2	3.3
Total lease expense	$ 17.1	$ 15.8	$ 9.8

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Following is the summary of the maturity of lease liabilities as of December 31, 2023 (in millions):

	As of December 31, 2023
2024	$ 7.6
2025	2.8
2026	1.3
2027	0.7
2028 and thereafter	0.4
Total lease payments	12.8
Less: Interest	1.0
Present value of lease liabilities	$ 11.8

The weighted-average remaining lease term and weighted average discount rate for operating lease right-of-use assets are as follows:

	As of December 31,	
	2023	2022
Weighted-average remaining lease term (years)	2.3	2.4
Weighted-average discount rate	8.7%	7.5%

Cash paid for amounts included in the measurement of lease liabilities (in millions):

	Years ended December 31,		
	2023	2022	2021
Lease payments	$ 9.4	$ 8.9	$ 9.9

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Note 9 – Debt

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

	As of December 31, 2023	As of December 31, 2022
9.625% Senior Secured Notes, due April 2029		
Principal amount	$ 1,095.0	$ —
Unamortized debt issuance costs	(19.4)	—
Unamortized discount	(19.2)	—
Carrying value	1,056.4	—
10.25% Senior Secured Notes, due October 2025		
Principal amount	243.8	250.0
Unamortized debt issuance costs	(2.9)	(4.3)
Unamortized discount	(4.6)	(6.9)
Carrying value	236.3	238.8
8.25% Senior Unsecured Notes, due February 2025		
Principal amount	—	900.0
Unamortized debt issuance costs	—	(6.0)
Unamortized premium	—	1.1
Carrying value	—	895.1
8.875% Senior Secured First Lien Notes, due November 2024		
Principal amount	—	310.0
Unamortized debt issuance costs	—	(3.9)
Unamortized discount	—	(3.3)
Carrying value	—	302.8
Term Loan, due June 2024		
Principal amount	33.3	—
Unamortized debt issuance costs	(0.6)	—
Carrying value	32.7	—
Total carrying value	1,325.4	1,436.7
Less: Current maturities of long-term debt		
9.625% Senior Secured Notes, due April 2029	37.5	—
10.25% Senior Secured Notes, due October 2025	12.5	—
Term Loan, due June 2024	32.7	—
	82.7	—
Total long-term debt	$ 1,242.7	$ 1,436.7

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

	As of December 31, 2023
Years ending December 31,	
2024	$ 83.3
2025	306.3
2026	75.0
2027	75.0
2028 and thereafter	832.5
Total	$ 1,372.1

9.625% Senior Secured Notes, due April 2029

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

The 9.625% Senior Secured Notes were issued at 98.184% for a discount of $19.9 million. Debt issuance costs were $20.3 million resulting in net proceeds of $1,054.8 million. Interest on the 9.625% Senior Secured Notes will be paid semi-annually in cash in arrears on April 15 and October 15 of each year, commencing on April 15, 2024. The effective interest rate on the 9.625% Senior Secured Notes is 10.65%.

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

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

10.25% Senior Secured Notes, due October 2025

On September 26, 2022, Shelf Drilling (North Sea) Holdings, Ltd. ("SDNSH"), an indirect wholly-owned subsidiary of SDNS, completed the issuance of $250.0 million aggregate principal amount of new 10.25% senior secured notes due October 31, 2025 (the "10.25% Senior Secured Notes") issued at 97.0% for total proceeds of $242.5 million, after deduction of $7.5 million discount. The debt proceeds were used to partially finance the Acquisition (see Note 6 – Property and Equipment). SDNS recorded

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$4.7 million additional fees and expenses as debt issuance costs. The debt issuance discount and costs are being amortized over the life of the debt using the effective interest method.

Interest on the 10.25% Senior Secured Notes is paid semi-annually in cash in arrears on April 30 and October 31 of each year, commencing on April 30, 2023. The 10.25% Senior Secured Notes require 5% per annum principal payments based on the initial aggregate principal amount; payments will be made semi-annually beginning on October 31, 2023 and continuing on each interest payment date thereafter. In accordance with the repayment schedule a payment of $6.3 million was made in October 2023. The effective interest rate on the 10.25% Senior Secured Notes is 12.26%.

The 10.25% Senior Secured Notes were issued under an indenture among SDNSH and its subsidiaries and Wilmington Trust, National Association, as trustee and as collateral agent. The 10.25% Senior Secured Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The 10.25% Senior Secured Notes are fully and unconditionally, jointly and severally guaranteed on a senior secured basis by Shelf Drilling (North Sea) Intermediate, Ltd. (“SDNSI”) (a direct subsidiary of SDNS, the direct parent of SDNSH and an indirect parent of all of the subsidiaries of SDNSH, including the rig owning entities and rig operating entities), with a first-priority lien on substantially all of the assets of SDNSI, SDNSH and its subsidiaries securing the 10.25% Senior Secured Notes.

On or after September 26, 2023, SDNSH may redeem the 10.25% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
Between September 26, 2023 and March 25, 2024	103.000%
Between March 26, 2024 and September 25, 2024	101.500%
On or after September 26, 2024	100.000%

8.25% Senior Unsecured Notes, due February 2025

On February 7, 2018, SDHL completed the issuance of $600.0 million of new 8.25% senior unsecured notes due February 15, 2025 (the “8.25% Senior Unsecured Notes”) issued at par. SDHL received net proceeds of $589.3 million, after deduction of $10.7 million of fees and expenses which were recorded as debt issuance costs and amortized over the life of the debt. On June 19, 2018, SDHL completed the issuance of an additional $300.0 million of 8.25% Senior Unsecured Notes at an issue price of 101% for total gross proceeds of $303.0 million, including a $3.0 million premium. SDHL received net proceeds of $297.2 million, after the deduction of $5.8 million of fees and expenses which were recorded as debt issuance costs and amortized over the life of the debt.

Interest on the 8.25% Senior Unsecured Notes accrued at a rate of 8.25% per year and was payable semi-annually in arrears on February 15 and August 15 of each year. The effective interest rate on the 8.25% Senior Unsecured Notes was 8.54%.

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

Loss on debt extinguishment of $22.9 million was recorded as interest expense and finance charges in the consolidated statement of operations which included redemption premium of $18.6 million, unamortized debt issuance costs of $3.9 million, unamortized premium of $0.7 million and transaction costs of $1.1 million.

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8.875% Senior Secured First Lien Notes, due November 2024

On March 26, 2021, SDHL completed the issuance through a private offering of $310.0 million aggregate principal amount of new 8.875% senior secured first lien notes, due November 15, 2024 (the “8.875% Senior Secured Notes”) issued at 98.082% for total gross proceeds of $304.1 million, including a $5.9 million discount. SDHL recorded $7.0 million of fees and expenses as debt issuance costs, which were amortized over the life of the debt. The resulting $297.1 million net proceeds were used to repay and terminate the SDHL Revolver, cash collateralize bank guarantees issued under the SDHL Revolver, redeem and repurchase all of the outstanding 8.75% Senior Secured Notes and for general corporate purposes.

The obligations under the 8.875% Senior Secured Notes were guaranteed by SDL and the majority of the Company’s subsidiaries that guarantee the obligations under the 8.25% Senior Unsecured Notes and were secured by a first-priority lien on substantially all of the assets of the Company and the subsidiary guarantors.

Interest on the 8.875% Senior Secured Notes accrued from March 26, 2021 at a rate of 8.875% and was payable semi-annually in arrears beginning on November 15, 2021 and on May 15 and November 15 of each year thereafter. The effective interest rate on the 8.875% Senior Secured Notes was 10.28%.

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

Loss on debt extinguishment of $4.8 million was recorded as interest expense and finance charges in the consolidated statements of operations which included unamortized debt issuance costs of $2.4 million, unamortized discount of $2.0 million and transaction costs of $0.4 million.

Term Loan, due June 2024

On September 28, 2023, SDHL entered into a $50.0 million term loan facility, (the “Term Loan”), with Goldman Sachs Bank USA which, following the satisfaction of customary conditions precedent, became available for drawing on October 13, 2023 and was completely drawn the same day. The Term Loan matures on June 30, 2024. The term loan facility was issued under an agreement with Goldman Sachs Bank USA as lender and Wilmington Trust (London) Limited as agent and security agent. The Term Loan is fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. Subject to certain guarantee and security principles, the Term Loan is fully and unconditionally, jointly and severally guaranteed on a senior secured basis by SDHL and the majority of its subsidiaries, which will also grant security over substantially all of their assets in favor of the creditors under the Term Loan. The Term Loan is subject to customary covenant restrictions such as those related to debt incurrence, dividend and other restricted payments, assets sales, incurring liens, transactions with affiliates, mergers and consolidations etc. The effective interest rate on the Term Loan is 13.43%. The Term Loan is also subject to financial covenants whereby the consolidated net leverage ratio for the relevant periods should not exceed the ratios indicated below:

Period ending	Ratio
December 31, 2023	4.50:1.00
March 31, 2024	4.25:1.00
June 30, 2024	3.75:1.00

Debt issuance costs for the Term Loan were $1.1 million. Interest is payable depending on the interest period selected by the Company and is calculated as follows:

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

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

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

The Term Loan repayment schedule requires payments equal to 33.33% of the aggregate loan on December 30, 2023, 33.33% of the aggregate loan on March 31, 2024 and the remaining outstanding balance on June 30, 2024. In accordance with the repayment schedule, a payment of $16.7 million was made in December 2023.

Credit Facility, due April 2028

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

1. The consolidated net leverage ratio should not exceed 3.75:1.00. This covenant will be effective as of June 30, 2024.

2. The market value of the collateral rigs shall not be less than 200% of total commitments. This covenant will be effective as of June 30, 2024.

3. Liquidity should not be less than $50.0 million. This covenant is effective as of December 31, 2023.

Debt issuance costs of $3.1 million were recorded in other long-term assets in the consolidated balance sheets. Interest is payable on the Credit Facility as follows:

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

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

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

Credit Facility, due April 2023

On February 24, 2014, SDHL entered into a revolving credit facility, which was subsequently amended four times, including on January 9, 2017 and June 4, 2018 and modified in related waivers and side letters (“SDHL Revolver”). The SDHL Revolver had a facility of $225.0 million, which could be drawn as, or as a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of contractual conditions set forth in the underlying credit agreement. All borrowings under the SDHL Revolver were to mature on April 30, 2023 and letters of credit and bank guarantees issued under the SDHL Revolver were to expire no later than five business days prior to April 30, 2023.

In March 2021, the Company fully settled the outstanding $55.0 million of the balance due under the SDHL Revolver and the bank guarantees totaling $22.9 million. The Company recognized a loss of $3.7 million associated with the debt extinguishment, which included a $3.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the year ended December 31, 2021. The amortization of debt issuance costs during the year ended December 31, 2021 was $0.4 million.

8.75% Senior Secured Notes, due November 2024

On February 20, 2020, SDHL completed the issuance through a private offering of $80.0 million aggregate principal amount of new 8.75% Senior Secured Notes, due November 15, 2024 (the “8.75% Senior Secured Notes”) issued at par. SDHL received proceeds of $80.0 million, less $2.7 million of fees and expenses, which were recorded as debt issuance costs and were being amortized over the life of the debt. The Company used the proceeds to replenish its liquidity following the acquisition of the Shelf Drilling Enterprise in January 2020 and to finance the reactivation and upgrade costs associated with the deployment of the rig in advance of its contract commencement in January 2021 in the Gulf of Thailand.

In March 2021, the Company fully settled the $80.0 million of 8.75% Senior Secured Notes. The Company recognized a loss of $6.4 million associated with this debt extinguishment, which included a $4.2 million call premium and a $2.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the year ended December 31, 2021. The total amortization of debt issuance costs during the year ended December 31, 2021 was $0.1 million.

Terms Common to All Indebtedness

Our outstanding debt has cross default provisions which would be triggered by an event of default exceeding certain amounts.

The outstanding debt has covenants that, among other things, limit the following:

- Incur or guarantee additional indebtedness or issue certain preferred shares;
- Pay dividends or make other distributions on, or redeem or repurchase, any equity interests;
- Make other restricted payments;
- Make certain acquisitions or investments;
- Create or incur liens;
- Transfer or sell assets;
- Incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;
- Enter into certain transactions with affiliates; and
- Consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Company’s assets or certain subsidiaries’ assets.

The outstanding debt also contain standard events of default. The Company was in compliance with all covenants of its debt agreements as of December 31, 2023.

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Note 10 – Employee Benefit Plans

Overview

The Company sponsors various employee benefit programs, including shore-based retention plans, defined contribution plans, end of service plans and a defined benefit plan. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. Eligibility under these plans may vary based on jurisdiction, years of service or other factors, as outlined in the respective plans or Company policies. Cash payments are made by the Company immediately for certain matching contribution programs, when a triggering event occurs, such as meeting of the vesting period for a retention plan, or after the departure of an employee for certain postemployment benefit programs.

Shore-Based Retention Plans

The Company recorded $8.4 million, $8.4 million and $7.3 million expense for shore-based retention plans for the years ended December 31, 2023, 2022 and 2021, respectively. The total cash payments under these retention plans are expected to be $5.1 million during 2024. The Company recorded obligations of $4.8 million and $3.2 million in other current liabilities and other long-term liabilities, respectively, and assets for retention plans paid in advance of $1.4 million on the consolidated balance sheet as of December 31, 2023. The Company recorded obligations for these plans of $2.6 million and $2.7 million in other current liabilities and long-term liabilities, respectively, and assets for retention plans paid in advance of $2.9 million and $1.4 million in other current assets and other long-term assets, respectively, on the consolidated balance sheet as of December 31, 2022.

In November 2020, the Company granted a retention plan with payments in 2021 and 2022, calculated based on the fair value of the Company's common stock over a defined time period and linked to certain share-based compensation awards granted in 2019 and 2020. This retention plan had a maximum cash payout of $4.5 million. In August 2021, the Company amended this retention plan after the cancellation of the associated share-based compensation awards. The amended plan had fixed cash payments totaling $3.8 million, of which $1.9 million was paid in each of the years ended December 31, 2022 and 2021, respectively. See Note 15 – Share-based Compensation for additional discussion of the Company's share-based compensation plans.

In May 2021, the Company granted a new cash retention bonus plan for certain employees for a total of $9.0 million, which is expensed over the vesting period through June 30, 2024. The total amount of $9.0 million was paid during the year ended December 31, 2021. The plan has a repayment provision, which requires employees to repay the retention amount if employment is not maintained through the end of the vesting period, with certain exceptions.

Defined Contribution Plans

The Company recorded $9.6 million, $7.0 million and $6.5 million expense for defined contribution plans for the years ended December 31, 2023, 2022 and 2021, respectively.

End of Service Plans

The Company recorded $3.7 million, $3.6 million and $2.6 million in expenses for employee end of service plans (defined benefit plans) for the years ended December 31, 2023, 2022 and 2021, respectively.

The Company recorded obligations for these plans of $1.7 million and 16.0 million in other current liabilities and other long-term liabilities, respectively on the consolidated balance sheet as of December 31, 2023. The Company recorded obligations of $1.6 million and $14.2 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheet as of December 31, 2022.

The assumptions used in the calculation of employee end of service plans are as follows:

	Years ended December 31,		
	2023	2022	2021
Discount rate			
Low	2.7 %	3.9 %	2.6 %
High	25.1 %	19.2 %	14.9 %
Range of annual rate of compensation increase			
Low	1.0 %	1.0 %	1.0 %
High	30.0 %	15.0 %	13.7 %

Defined Benefit Plan

The Company recorded an expense of $0.1 million, a gain of $0.2 million and $0.1 million in other, net in the consolidated statements of operations related to its defined benefit plan for the years ended December 31, 2023, 2022 and 2021, respectively. The discount rates used in the analyses were 4.8%, 5.1% and 2.2% for the years ended December 31, 2023, 2022 and 2021, respectively. The Company recorded obligations for these plans of $0.4 million and $0.9 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheet as of December 31, 2023. The Company recorded obligations of $0.1 million and $1.2 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheet as of December 31, 2022.

Note 11 – 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, operating lease liabilities and short-term debt, 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 debt (in millions):

	As of December 31, 2023		As of December 31, 2022	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.625% Senior Secured Notes, due April 2029	$ 1,056.4	$ 1,071.7	$ —	$ —
10.25% Senior Secured Notes, due October 2025	236.3	243.9	238.8	247.5
8.25% Senior Unsecured Notes, due February 2025	—	—	895.1	782.4
8.875% Senior Secured First Lien Notes, due November 2024	—	—	302.8	304.2
	$ 1,292.7	$ 1,315.6	$ 1,436.7	$ 1,334.1

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

Note 12 – 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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Insurance

The Company's hull and machinery, property, cargo and equipment and liability insurance consists of commercial market policies that the Company renews annually. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2023, the insured value of the Company's fleet was $2.7 billion.

Hull and Machinery Coverage

As of December 31, 2023, under the Company's hull and machinery insurance policies, the Company maintained a $5.0 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The policies include $100.0 million coverage for liabilities (onshore and/or offshore) and $50.0 million coverage for property, equipment and cargo. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a political risks policy covering acts of war and terrorism with a $250,000 deductible per occurrence (an additional $2.75 million in certain countries) and a limit of $200.0 million.

As of December 31, 2023, the Company also carried $100.0 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The policy deductible is $1.0 million per occurrence.

Liability Coverage

As of December 31, 2023, the Company carried $400.0 million (excluding $100.0 million coverage under the Hull and Machinery policies stated above) of marine liability coverage, exclusive of deductibles, which generally covered offshore risks such as personal injury, third-party property claims and third-party non-crew claims, including pollution from the rig. It also included coverage for costs incurred for wreck removal. The Company's liability coverage has a $1.0 million deductible per occurrence.

Self-Insured Medical Plan

The Company provides self-insured medical plans to certain employees in certain jurisdictions, subject to exclusions and limitations. The Company offers a self-insured medical plan for certain U.S. resident rig-based expatriate employees and their eligible dependents to provide medical, vision and dental coverage within the U.S. The maximum potential liability as of December 31, 2023 related to the plan is $2.4 million, as the Company is reinsured for the claims in excess of that amount by a third-party insurance provider.

The Company also offers a self-insured medical plan to provide medical coverage for certain employees represented by labor unions and work under collective bargaining agreements, and their eligible dependents. The Company is fully responsible for eligible claims.

Directors' and officers' liability insurance

As of December 31, 2023, the Company carried a $45.0 million directors' and officers' liability policy for the benefit of any director or officer in respect of any loss or liability attached to him or her for a claim of negligence, default, breach of duty or breach of trust. The deductible under this policy varies based on the type of claim but can be as high as $5.0 million per occurrence.

Surety Bonds and Other Bank Guarantees

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

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

	As of December 31,	
	2023	2022
Total surety bond facilities	$ 98.9	$ 99.2
Outstanding surety bonds	$ 42.4	$ 72.6

Other Contingencies

The Company is challenging an assessment for withholding taxes at one of its subsidiaries related to multiple tax years. The total amount of the tax assessment, including estimated penalties and interest, is $6.8 million as of December 31, 2023, of which up to $6.7 million would be reimbursable to the Company under an indemnity agreement with the third-party prior owner of the subsidiary. The Company does not believe the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

Note 13 – Equity

Common Shares Issuance

On September 29, 2023, the Company issued 19.4 million common shares at $0.01 per share. The Company received gross proceeds of $0.2 million and $59.5 million on September 29, 2023 and October 2, 2023, respectively. The $59.5 million received on October 2, 2023 was recorded in equity receivable as of September 30, 2023. The equity issuance costs were $2.2 million resulting in net proceeds of $57.5 million.

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

On June 24, 2022, the Company issued 38.4 million common shares at $0.01 per share. The gross proceeds from the issuance were $50.4 million and equity issuance costs were $2.3 million resulting in net proceeds of $48.1 million. The Company used these proceeds for the Acquisition as discussed in Note 6 – Property and Equipment.

The Company's Articles of Association contain certain preferential governance rights for Castle Harlan, Inc., including the right to appoint and remove directors, subject to certain ownership thresholds being met.

Note 14 – Supplemental Balance Sheet Information

Accounts and other receivables, net consisted of the following (in millions):

	As of December 31,	
	2023	2022
Accounts receivable	$ 222.4	$ 169.3
Other	14.7	10.2
Allowance for credit losses	(8.5)	(3.8)
	$ 228.6	$ 175.7

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Other current assets consisted of the following (in millions):

	As of December 31, 2023	As of December 31, 2022
Deferred costs	$ 73.0	$ 44.2
Prepayments	11.7	17.3
Income tax receivable	3.1	2.2
Restricted cash	0.9	12.6
Other	3.4	3.5
	$ 92.1	$ 79.8

Other long-term assets consisted of the following (in millions):

	As of December 31, 2023	As of December 31, 2022
Deferred costs	$ 126.5	$ 88.3
Income tax receivable	29.6	35.2
Operating right-of-use assets	11.4	12.2
Restricted cash	7.9	23.9
Other	8.0	9.2
	$ 183.4	$ 168.8

Other current liabilities consisted of the following (in millions):

	As of December 31, 2023	As of December 31, 2022
Contract liabilities	$ 40.5	$ 4.9
Accrued compensation and benefits	22.0	22.3
Operating lease liabilities	7.3	8.0
Intangible liability	—	2.2
Other	3.9	2.9
	$ 73.7	$ 40.3

Other long-term liabilities consisted of the following (in millions):

	As of December 31, 2023	As of December 31, 2022
Contract liabilities	$ 60.0	$ 3.5
Income taxes	25.3	20.9
Intangible liability	21.3	33.3
Accrued compensation and benefits	20.3	18.4
Operating lease liabilities	4.5	5.7
Other	0.4	0.3
	$ 131.8	$ 82.1

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Note 15 – Share-based Compensation

2017 Long-Term Incentive Plan

In October 2022, the Board of Directors amended the 2017 LTIP to increase the maximum number of shares to be granted under the plan to 23.4 million shares from 18.4 million shares. As of December 31, 2023 and 2022, there were 7.2 million and 7.3 million shares, respectively available for issuance under the 2017 LTIP. However, future grants of any additional awards are limited to the Company's authorized but unissued shares at the time of the respective award dates.

Nonqualified Stock Options

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

There were no NQSOs granted, exercised or forfeited during the years ended December 31, 2023 and 2022, respectively.

During the year ended December 31, 2021, 13.7 million NQSOs were granted to key employees with an exercise price of 4.60 Norwegian Krone ($0.51) per share and which vest in February 2025 and expire in February 2030. Concurrently with the grant of the NQSOs, the Company cancelled unvested time based RSUs ("TBRSU") and performance based RSUs ("PBRSUs") subject to the achievement of the market condition of total shareholder return against a predetermined peer group ("TSR share units") and the performance condition of return on capital employed ("ROCE share units") which were awarded in 2019 and 2020. Therefore, this grant and cancellation were accounted for as a modification affecting the nine grantees. The $4.4 million total unamortized compensation expense for the cancelled awards at the modification date plus the $2.3 million incremental fair value of the NQSOs over the cancelled awards totals $6.7 million, which were pooled and will be expensed on a straight line basis over the vesting period of the replacement awards.

The NQSOs granted in 2021 were measured on the grant date using the Black-Scholes-Merton model, which was prepared by an independent third party. Management reviewed the assumptions and methodologies used by the third-party experts to ensure they appear reasonable and consistent with the objective of determining fair value.

The grant date fair value of the NQSOs granted in 2021 of $0.27 was determined based on inputs and assumptions, including the market price of the shares on the date of grant of $0.51 and additional assumptions, as follows:

	As of December 31, 2021
Expected term	6.1 years
Risk free interest rate	1.0 %
Expected volatility	56.9 %
Expected dividend yield	—

The expected term represented the period from the grant date to the expected date of vesting, the risk-free interest rate was based on the rate of government securities with similar terms and the expected volatility was based on the historical volatility of the Company's share price and other factors.

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A summary of changes to the NQSOs as of December 31, 2023 is as follows:

	Shares (in millions)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding as of January 1, 2023	13.7	$ 0.51		
Outstanding as of December 31, 2023	13.7	$ 0.51	6.1	$ 32.0
Vested or expected to vest as of December 31, 2023	13.7	$ 0.51	6.1	$ 32.0
Exercisable as of December 31, 2023	—	—	—	—

The unrecognized compensation cost for NQSOs were as follows:

	As of December 31, 2023	As of December 31, 2022
Unrecognized compensation cost (in millions)	$ 2.2	$ 4.1
Weighted average period for recognition of unrecognized compensation cost (in years)	1.1	2.1

Restricted Share Units

The Company may grant restricted share units ("RSUs"), which are contractual rights to receive shares in the future provided the specific vesting condition is met. The RSUs granted to employees may be settled in cash in lieu of shares at the Company's sole discretion. During the requisite service period, the RSUs may not be sold or transferred and are subject to forfeiture. The RSU holder has the right to receive dividend equivalent but does not have the rights of a shareholder until the shares are issued. The dividend equivalent will be forfeited if the RSUs are forfeited before vesting. The RSUs awarded by the Company consisted of TBRSUs.

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

A summary of the TBRSUs granted as of December 31, 2023 and changes during the year is as follows:

	Time based restricted share units (in millions)	Weighted average grant date fair value per share
Non-vested shares as of January 1, 2023	0.3	1.93
Granted	0.2	2.77
Vested	(0.3)	1.93
Non-vested shares as of December 31, 2023	0.2	2.77

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The aggregate grant date fair value of the TBRSUs vested was $0.6 million, $0.6 million and $2.1 million during the years ended December 31, 2023, 2022 and 2021, respectively. As of December 31, 2023, the total unrecognized compensation cost related to non-vested TBRSUs was $0.4 million and is expected to be recognized over a weighted average period of approximately 0.9 years.

Share-based Compensation Expense

Amounts recorded for share-based compensation expense were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
NQSOs	$ 1.9	$ 1.9	$ 0.8
RSUs	$ 0.5	$ 0.7	$ 2.6

Share-based compensation expense is recorded in general and administrative expenses on the consolidated statements of operations. No income tax benefit was recognized for these awards.

Note 16 – Income Taxes

Tax Rate

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. Tax rates can vary significantly between jurisdictions. SDL is exempt from all income taxation in the Cayman Islands, its country of incorporation. The relationship between the provision for income taxes and income or loss before income taxes can vary significantly from period-to-period considering, among other factors:

- the overall level of income before income taxes;
- changes in the blend of income that is taxed based on gross revenues rather than income before taxes;
- rig movements between taxing jurisdictions;
- changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction;
- results of income tax audits and/or related settlements; and
- fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax balances in various jurisdictions.

The Company's effective income tax rates were as follows:

	Years ended December 31,		
	2023	2022	2021
Effective tax rate	238 %	344 %	(31)%

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Income Tax Expense

The components of the provisions for income taxes were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Current tax expense	$ 35.5	$ 32.8	$ 17.9
Deferred tax (benefit) / expense	(5.8)	1.3	0.6
Income tax expense	$ 29.7	$ 34.1	$ 18.5

The following is a reconciliation of the differences between the income tax expense for the Company's operations computed at the Cayman statutory rate of zero percent and the Company's reported provision for income taxes (in millions):

	Years ended December 31,		
	2023	2022	2021
Income tax expense at the Cayman statutory rate	$ —	$ —	$ —
Earnings subject to rates different than Cayman statutory rate	25.2	25.9	13.5
Change in reserve for uncertain tax positions	3.7	2.5	2.9
Adjustments to prior year tax liabilities or receivables	0.1	4.4	2.0
Interest and penalties on uncertain tax positions	0.7	1.3	0.1
Income tax expense	$ 29.7	$ 34.1	$ 18.5

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

In December 2021, the Organization for Economic Co-operation and Development and G20 inclusive framework on base erosion and profit shifting unveiled pillar 2.0 model global anti-base erosion rules ("BEPS 2.0"). These rules call for a global minimum tax of 15% on a per-jurisdiction basis for multi-national enterprises with annual revenues of more than €750.0 million. Currently, the rules are expected to impact the Company no sooner than 2025. However, any effect on the consolidated financial statements cannot currently be determined due to the complexity and the evolving nature of the rules and due to the uncertainty as to the extent to which various jurisdictions will implement such rules.

Deferred Taxes

The Company's deferred tax assets primarily include assets related to differences in the carrying value of certain assets for GAAP versus tax basis. Deferred tax assets are recorded net of any valuation allowances. Changes in the Company's estimates and assumptions used to determine the valuation allowance, including any changes in applicable tax laws or tax rates, may impact the Company's ability to recognize the underlying deferred tax assets and could require future adjustments to the valuation allowances. There was no valuation allowance recorded as of December 31, 2023. New enacted legislation in a certain jurisdiction prohibited the use of net operating losses to offset taxable income for periods beginning after March 31, 2023 resulting in additional tax expense of $2.4 million.

The Company's deferred tax liabilities include liabilities related to differences in book and tax depreciation based on the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries, none of which are considered permanently reinvested. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements.

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The significant components of the Company's deferred tax assets and liabilities were as follows (in millions):

	As of December 31,	
	2023	2022
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$ —	$ 2.6
Depreciation	8.2	2.1
Valuation allowance	—	—
Other	1.1	0.1
	$ 9.3	$ 4.8
Deferred tax liabilities		
Depreciation	$ 6.5	$ 7.1
Unremitted earnings	2.2	2.9
	$ 8.7	$ 10.0

Liabilities for Uncertain Tax Positions

The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgement, these tax positions are "uncertain" in that they are more likely than not to be successful if challenged by the relevant tax authorities in the future.

The changes to liabilities for uncertain tax positions, excluding interest and penalties, were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Balance, beginning of year	$ 17.1	$ 14.6	$ 11.7
Additions for current period tax positions	1.9	1.5	0.7
Additions for prior period tax positions	2.8	2.3	2.6
Reductions related to statute of limitations expiration	(0.9)	(1.3)	—
Reductions for prior period tax positions	—	—	(0.4)
Balance, end of year	$ 20.9	$ 17.1	$ 14.6

The Company recognizes any interest and penalties related to income tax as a component of income tax expenses. Interest and penalties related to uncertain tax positions were an expense as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Interest and penalties related to uncertain tax positions	$ 0.7	$ 1.3	$ 0.1

The accrued interest and penalties related to uncertain tax positions recorded as other long-term liabilities were as follows (in millions):

	As of December 31,	
	2023	2022
Accrued interest and penalties related to uncertain tax positions	$ 4.5	$ 3.8

Liabilities for uncertain tax positions may change from year-to-year based on various factors, including, but not limited to, favorable or unfavorable resolution of tax audits or disputes, expiration of relevant statutes of limitations, changes in tax laws or changes to the interpretation of existing tax laws due to new legislative guidance or court rulings, or new uncertain tax positions taken

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on recently filed tax returns. Although the Company has recorded liabilities against all tax benefits resulting from tax positions which, in management's judgement, are more likely than not to be successful if challenged by the relevant tax authorities in the future, the Company cannot provide assurance as to the final tax liability related to its tax positions as it is not possible to predict with certainty the ultimate outcome of any related tax disputes. Thus, it is reasonably possible that the ultimate tax liabilities related to such tax positions could substantially exceed recorded liabilities related to such tax positions, resulting in a material adverse effect on the Company's earnings and cash flows from operations.

Tax Returns and Examinations

In September 2023, Company received a favorable court ruling related to a $7.6 million tax assessment, exclusive of interest and fees, related to one of the Company's operations. Approximately $3.0 million of tax deposits that the Company previously paid relating to this matter was refunded during Q4 of 2023.

The Company is engaged in ongoing income tax disputes and/or tax audits in various jurisdictions, including Egypt, India, Nigeria, Saudi Arabia, and Thailand. The Company is vigorously contesting all substantial assessments and has recorded tax reserves for all amounts that the Company deems more likely than not to ultimately be sustained in favor of the tax authorities upon final resolution. If the Company were to lose one or more tax disputes, income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. As of December 31, 2023, the 2013 through 2023 income tax periods remain open for examination in multiple jurisdictions.

Note 17 – Variable Interest Entities

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of 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 consolidated financial statements. In June 2021, the Company entered into a contract for drilling services in Angola, and as a result in September 2021, the Company exercised its existing contractual right to transfer legal ownership of 49% of the shares in SDAL for which it is the primary beneficiary.

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

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

	Third party country of incorporation	Third party ownership percentage	
		As of December 31,	
		2023	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 consolidated financial statements.

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Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the years ended December 31, 2023, 2022 and 2021 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
December 31, 2023:						
Revenues	$ —	$ —	$ 70.3	$ —	$ 13.4	$ 83.7
Operating costs and expenses	$ 0.2	$ 0.4	$ 51.1	$ 6.0	$ 13.6	$ 71.3
December 31, 2022:						
Revenues	$ —	$ —	$ 42.5	$ —	$ 11.7	$ 54.2
Operating costs and expenses	$ 0.1	$ 0.3	$ 37.7	$ 5.6	$ 12.5	$ 56.2
December 31, 2021						
Revenues	$ —	$ —	$ 29.2	$ —	$ —	$ 29.2
Operating costs and expenses	$ 0.3	$ 0.5	$ 29.1	$ 5.2	$ 0.3	$ 35.4

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 CONSOLIDATED FINANCIAL STATEMENTS

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

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 9.8	$ 0.2	$ 0.7	$ 10.9
Accounts and other receivables, net	—	—	21.7	—	3.4	25.1
Other current assets	—	—	0.1	0.7	0.5	1.3
Total current assets	—	0.2	31.6	0.9	4.6	37.3
Property and equipment, net	—	—	2.1	—	—	2.1
Other long-term assets	—	0.1	1.5	0.4	—	2.0
Total non-current assets	—	0.1	3.6	0.4	—	4.1
Total assets	$ —	$ 0.3	$ 35.2	$ 1.3	$ 4.6	$ 41.4
Liabilities						
Accounts payable	$ —	$ —	$ 11.0	$ 0.2	$ 0.8	$ 12.0
Other current liabilities	0.1	0.1	3.2	0.6	0.4	4.4
Total current liabilities	0.1	0.1	14.2	0.8	1.2	16.4
Other long-term liabilities	0.1	0.2	—	0.8	0.2	1.3
Total long-term liabilities	0.1	0.2	—	0.8	0.2	1.3
Total liabilities	$ 0.2	$ 0.3	$ 14.2	$ 1.6	$ 1.4	$ 17.7
Carrying amount, net	$ (0.2)	$ —	$ 21.0	$ (0.3)	$ 3.2	$ 23.7

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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 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 20 – Related Parties for additional discussion on the Company's transactions with its VIEs.

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Note 18 – Supplemental Cash Flow Information

Operating Cash Flows

The net effect of changes in operating assets and liabilities on cash flows from operating activities was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ (57.6)	$ (40.2)	$ (7.7)
Other current assets	3.4	(2.3)	(3.2)
Other long-term assets	10.7	(0.2)	(5.9)
Increase / (decrease) in operating liabilities			
Accounts payable and other current liabilities	58.9	56.9	39.0
Accrued interest	(10.3)	6.8	2.2
Accrued income taxes	4.0	4.1	0.3
Other long-term liabilities	79.6	5.1	1.9
	$ 88.7	$ 30.2	$ 26.6

Additional cash flow information was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Interest and other financing charges	$ 140.7	$ 101.8	$ 96.0
Income taxes	$ 22.4	$ 25.9	$ 16.7

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases, 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):

	Years ended December 31,		
	2023	2022	2021
Regulatory and capital maintenance	$ 89.4	$ 66.1	$ 67.3
Contract preparation	76.9	32.7	28.7
Fleet spares, transition costs and others	30.7	12.0	15.6
	197.0	110.8	111.6
Rig acquisitions	28.8	476.4	1.5
Total capital expenditures and deferred costs	$ 225.8	$ 587.2	$ 113.1

SHELF DRILLING, LTD.
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The reconciliation of the payments for acquisition of property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Cash payments for additions to property and equipment	$ 103.1	$ 453.7	$ 45.9
Non-cash increase to fair value of rigs in the acquisition	—	42.7	—
Net change in advances and accrued but unpaid additions to property and equipment	(5.8)	15.2	(5.8)
Total capital expenditures	97.3	511.6	40.1
Changes in deferred costs, net	67.0	11.3	34.1
Add: Amortization of deferred costs	61.5	64.3	38.9
Total deferred costs	128.5	75.6	73.0
Total capital expenditures and deferred costs	$ 225.8	$ 587.2	$ 113.1

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

	As of December 31,	
	2023	2022
Cash and cash equivalents	$ 98.2	$ 140.8
Restricted cash included in other current assets	0.9	12.6
Restricted cash included in other long-term assets	7.9	23.9
Total cash, cash equivalents and restricted cash	$ 107.0	$ 177.3

Note 19 – 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):

	Years ended December 31,		
	2023	2022	2021
Saudi Arabia	$ 270.8	$ 202.2	$ 143.4
Nigeria	152.5	73.8	52.7
India	123.2	123.8	81.5
Thailand	84.8	89.3	167.9
Italy	48.5	30.3	22.6
Angola	43.3	63.3	—
Others (1)	170.7	104.9	58.5
	893.8	687.6	526.6
Amortization of intangible liability	14.2	7.6	—
Total revenues	$ 908.0	$ 695.2	$ 526.6

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

Although the Company is incorporated under the laws of the Cayman Islands, the Company does not conduct any operations and does not have any operating revenues or long-lived assets in Cayman Islands.

Total long-lived assets, net of impairment, depreciation and amortization by location based on the country in which the assets were located as of the balance sheet date were as follows (in millions):

	As of December 31,	
	2023	2022
Thailand	$ 437.1	$ 463.1
Saudi Arabia	305.5	189.3
Norway	163.5	167.9
Nigeria	160.6	87.6
United Kingdom	110.2	113.1
United Arab Emirates	102.1	129.2
India	96.6	60.3
Italy	88.5	71.5
Others (1)	233.9	339.2
Total long-lived assets, net	$ 1,698.0	$ 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 year are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the year.

Note 20 – Related Parties

The Company's related parties include China Merchants Industry Holdings Company Limited, Castle Harlan, Inc. and Lime Rock Partners (Lime Rock Partners held shares of the Company during the year but sold substantially all their shares before December 31, 2023), independent SDL and SDNS directors, key management personnel, VIEs and entities controlled, jointly controlled or significantly influenced by such parties.

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Directors

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

	Years ended December 31,		
	2023	2022	2021
SDL directors costs	$ 1.4	$ 1.9	$ 0.9

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

	As of December 31,	
	2023	2022
Accounts payable	$ 0.1	$ 0.3

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

	Years ended December 31,		
	2023	2022	2021
SDNS independent directors costs	$ 0.1	$ —	$ —

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

VIEs

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

	Years ended December 31,		
	2023	2022	2021
VIE related parties provided goods and services	$ 3.6	$ 2.9	$ 1.9

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

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

Lease

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The Company has recorded the following (in millions):

	Years ended December 31,		
	2023	2022	2021
Lease expense	$ 0.6	$ 1.0	$ 1.1

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

Note 21 – Interest Rate, Foreign Currency and Credit Risk

Interest Rate Risk

Financial instruments that potentially subject the Company to interest rate risk include cash and cash equivalents and debt. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted semi-annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. 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 the Company to changes in market interest rates if and when voluntary refinancing or refinancing of maturing debt with new debt occurs. The Company has in the past utilized interest rate swaps or other derivative instruments to manage interest rate risk.

Foreign Currency Risk

The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with receivables from customers, compensation costs of the Company's employees and purchasing costs from suppliers in currencies other than the U.S. dollar.

The 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. In addition, the Company can utilize forex contracts to manage foreign exchange risk related to certain currencies.

Amounts recorded for net (loss) / gain on foreign exchange were as follows:

	Years ended December 31,		
	2023	2022	2021
Net (loss) / gain on foreign currency exchange	$ (6.3)	$ 0.1	$ 0.4

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Credit Risk

Financial instruments that potentially subject the Company 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 the Company's services is the offshore oil and natural gas industry. The Company's 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. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations.

Consolidated revenues (excluding amortization of intangible liability) by top customer were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Largest customer	30%	29%	32%
Second largest customer	17%	13%	27%
Third largest customer	12%	11%	13%
Others	41%	47%	28%
	100%	100%	100%

The top three customer balances represent approximately 56% and 44% of accounts receivable as of December 31, 2023 and 2022, respectively.

Note 22 – Subsequent Events

The Company has evaluated subsequent events through March 4, 2024, the date of issuance of the consolidated financial statements. On March 1, 2024 the Company executed an agreement related to the Credit Facility that increases the total facility size from $125.0 million to $150.0 million.

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