SHELF DRILLING, LTD.

Form 10-Q Equivalent for the
three months ended March 31, 2024 and 2023

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SHELF DRILLING, LTD.
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Independent Auditor's Report

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

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated interim financial information of Shelf Drilling, Ltd. and its subsidiaries (together, the "Company"), which comprise the condensed consolidated balance sheet as of March 31, 2024, and the related condensed consolidated statements of operations, equity and cashflows for the three-month periods ended March 31, 2024 and 2023, including the related notes (collectively referred to as the "condensed consolidated interim financial information").

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

Basis for Review Results

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

Responsibilities of Management for the Condensed Consolidated Interim Financial Information

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

Other Matter

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Shelf Drilling, Ltd. and its subsidiaries as of December 31, 2023, and the related consolidated statements of operations, equity and of cash flows for the year then ended (not presented herein), and in our report dated March 4, 2024, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2023, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers

PricewaterhouseCoopers Limited Partnership Dubai Branch
Dubai, United Arab Emirates
May 15, 2024

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

	Three months ended March 31,	
	2024	2023
Revenues		
Operating revenues	$ 247.0	$ 168.1
Other revenues	7.7	15.3
	254.7	183.4
Operating costs and expenses		
Operating and maintenance	149.5	129.2
Depreciation	21.3	19.0
Amortization of deferred costs	19.6	12.0
General and administrative	18.0	15.5
Loss on disposal of assets	1.0	0.1
	209.4	175.8
Operating income	45.3	7.6
Other expense / (income), net		
Interest income	(0.9)	(0.7)
Interest expense and financing charges	36.8	34.1
Other, net	4.2	(0.1)
	40.1	33.3
Income / (loss) before income taxes	5.2	(25.7)
Income tax expense	9.0	8.6
Net loss	(3.8)	(34.3)
Net loss attributable to non-controlling interest	(8.2)	(0.9)
Net income / (loss) attributable to controlling interest	$ 4.4	$ (33.4)
Net income / (loss) per common share - basic	$ 0.02	$ (0.18)
Net income / (loss) per common share - diluted	$ 0.02	$ (0.18)
Weighted average common shares - basic	213.7	187.9
Weighted average common shares - diluted	225.3	187.9

See notes to the condensed consolidated financial statements.

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

	March 31, 2024	December 31, 2023
Assets		
Cash and cash equivalents	$ 101.6	$ 98.2
Accounts and other receivables	242.5	237.1
Less: allowance for credit losses	6.1	8.5
Accounts and other receivables, net	236.4	228.6
Other current assets	103.2	92.1
Total current assets	441.2	418.9
Property and equipment	2,195.1	2,176.8
Less: accumulated depreciation	709.6	689.7
Property and equipment, net	1,485.5	1,487.1
Deferred tax assets	9.2	9.3
Other long-term assets	180.3	183.4
Total assets	$ 2,116.2	$ 2,098.7
Liabilities and equity		
Accounts payable	$ 121.9	$ 115.7
Interest payable	61.3	28.0
Accrued income taxes	14.5	13.1
Current maturities of long-term debt	74.5	82.7
Other current liabilities	71.1	73.7
Total current liabilities	343.3	313.2
Long-term debt	1,245.4	1,242.7
Deferred tax liabilities	8.9	8.7
Other long-term liabilities	119.1	131.8
Total long-term liabilities	1,373.4	1,383.2
Commitments and contingencies (Note 9)	—	—
Common shares of $0.01 par value; 234.1 shares authorized as of both March 31, 2024 and December 31, 2023, respectively; 213.7 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	2.1	2.1
Additional paid-in capital	1,161.3	1,160.3
Accumulated losses	(826.0)	(830.4)
Total controlling interest shareholders' equity	337.4	332.0
Non-controlling interest	62.1	70.3
Total equity	399.5	402.3
Total liabilities and equity	$ 2,116.2	$ 2,098.7

See notes to the condensed consolidated financial statements.

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Number of common shares		
Balance, beginning of period	213.7	176.4
Issuance of common shares	—	17.6
Balance, end of period	213.7	194.0
Common shares		
Balance, beginning of period	$ 2.1	$ 1.8
Issuance of common shares	—	0.1
Balance, end of period	2.1	1.9
Additional paid-in capital		
Balance, beginning of period	1,160.3	1,056.6
Issuance of common shares	—	44.0
Share-based compensation expense, net of forfeitures	1.0	0.6
Balance, end of period	1,161.3	1,101.2
Accumulated losses		
Balance, beginning of period	(830.4)	(822.8)
Net income / (loss)	4.4	(33.4)
Balance, end of period	(826.0)	(856.2)
Total controlling interest shareholders' equity		
Balance, beginning of period	332.0	235.6
Net income / (loss)	4.4	(33.4)
Issuance of common shares	—	44.1
Share-based compensation expense, net of forfeitures	1.0	0.6
Balance, end of period	337.4	246.9
Non-controlling interest		
Balance, beginning of period	70.3	79.9
Net loss	(8.2)	(0.9)
Balance, end of period	62.1	79.0
Total equity	$ 399.5	$ 325.9

See notes to the condensed consolidated financial statements.

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Cash flows from operating activities		
Net loss	$ (3.8)	$ (34.3)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities		
Depreciation	21.3	19.0
Provision for / (reversal of provision) for credit losses, net	1.0	(0.3)
Amortization of deferred revenue	(10.6)	(3.1)
Amortization of intangible liability	(3.2)	(3.6)
Share-based compensation expense, net of forfeitures	1.0	0.6
Amortization of debt issuance costs, premium and discounts	3.3	2.3
Loss on disposal of assets	1.0	0.1
Deferred tax expense, net	0.3	2.0
Changes in deferred costs, net*	(7.9)	(26.9)
Foreign currency transaction losses	4.6	—
Changes in operating assets and liabilities*	30.4	17.7
Net cash provided by / (used in) operating activities	37.4	(26.5)
Cash flows from investing activities		
Additions to property and equipment*	(20.4)	(19.4)
Advance payment for property and equipment	—	(1.1)
Proceeds from disposal of assets	0.2	0.2
Net cash used in investing activities	(20.2)	(20.3)
Cash flows from financing activities		
Payment of debt issuance costs	(1.2)	(0.2)
Payment of debt extinguishment costs	(0.2)	—
Repayment of term loan	(8.3)	—
Proceeds from issuance of common shares, net of issuance costs	—	44.4
Payment of issuance costs for the subsidiary shares issuance to non-controlling interest	—	(0.1)
Net cash provided by / (used in) financing activities	(9.7)	44.1
Exchange rate change effect on cash, cash equivalents and restricted cash	(4.6)	—
Net increase / (decrease) in cash, cash equivalents and restricted cash	2.9	(2.7)
Cash, cash equivalents and restricted cash at beginning of period*	107.0	177.3
Cash, cash equivalents and restricted cash at end of period*	$ 109.9	$ 174.6

* See Note 13 – Supplemental Cash Flow Information for a reconciliation of cash payments for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs and a reconciliation of cash, cash equivalents and restricted cash balances.

See notes to the condensed consolidated financial statements.

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

Note 1 – Business and Basis of Presentation

Business

Shelf Drilling, Ltd. ("SDL") was incorporated on August 14, 2012 as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the "Company", "we" or "our") is a leading international shallow water offshore contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 500 feet and our fleet consists of 36 independent-leg cantilever ("ILC") jack-up rigs as of March 31, 2024. 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, geographically close to our operations in the Middle East, North Africa and the Mediterranean (together, "MENAM"), Southeast Asia, India, West Africa and North Sea.

Basis of Presentation

The Company has prepared the accompanying condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by GAAP for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of financial position, results of operations and cash flows for the interim periods. Such adjustments are of a normal recurring nature unless otherwise noted. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or for any future period. The accompanying condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's Form 10-K Equivalent for the year ended December 31, 2023. The amounts are presented in United States ("U.S.") dollar ("$") rounded to the nearest tenth of a million, unless otherwise stated. The Company's significant accounting policies are included in the Company's Form 10-K Equivalent for the year ended December 31, 2023.

Note 2 – 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, disclosures about the individual or the group or committee identified as the chief operating decision-maker 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 condensed consolidated financial statements.

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 condensed consolidated financial statements.

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

Note 3 – Revenues

As of March 31, 2024, 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):

	Three months ended March 31,	
	2024	2023
Lease revenue [(1)]	$ —	$ 9.9

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

Contract Liabilities and Deferred Contract Costs

Contract Liabilities

The Company recognizes a contract liability when we invoice an amount which is greater than the revenues allocated to the related performance obligations for goods or services transferred to a customer. Contract liabilities include fees for contract preparation, capital upgrades, mobilization and advance payments from customers for future services which are recorded as other current liabilities and other long-term liabilities, as appropriate, in the condensed consolidated balance sheets.

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

	As of	
	March 31, 2024	December 31, 2023
Current contract liabilities	$ 42.3	$ 40.5
Non-current contract liabilities	54.9	60.0
	$ 97.2	$ 100.5

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

	Three months ended March 31,	
	2024	2023
Balance, beginning of period	$ 100.5	$ 8.4
Increase due to contractual additions	15.9	15.3
Decrease due to amortization of deferred revenue	(10.6)	(3.1)
Decrease due to application of customer deposits and other	(8.6)	—
Balance, end of period	$ 97.2	$ 20.6

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

Revenues recognized of $13.2 million and $3.1 million during the three months ended March 31, 2024 and 2023, respectively, were included in the beginning contract liabilities balances.

Expected future amortization of contract liabilities, net recorded as of March 31, 2024 is as follows (in millions):

	As of March 31, 2024
Remainder of 2024	$ 32.8
2025	30.3
2026	16.8
2027	14.0
2028	3.3
	$ 97.2

Deferred Contract Costs

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

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

	As of	
	March 31, 2024	December 31, 2023
Current deferred contract costs	$ 41.5	$ 35.6
Non-current deferred contract costs	40.1	42.9
	$ 81.6	$ 78.5

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

	Three months ended March 31,	
	2024	2023
Balance, beginning of period	$ 78.5	$ 32.1
Increase due to contractual additions	13.7	26.8
Decrease due to amortization of deferred contract costs	(10.6)	(4.8)
Balance, end of period	$ 81.6	$ 54.1

Allowance for Credit Losses

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

	As of	
	March 31, 2024	December 31, 2023
Allowance for credit losses	$ 6.1	$ 8.5

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

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Balance, beginning of period	$ 8.5	$ 3.8
Provision for / (Reversal of provision for) credit losses, net	1.0	(0.3)
Write-off of uncollectible amounts	(3.4)	—
Balance, end of period	$ 6.1	$ 3.5

Note 4 – Net Income / (Loss) Per Common Share

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Numerator for net income / (loss) per common share		
Net income / (loss) attributable to controlling interest	$ 4.4	$ (33.4)
Denominator for net income / (loss) per common share		
Weighted average common shares:		
Weighted average common shares - basic	213.7	187.9
Weighted average common shares - diluted	225.3	187.9
Net income / (loss) per common share - basic	$ 0.02	$ (0.18)
Net income / (loss) per common share - diluted	$ 0.02	$ (0.18)
Excluded anti-dilutive common shares	3.0	11.1

In February 2024, the Company granted time based and market based restricted stock units which are reflected in the excluded anti-dilutive shares.

Note 5 – Property and Equipment

Useful Lives of Property and Equipment

On January 1, 2024, the Company had a change in accounting estimate, which resulted in a change in the useful lives of nine rigs. As a result, depreciation for the year ended December 31, 2024 will be less than it would have been without this change in accounting estimate. During the three months ended March 31, 2024, the change in accounting estimate resulted in a $1.1 million lower depreciation on drilling rigs and equipment with an immaterial impact on basic and diluted earnings per share.

Disposal of Assets

Disposal of assets were as follows (in millions):

	Three months ended March 31, 2024	Three months ended March 31, 2023
Net carrying value	$ 1.2	$ 0.4
Net proceeds	$ 0.2	$ 0.3
Loss on disposal of assets	$ 1.0	$ 0.1

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

Note 6 – Intangible Liability

Following are the details of the intangible liability (in millions):

	As of	
	March 31, 2024	December 31, 2023
Intangible liability [1]	$ 18.1	$ 21.3

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

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

	As of March 31, 2024		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of period	$ 43.1	$ (21.8)	$ 21.3
Amortization	—	(3.2)	(3.2)
Balance, end of period	$ 43.1	$ (25.0)	$ 18.1

	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

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

	As of March 31, 2024
Remainder of 2024	$ 9.6
2025	7.5
2026	1.0
	$ 18.1
Weighted average life (in years)	1.6

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

	Three months ended March 31,	
	2024	2023
Amortization of intangible liability [1]	$ 3.2	$ 3.6

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

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

Note 7 – Debt

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

	As of	
	March 31, 2024	December 31, 2023
9.625% Senior Secured Notes, due April 2029		
Principal amount	$ 1,095.0	$ 1,095.0
Unamortized debt issuance costs	(18.6)	(19.4)
Unamortized discount	(18.2)	(19.2)
Carrying value	1,058.2	1,056.4
10.25% Senior Secured Notes, due October 2025		
Principal amount	243.8	243.8
Unamortized debt issuance costs	(2.5)	(2.9)
Unamortized discount	(4.1)	(4.6)
Carrying value	237.2	236.3
Term Loan, due December 2024		
Principal amount	25.0	33.3
Unamortized debt issuance costs	(0.2)	(0.6)
Unamortized discount	(0.3)	—
Carrying value	24.5	32.7
Total carrying value	1,319.9	1,325.4
Less: Current maturities of long-term debt		
9.625% Senior Secured Notes, due April 2029	37.5	37.5
10.25% Senior Secured Notes, due October 2025	12.5	12.5
Term Loan, due December 2024	24.5	32.7
	74.5	82.7
Total long-term debt	$ 1,245.4	$ 1,242.7

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

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

	As of March 31, 2024
Twelve months ending March 31,	
2025	$ 75.0
2026	306.3
2027	75.0
2028	75.0
2029 and thereafter	832.5
Total	$ 1,363.8

Term Loan, due December 2024

On March 22, 2024, the Company executed an amendment that extended the maturity date of the term loan from June 30, 2024 to December 31, 2024 ("Term Loan"). The amendment required a principal payment of $8.3 million which was made in March 2024 and the remaining outstanding balance of $25.0 million on December 31, 2024. If agreed between the Company and the lenders, the amendment also includes an option to extend the maturity date to March 31, 2025. As of March 31, 2024, $0.3 million of costs related to the modification were capitalized as unamortized discount and $0.2 million were expensed in the general and administrative expenses line item. The effective interest rate on the Term Loan is 11.05%. The consolidated net leverage ratio according to the amendment is shown 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
September 30, 2024	3.75:1.00
December 31, 2024	3.75:1.00

Credit Facility, due April 2028

On March 1, 2024, the Company executed an agreement that increased the total credit facility ("Credit Facility") size from $125.0 million to $150.0 million. As of March 31, 2024, debt issuance costs of $1.1 million related to the upsize were recorded in other long-term assets. In April 2024, the Company drew $25.0 million from the Credit Facility.

Note 8 – 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.

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

The following table represents the carrying value and estimated fair value of debt (in millions):

	As of March 31, 2024		As of December 31, 2023	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.625% Senior Secured Notes, due April 2029	$ 1,058.2	$ 1,058.5	$ 1,056.4	$ 1,071.7
10.25% Senior Secured Notes, due October 2025	237.2	246.4	236.3	243.9
	$ 1,295.4	$ 1,304.9	$ 1,292.7	$ 1,315.6

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

Note 9 – 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.

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, the United Arab Emirates, Nigeria, Vietnam and Thailand, which is secured by restricted cash balances or Credit Facility to guarantee various contractual, performance and customs obligations.

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

	As of March 31, 2024	As of December 31, 2023
Total surety bond facilities	$ 106.4	$ 98.9
Outstanding surety bonds	$ 56.4	$ 42.4

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 $4.5 million as of March 31, 2024, of which up to $4.4 million would be reimbursable to the Company under an indemnity agreement with the third-party prior owner of the subsidiary. The Company does not believe the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations or cash flows.

Note 10 – Equity

Common Shares Issuance

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

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

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.

Note 11 – Income Taxes

Income tax expense for the three months ended March 31, 2024 and 2023, was calculated using a discrete approach whereby income tax expense is determined by estimating the actual income tax liability that will result from earnings from continued operations for the three months ended March 31, 2024 and 2023, rather than by using an estimated annual effective income tax rate as applied to year-to-date income before income taxes, primarily due to management's view that it was not possible to reliably estimate an annual 2024 and 2023 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

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

	Three months ended March 31,	
	2024	**2023**
Income tax expense	$ 9.0	$ 8.6
Effective tax rate	173 %	(33)%

Income tax expense for the three months ended March 31, 2024 was higher than for the same period in 2023, primarily due to higher revenues and prior period adjustments in the current period, versus an income tax benefit related to prior period adjustments in the prior period, partially offset by tax benefits from reductions in tax liabilities for uncertain tax positions primarily due to favorable currency fluctuations for prior period liabilities, and by smaller deferred tax expense compared to the prior period in which certain deferred tax assets were written off due to a change in law.

Tax Returns and Examinations

The Company is engaged in ongoing income tax disputes and/or tax audits in various jurisdictions, including Italy, 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 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 March 31, 2024, the 2013 through 2023 income tax periods remain open for examination in multiple jurisdictions.

Note 12 – Variable Interest Entities

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of variable interest entities ("VIEs") providing services which are Shelf Drilling Ventures (Malaysia) Sdn. Bhd. ("SDVM"), PT. Hitek Nusantara Offshore Drilling ("PT Hitek"), Shelf Drilling (Nigeria) Limited ("SDNL"), Shelf Drilling Offshore Services Limited ("SDOSL") and Shelf Drilling (Angola), Limitada ("SDAL") and which are included in these condensed consolidated financial statements.

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

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

	Third party country of incorporation	Third party ownership percentage March 31, 2024	Third party ownership percentage December 31, 2023
SDVM	Malaysia	60%	60%
PT Hitek	Indonesia	20%	20%
SDNL	Nigeria	51%	51%
SDOSL	Nigeria	20%	20%
SDAL	Angola	51%	51%

Each of the third parties listed above are not in a position to provide additional financing to their respective VIEs and do not participate in any gains and/or losses. The Company is the primary beneficiary as it has the power to direct the operating and marketing activities, which are the activities that most significantly impact each entity's economic performance, and has the obligation to absorb losses and the right to receive a majority of the benefits of the VIEs. Therefore, the Company has determined that the VIEs meet the criteria to be presented as consolidated entities in the Company's condensed consolidated financial statements.

Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the three months ended March 31, 2024 and 2023 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
March 31, 2024:						
Revenues	$ —	$ —	$ 22.5	$ —	$ 3.4	$ 25.9
Operating costs and expenses	$ 0.1	$ 0.1	$ 17.1	$ 1.3	$ 3.0	$ 21.6
March 31, 2023:						
Revenues	$ —	$ —	$ 7.9	$ —	$ 3.4	$ 11.3
Operating costs and expenses	$ 0.1	$ 0.1	$ 8.7	$ 1.5	$ 3.7	$ 14.1

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.

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Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of March 31, 2024 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 7.9	$ 0.3	$ 2.6	$ 11.0
Accounts and other receivables, net	—	—	17.4	—	2.4	19.8
Other current assets	—	—	0.1	0.8	0.4	1.3
Total current assets	—	0.2	25.4	1.1	5.4	32.1
Property and equipment, net	—	—	2.1	—	—	2.1
Other long-term assets	—	0.1	1.4	0.5	—	2.0
Total non-current assets	—	0.1	3.5	0.5	—	4.1
Total assets	$ —	$ 0.3	$ 28.9	$ 1.6	$ 5.4	$ 36.2
Liabilities						
Accounts payable	$ —	$ —	$ 9.9	$ —	$ 0.9	$ 10.8
Other current liabilities	—	0.1	4.0	0.6	0.4	5.1
Total current liabilities	—	0.1	13.9	0.6	1.3	15.9
Other long-term liabilities	0.1	0.2	—	0.5	—	0.8
Total long-term liabilities	0.1	0.2	—	0.5	—	0.8
Total liabilities	$ 0.1	$ 0.3	$ 13.9	$ 1.1	$ 1.3	$ 16.7
Carrying amount, net	$ (0.1)	$ —	$ 15.0	$ 0.5	$ 4.1	$ 19.5

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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

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 15 – Related Parties for additional discussion on the Company's transactions with its VIEs.

Note 13 – Supplemental Cash Flow Information

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):

	Three months ended March 31,	
	2024	2023
Regulatory and capital maintenance	$ 29.8	$ 27.2
Contract preparation	13.7	26.8
Fleet spares, transition costs and others	5.0	5.6
	48.5	59.6
Rig acquisitions	—	22.9
Total capital expenditures and deferred costs	$ 48.5	$ 82.5

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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):

	Three months ended March 31,	
	2024	2023
Cash payments for additions to property and equipment	$ 20.4	$ 19.4
Net change in advances and accrued but unpaid additions to property and equipment	0.6	24.2
Total capital expenditures	21.0	43.6
Changes in deferred costs, net	7.9	26.9
Add: Amortization of deferred costs	19.6	12.0
Total deferred costs	27.5	38.9
Total capital expenditures and deferred costs	$ 48.5	$ 82.5

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

	As of	
	March 31, 2024	December 31, 2023
Cash and cash equivalents	$ 101.6	$ 98.2
Restricted cash included in other current assets	0.6	0.9
Restricted cash included in other long-term assets	7.7	7.9
Total cash, cash equivalents and restricted cash	$ 109.9	$ 107.0

Note 14 – 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.

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

	Three months ended March 31,	
	2024	2023
Saudi Arabia	$ 76.7	$ 55.2
Nigeria	49.2	15.7
India	37.0	20.7
Thailand	21.2	21.0
Italy	18.6	7.5
Angola	10.8	11.9
Norway	—	9.9
Others (1)	38.0	37.9
	251.5	179.8
Amortization of intangible liability	3.2	3.6
Total revenues	$ 254.7	$ 183.4

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

Total long-lived assets, net of impairment, depreciation and amortization by location based on the country in which the assets were located as of the balance sheet date were as follows (in millions):

	As of	
	March 31, 2024	December 31, 2023
Thailand	$ 433.2	$ 437.1
Saudi Arabia	307.7	305.5
Norway	164.8	163.5
Nigeria	157.0	160.6
India	123.4	96.6
Italy	86.0	88.5
United Arab Emirates	84.5	102.1
United Kingdom	62.8	110.2
Others (1)	286.3	233.9
Total long-lived assets, net	$ 1,705.7	$ 1,698.0

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

The total long-lived assets are comprised of property and equipment, right-of-use assets and short-term and long-term deferred costs. A substantial portion of the Company's assets are mobile, and as such, asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the period.

Note 15 – 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 2023 but sold substantially all their shares before December 31, 2023), independent SDL and Shelf Drilling (North Sea), Ltd. ("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):

	Three months ended March 31, 2024	Three months ended March 31, 2023
SDL directors costs	$ 0.5	$ 0.5

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

	As of March 31, 2024	As of December 31, 2023
Accounts payable	$ 0.1	$ 0.1

The Company incurs costs for SDNS independent directors' fees and reimbursement of costs incurred for attendance at SDNS meetings relating to the management and governance of SDNS. The Company recorded immaterial amounts for the three months ended March 31, 2024 and 2023, respectively. The total liability for these costs under accounts payable was immaterial as of March 31, 2024 and December 31, 2023, respectively.

VIEs

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
VIE related parties provided goods and services	$ 1.0	$ 0.7

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

	As of March 31, 2024	As of December 31, 2023
Accounts payable	$ 1.4	$ 1.4

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.

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The Company has recorded the following (in millions):

	Three months ended March 31, 2024	Three months ended March 31, 2023
Lease expense	$ 0.3	$ 0.2

	As of March 31, 2024	As of December 31, 2023
Right-of-use assets		
Other long-term assets	$ 0.2	$ —
Lease liabilities		
Other current liabilities	$ 0.2	$ 0.2

Note 16 – Subsequent Events

The Company has evaluated subsequent events through May 15, 2024, the date of issuance of the condensed consolidated financial statements.

10.25% Senior Secured Notes, due October 2025

On April 22, 2024, Shelf Drilling (North Sea) Holdings, Ltd. (the "SDNSH"), which is a subsidiary of the Company, submitted a redemption notice for the 10.25% Senior Secured Notes, due October 2025 (the "10.25% Senior Secured Notes"), with expected redemption in the second half of May 2024.

9.875% Senior Secured Bonds, due November 2028

On April 26, 2024, SDNSH placed $315.0 million senior aggregate principal amount of 9.875% senior secured first lien bonds, due November 2028 (the "9.875% Senior Secured Bonds"). Interest on the 9.875% Senior Secured Bonds will be paid semi-annually in May and November of each year, beginning six months after the issuance date. The 9.875% Senior Secured Bonds will be guaranteed by SDL, SDNS and a subsidiary of SDNS. The transaction is expected to close in the second half of May 2024.

Trident VIII Incident

On April 25, 2024, the Trident VIII rig suffered structural damage. The rig was under contract in Nigeria at the time of the incident. The Company is currently assessing the damage and likelihood of any insurance recovery. No estimate of any financial statement impact can be made at this time.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements contained in this form 10-Q equivalent ("Form 10-Q Equivalent") and the audited consolidated financial statements included in the Company's Form 10-K Equivalent for the year ended December 31, 2023.

Forward-Looking Statements

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

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

- our levels of indebtedness, covenant compliance, access to future capital, and liquidity sufficient to service our debt;
- the market value of our rigs and of any rigs we acquire in the future, which may decrease and/or be impaired as a result of Company specific, industry specific or market factors;
- the level of reserves for accounts receivable and other financial assets, as appropriate;
- the proceeds and timing of asset dispositions;
- litigation, investigations, claims and disputes and their effects on our financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- the adverse changes in foreign currency exchange rates and currency convertibility; and
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to United States ("U.S.") laws.

This Form 10-Q Equivalent should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL"). Except where indicated, the condensed consolidated financial statements and the notes to the condensed consolidated financial statements are combined. References in this Form 10-Q Equivalent to "Shelf Drilling", "SDL", the "Company", "we", "us", "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries, unless the context requires otherwise. When used in this Form 10-Q Equivalent, the words "anticipate, " "believe, " "estimate, " "expect, " "intend, " "plan, " "project, " "could, " "may, " "might, " "should, " "will" and similar words or the negative of these terms are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in the Company's Form 10-K Equivalent for the year ended December 31, 2023 should be read carefully in addition to the above uncertainties and assumptions. These risks and uncertainties are beyond the Company's ability to control, and in many cases, the Company cannot predict such risks and uncertainties, which could cause its actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by reference to these risks and uncertainties. Undue reliance should not be placed on forward-looking statements. Each forward-looking statement is applicable only as of the date of the particular statement, and the Company undertakes no obligation to update or revise any forward-looking statements, except as required by law.

Business

Shelf Drilling, Ltd. ("SDL") was incorporated on August 14, 2012 as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the "Company", "we" or "our") is a leading international shallow water offshore contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 500 feet and our fleet consists of 36 independent-leg cantilever ("ILC") jack-up rigs as of March 31, 2024, making us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange ("OSE") under the ticker symbol SHLF. Our website address is www.shelfdrilling.com.

Since our inception in 2012, we have applied our "fit-for-purpose" strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. The diversified geographical focus of our jack-ups and the allocation of resources to purchase, build or upgrade rigs are determined by the activities and needs of our customers. Currently, our main customers are national oil companies, international oil companies 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, geographically close to our operations in the Middle East, North Africa and the Mediterranean (together, "MENAM"), Southeast Asia, India, West Africa and North Sea.

Recent Events

In March, 2024, the Company executed an agreement that increased the Credit Facility size from $125.0 million to $150.0 million. In April 2024, the Company drew $25.0 million from the Credit Facility, which is expected to be repaid at closing of 9.875% Senior Secured Bonds issuance.

In March 2024, the Company secured a two-year contract extension for the Rig 141 jack-up rig in direct continuation of its current contract in Egypt.

In April 2024, the Company received a notice of suspension of operations of four rigs (Main Pass I, Main Pass IV, Shelf Drilling Victory and Shelf Drilling Achiever) from Saudi Aramco. During the suspension period, the rigs will be marketed to other customers.

In April 2024, the Company secured additional backlog for the Shelf Drilling Barsk extending the firm term through December 2025 with additional option wells thereafter.

In April 2024, the Company secured a new contract for the Shelf Drilling Fortress jack-up with an estimated term of 400 days, scheduled to commence in August 2024 immediately after completion of the rig's existing contract.

On April 22, 2024, Shelf Drilling (North Sea) Holdings, Ltd. (the "SDNSH"), which is a subsidiary of the Company, submitted a redemption notice for the 10.25% Senior Secured Notes, with expected redemption in second half of May 2024.

On April 26, 2024, SDNSH placed $315.0 million senior aggregate principal amount of 9.875% Senior Secured Bonds. Interest on the 9.875% Senior Secured Bonds will be paid semi-annually in May and November of each year, beginning six months after the issuance date, expected in second half of May 2024.

Drilling Fleet

The following table summarizes the Company's offshore rigs:

	As of		
	March 31, 2024	**December 31, 2023**	**March 31, 2023**
Jack-up rigs	36	36	36

Outlook

Brent crude oil prices, the key driver in the demand for shallow water drilling activity, averaged $83 per barrel during the first four months of 2024. The continued supply uncertainty related to tensions in the Middle East, as well as the extension of the voluntary OPEC+ production cuts through the first half of 2024 and a robust demand have contributed to a stable oil market in spite of the higher than expected production from onshore US. World oil demand is expected to further increase in 2024 due to an improved economic outlook for the United States and continued growth in energy consumption in developing and emerging markets around the world.

The global number of contracted jack-ups has increased from 394 in January 2023 to 407 in April 2024, moving marketed utilization towards 95% over the same period. The suspension of 22 rigs by Saudi Aramco in April 2024 has added unexpected supply to the market and will create some near-term uncertainty as contractors look to redeploy some of these rigs to other regions. However, we see incremental demand in most regions, most notably in West Africa and Southeast Asia, and we anticipate utilization will quickly recover and remain at elevated levels for the foreseeable future.

The suspension of four of our rigs in Saudi Arabia will have a short-term impact on the Company's results, but we are confident that we'll secure attractive opportunities for several of these rigs in the near-term with anticipated start dates before the end of 2024. The recent refinancing of the SDNS debt further improves our financial position and provides long-term flexibility. We remain very optimistic about the long-term outlook for the jack-up market and are well-positioned to generate significant free cash flow in 2025 and beyond.

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. Contract backlog is a key indicator of our potential future revenue generation.

- *Average dayrate* is the average contract dayrate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average dayrate can be calculated related to historical revenues or contract backlog.

- *Contracted rigs* consist of all of our rigs that are under contract, including rigs currently operating under a contract and rigs preparing for an upcoming contract.

- *Average contracted days per rig* is the total remaining contracted days for all contracted rigs divided by the number of contracted rigs.

- *Marketable rigs* consist of all of our rigs that are operating or are available to operate, but excluding rigs under bareboat charter agreements, stacked rigs, rigs under contract for activities other than drilling, plug and abandonment or associated services, as applicable.

- *Effective utilization* is the number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenues. Effective utilization measures the dayrate revenue efficiency of our marketable rigs. Effective utilization varies due to changes in operational uptime, planned downtime for periodic surveys, timing of underwater inspections, contract preparation and upgrades, time between contracts and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, force majeure, mobilization or other rates that apply under certain circumstances. We exclude all other types of revenues from the calculation of effective utilization.

The following tables include selected operating measures as of and for the periods presented:

	As of		
	March 31, 2024	**December 31, 2023**	**March 31, 2023**
Total contract backlog (in millions)	$ 2,175	$ 2,340	$ 2,751
Weighted average backlog dayrate (in thousands)	$ 83.6	$ 83.4	$ 79.3
Average contract days per rig	743	801	1,021
Number of contracted rigs	35	35	34

	Three months ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Average dayrate (in thousands)	$ 81.7	$ 80.2	$ 69.7
Effective utilization	86%	85%	75%
Average marketable rigs	36.0	35.2	34.0

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):

	Three months ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Net loss	$ (3.8)	$ (21.2)	$ (34.3)
Add back:			
Interest expense and financing charges, net of interest income (1)	35.9	64.6	33.4
Income tax expense	9.0	6.4	8.6
Depreciation	21.3	21.8	19.0
Amortization of deferred costs	19.6	17.9	12.0
Loss on disposal of assets	1.0	1.8	0.1
Amortization of intangible liability	(3.2)	(3.2)	(3.6)
EBITDA	79.8	88.1	35.2
One-time corporate transaction costs (2)	0.2	(0.1)	0.8
Adjusted EBITDA	$ 80.0	$ 88.0	$ 36.0
Adjusted EBITDA Margin	32%	37%	20%

(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 a $27.7 million loss on debt extinguishment in relation to our debt refinancing transactions during the three months ended December 31, 2023.

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

Our restricted subsidiaries accounted for 115%, 104% and 81% of our Adjusted EBITDA for the three months ended March 31, 2024, December 31, 2023 and March 31, 2023, respectively. Our restricted subsidiaries accounted for 84% of our assets as of both March 31, 2024 and December 31, 2023, respectively.

Operating Results

Management believes the comparison of the most recently completed quarter to the immediately preceding quarter provides more relevant information needed to understand the operating results. We have therefore elected to discuss and analyze material changes in our operating results by comparing our most recently completed quarter ended March 31, 2024 to the immediately preceding quarter ended December 31, 2023. We also continue to discuss and analyze any material changes in our operating results for the year-to-date most recently completed quarter compared to the corresponding year-to-date quarter of the preceding year.

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

	Three months ended			
	March 31, 2024	December 31, 2023	Change	% change
Revenues				
Operating revenues	$ 247.0	$ 235.1	$ 11.9	5%
Other revenues	7.7	6.9	0.8	12%
	254.7	242.0	12.7	5%
Operating costs and expenses				
Operating and maintenance	149.5	134.9	14.6	11%
Depreciation	21.3	21.8	(0.5)	(2%)
Amortization of deferred costs	19.6	17.9	1.7	9%
General and administrative	18.0	13.6	4.4	32%
Loss on disposal of assets	1.0	1.8	(0.8)	(44%)
	209.4	190.0	19.4	10%
Operating income	45.3	52.0	(6.7)	(13%)
Other expense / (income), net				
Interest income	(0.9)	(1.2)	0.3	(25%)
Interest expense and financing charges	36.8	65.8	(29.0)	(44%)
Other, net	4.2	2.2	2.0	91%
	40.1	66.8	(26.7)	(40%)
Income / (loss) before income taxes	5.2	(14.8)	20.0	(135%)
Income tax expense	9.0	6.4	2.6	41%
Net loss	$ (3.8)	$ (21.2)	$ 17.4	(82)%

	Three months ended March 31, 2024	Three months ended March 31, 2023	Change	% change
Revenues				
Operating revenues	$ 247.0	$ 168.1	$ 78.9	47%
Other revenues	7.7	15.3	(7.6)	(50%)
	254.7	183.4	71.3	39%
Operating costs and expenses				
Operating and maintenance	149.5	129.2	20.3	16%
Depreciation	21.3	19.0	2.3	12%
Amortization of deferred costs	19.6	12.0	7.6	63%
General and administrative	18.0	15.5	2.5	16%
Loss on disposal of assets	1.0	0.1	0.9	900%
	209.4	175.8	33.6	19%
Operating income	45.3	7.6	37.7	496%
Other expense / (income), net				
Interest income	(0.9)	(0.7)	(0.2)	29%
Interest expense and financing charges	36.8	34.1	2.7	8%
Other, net	4.2	(0.1)	4.3	(4300%)
	40.1	33.3	6.8	20 %
Income / (loss) before income taxes	5.2	(25.7)	30.9	(120)%
Income tax expense	9.0	8.6	0.4	5%
Net loss	$ (3.8)	$ (34.3)	$ 30.5	(89)%

Three months ended March 31, 2024 compared to the three months ended December 31, 2023 and the three months ended March 31, 2024 compared to the three months ended March 31, 2023

Revenues

Total revenues for the three months ended March 31, 2024 increased by $12.7 million compared to the three months ended December 31, 2023 primarily due to higher utilization across the fleet primarily for two rigs that commenced new contracts in mid-October 2023 and March 2024 in Nigeria and India, two rigs in Saudi Arabia that returned to operations after completing planned out of service projects in November 2023 and January 2024, and higher average earned dayrates mainly in Nigeria and Egypt. This was partially offset by planned out of service for one rig in Saudi Arabia in February 2024 and one rig that completed its contract in February 2024 in Egypt and is currently being marketed for multiple opportunities.

Total revenues for the three months ended March 31, 2024 increased by $71.3 million compared to the same period in 2023 primarily due to higher utilization across the fleet mainly for eight rigs that commenced new contracts in Q2 or Q3 2023, higher average earned dayrates mainly for four rigs in Nigeria, Denmark and Angola, and higher recharges. This was partially offset by lower utilization for three rigs undergoing contract preparation projects in Nigeria, India and Vietnam in Q1 2024, lower mobilization fees for one rig in Angola and lower other revenues for one rig in Norway that completed its bareboat charter contract in Q4 2023.

Operating and Maintenance

Total operating and maintenance expenses for the three months ended March 31, 2024 were $149.5 million, or 59% of total revenue, compared to $134.9 million, or 56% of total revenue, in the three months ended December 31, 2023. Total operating and maintenance increased by $14.6 million primarily due to higher costs for one rig in Norway which was previously under bareboat charter contract until December 2023 and which was preparing in Q1 2024 for a new contract expected to commence in May 2024, higher maintenance costs for certain rigs in Saudi Arabia and India, and higher expenses for fleet spares. This was partially offset by lower shipyard and demobilization costs for three rigs in Nigeria and India that commenced operations in October 2023 and April 2024.

Total operating and maintenance expenses for the three months ended March 31, 2024 were $149.5 million, or 59% of total revenue, compared to $129.2 million, or 70% of total revenue, in the three months ended March 31, 2023. Total operating and maintenance increased by $20.3 million primarily due to higher shipyard expenses for three rigs in Norway, Nigeria and India ahead of new contract commencements in Q1 or Q2 2024, higher maintenance costs for certain rigs in Saudi Arabia, India and Denmark, and higher fleet spares spending. This was partially offset by lower maintenance and shipyard expenses for two rigs that started contracts in Q2 2023.

Depreciation

Depreciation expense decreased by $0.5 million in the three months ended March 31, 2024 compared to the three months ended December 31, 2023, primarily due to a change in accounting estimate related to an increase in the useful lives of nine rigs in the 2024 period.

Depreciation expense for the three months ended March 31, 2024 increased by $2.3 million as compared to the same period in 2023 primarily due to higher depreciation from an acquired rig that was placed into operation in the second quarter of 2023.

Amortization of Deferred Costs

Amortization of deferred costs increased by $1.7 million in the three months ended March 31, 2024 compared to the three months ended December 31, 2023, primarily due to higher amortization of contract preparation expenses for three rigs in Saudi Arabia and India in the current period.

Amortization of deferred costs increased by $7.6 million in the three months ended March 31, 2024 compared to the same period in 2023 primarily due to higher amortization for five rigs in Nigeria, Italy, India and Saudi Arabia which commenced contracts after the first quarter of 2023.

General and Administrative

General and administrative expenses increased by $4.4 million in the three months ended March 31, 2024 compared to the three months ended December 31, 2023 primarily due to increased provision for credit losses and personnel costs.

General and administrative expenses increased by $2.5 million in the three months ended March 31, 2024 compared to the same period in 2023 primarily due to increased provision for credit losses and personnel costs.

Other Expense / (Income), Net

Interest expense and financing charges in the three months ended March 31, 2024 were $29.0 million lower compared to the three months ended December 31, 2023, primarily due to the $27.7 million loss on debt extinguishment related to our debt refinancing transactions in Q4 2023. Other, net expense increased by $2.0 million during the three months ended March 31, 2024 compared to the three months ended December 31, 2023, primarily due to higher foreign exchange loss in the current period.

Interest expense and financing charges in the three months ended March 31, 2024 were $2.7 million higher compared to the same period in 2023, primarily due to higher interest rates on lower total outstanding loans in the current period. Other, net expense increased by $4.3 million during the three months ended March 31, 2024 compared to the same period in 2023 primarily due to higher foreign exchange loss in the current period.

Income Tax Expense

Income tax expense for the three months ended March 31, 2024 was $2.6 million higher than for the three months ended December 31, 2023 primarily due to a deferred tax benefit in the prior period largely resulting from differences in the timing of revenue recognition for financial reporting purposes versus for income tax reporting purposes, and income tax expense related to prior period adjustments in the current period versus an income tax benefit related to prior period adjustments in the prior period, partially offset by tax benefits in the current period from reductions in tax liabilities for uncertain tax positions primarily due to favorable currency fluctuations for prior period liabilities.

Income tax expense for the three months ended March 31, 2024 was $0.4 million higher than for the same period in 2023 primarily due to higher revenues, and income tax expense related to prior period adjustments in the current period versus an income tax benefit related to prior period adjustments in the prior period, partially offset by tax benefits from reductions in tax liabilities for uncertain tax positions primarily due to favorable currency fluctuations for prior period liabilities, and by smaller deferred tax expense compared to the prior period in which certain deferred tax assets were written off due to a change in law.

Liquidity and Capital Resources

Sources and Uses of Liquidity

We had $101.6 million and $98.2 million in cash and cash equivalents as of March 31, 2024 and December 31, 2023, 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.

Restricted cash generally consists of cash deposits held related to bank guarantees and are recorded according to the maturity date plus expected extensions and renewals as either other current assets or other long-term assets in the condensed consolidated balance sheets. As of March 31, 2024, we had restricted cash of $0.6 million and $7.7 million in other current assets and other long-term assets, respectively. 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.

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 three months ended March 31, 2024 compared to the three months ended March 31, 2023

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

	Three months ended March 31		
	2024	**2023**	**Change**
Net cash provided by / (used in) operating activities	$ 37.4	$ (26.5)	$ 63.9
Net cash used in investing activities	(20.2)	(20.3)	0.1
Net cash provided by / (used in) financing activities	(9.7)	44.1	(53.8)
Exchange rate change effect on cash, cash equivalents and restricted cash	(4.6)	—	(4.6)
Net increase / (decrease) in cash, cash equivalents and restricted cash	$ 2.9	$ (2.7)	$ 5.6

Net Cash Provided by / (Used in) Operating Activities

Net cash provided by operating activities increased by $63.9 million during the three months ended March 31, 2024 compared to the same period in 2023 primarily due to an increase in revenues when compared to the prior year period and lower deferred costs expenditures for rigs undergoing contract preparation projects.

During the three months ended March 31, 2024 and 2023, we made cash payments of $0.2 million and $37.1 million, respectively, each in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $6.0 million and $3.9 million in income taxes included in other operating assets and liabilities, net during the three months ended March 31, 2024 and 2023, respectively.

Net Cash Used in Investing Activities

Net cash used in investing activities decreased by $0.1 million during the three months ended March 31, 2024 compared to the same period in 2023.

Net Cash Provided by / (Used in) Financing Activities

Net cash used in financing activities increased by $53.8 million in the three months ended March 31, 2024 compared to the three months ended March 31, 2023 primarily due to $44.4 million net proceeds from the issuance of common shares in February 2023 and $8.3 million principal repayment on the Term Loan in March 2024.

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 condensed 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 (in millions):

	Three months ended March 31	
	2024	2023
Regulatory and capital maintenance [(1)]	$ 29.8	$ 27.2
Contract preparation [(2)]	13.7	26.8
Fleet spares, transition costs and other [(3)]	5.0	5.6
	$ 48.5	$ 59.6
Rig acquisitions [(4)]	—	22.9
Total capital expenditures and deferred costs	$ 48.5	$ 82.5

(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 rigs acquired in 2022 and (iii) office and infrastructure expenditures.

(4) Includes capital expenditures and deferred costs associated with the rig readiness project for the Shelf Drilling Victory acquired in July 2022.

Capital expenditures and deferred costs were $48.5 million and $82.5 million in the three months ended March 31, 2024 and 2023, respectively. The decrease of $34.0 million was mainly due to $22.9 million lower rig acquisition expenditures primarily related to the rig readiness expenditures of the Shelf Drilling Victory acquired in 2022, $10.5 million lower regulatory, capital maintenance and contract preparation costs primarily for four rigs that commenced contracts in 2023 partially offset by higher spending for one rig that commenced operations in March 2024.

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.

Condensed Consolidated Statements of Operations
(In millions)

	Three months ended March 31	
	2024	**2023**
Revenues		
Operating revenues	$ 217.6	$ 142.4
Other revenues	6.2	4.2
	223.8	146.6
Operating costs and expenses		
Operating and maintenance	114.2	106.7
Depreciation	16.7	14.7
Amortization of deferred costs	19.5	12.0
General and administrative	13.4	10.4
Loss on disposal of assets	1.0	0.1
	164.8	143.9
Operating income	59.0	2.7
Other expense / (income), net		
Interest income	(0.6)	(0.5)
Interest expense and financing charges	29.5	26.8
Other, net	4.5	(0.3)
	33.4	26.0
Income / (loss) before income taxes	25.6	(23.3)
Income tax expense	8.6	8.1
Net income / (loss)	$ 17.0	$ (31.4)

SHELF DRILLING

Condensed Consolidated Balance Sheets
(In millions)

	As of	
	March 31, 2024	**December 31, 2023**
Assets		
Cash and cash equivalents	$ 83.1	$ 65.6
Accounts and other receivables	215.7	209.2
Less: allowance for credit losses	6.1	5.1
Accounts and other receivables, net	209.6	204.1
Accounts and other receivables, net - related parties	9.4	7.4
Other current assets	94.1	88.0
Total current assets	396.2	365.1
Property and equipment	1,764.0	1,749.7
Less: accumulated depreciation	682.3	667.0
Property and equipment, net	1,081.7	1,082.7
Deferred tax assets	6.9	7.0
Other long-term assets	295.2	302.7
Total assets	$ 1,780.0	$ 1,757.5
Liabilities and equity		
Accounts payable	$ 90.7	$ 94.5
Accounts payable - related parties	—	0.4
Interest payable	50.8	23.8
Accrued income taxes	13.3	12.1
Current maturities of long-term debt	62.0	70.2
Other current liabilities	66.6	70.5
Total current liabilities	283.4	271.5
Long-term debt	1,020.7	1,018.9
Deferred tax liabilities	6.7	6.5
Other long-term liabilities	99.7	109.0
Total long-term liabilities	1,127.1	1,134.4
Commitments and contingencies		
Additional paid-in capital	1,067.3	1,066.4
Accumulated losses	(697.8)	(714.8)
Total equity	369.5	351.6
Total liabilities and equity	$ 1,780.0	$ 1,757.5

Material Cash Requirements

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of March 31, 2024 our anticipated material cash requirements consisted primarily of payments related to debt servicing and repayments, operating costs and expenses, operating lease obligations, capital expenditures and deferred costs and income taxes.

As of March 31, 2024, 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 7 – Debt in "Item 1. Financial Statements" of "Part I. Financial Information".

As of March 31, 2024, we had operating lease obligations outstanding of $12.2 million.

We routinely have material spending on capital expenditures and deferred costs to support our business and we expect this will continue. Capital expenditures and deferred costs can vary from quarter-to-quarter and year-to-year depending upon the requirements of existing and new customers, the number and scope of out-of-service projects, the timing of regulatory surveys and inspections, and the number of rig reactivations. Although certain custom equipment may have long lead times, we do not typically commit to significant capital purchases in advance.

The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, United Kingdom, United Arab Emirates, 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	
	March 31, 2024	December 31, 2023
Total	$ 106.4	$ 98.9
Outstanding	$ 56.4	$ 42.4

Contingencies

As of March 31, 2024, we are not exposed to any contingent liabilities that are expected to result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities that we are exposed to relate to legal proceedings, certain contractual and customs obligations secured by surety bonds and bank guarantees and uncertain tax positions. See "Note 9 – Commitments and Contingencies" and "Note 11 – Income Taxes" in "Item 1. Financial Statements" of "Part I. Financial Information" for discussion of any material changes in our contingent liabilities from those previously reported in our Form 10-K Equivalent for the year ended December 31, 2023.

Critical Accounting Policies and Estimates

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in Part II. of our Form 10-K Equivalent for the year ended December 31, 2023. See also "Note 2 – Significant Accounting Policies" in "Item 15. Exhibits" in Part II. of our Form 10-K Equivalent for the year ended December 31, 2023 for a discussion of our significant accounting policies. During the three months ended March 31, 2024, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including liquidity risk, interest rate risk, foreign currency risk and credit risk. During the three months ended March 31, 2024, there were no material changes to the Company's qualitative and quantitative market risk.

For a complete discussion of these risks, see "Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K Equivalent for the year ended December 31, 2023.

Item 4. Controls and Procedures

We are not required to report this Item.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in “Note 9 – Commitments and Contingencies” in “Item 1. Financial Statements” of Part I. Financial Information”.

Item 1A. Risk Factors

The information set forth under the caption “Forward-looking Information” in “Part I. Item 2. Management’s Discussion and Analysis” of this report is incorporated by reference in response to this Item and there have been no material changes from the risk factors previously disclosed in the Company’s Form 10-K Equivalent for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Material agreements governing indebtedness can be found on our website at www.shelfdrilling.com in the investor relations section under financial reports, key documents.