SHELF DRILLING, LTD.

Form 10-Q Equivalent
for the six months ended June 30, 2024 and 2023

TABLE OF CONTENTS

SHELF DRILLING, LTD.
SIX MONTHS ENDED JUNE 30, 2024 AND 2023
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

pwc

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 June 30, 2024, and the related condensed consolidated statements of operations and equity for the three-month and six-month periods ended June 30, 2024 and 2023 and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 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 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
August 14, 2024

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenues				
Operating revenues	$ 226.8	$ 200.6	$ 473.8	$ 368.7
Other revenues	7.2	13.6	14.9	28.9
	234.0	214.2	488.7	397.6
Operating costs and expenses				
Operating and maintenance	141.8	119.9	291.3	249.1
Depreciation	21.6	20.8	42.9	39.8
Amortization of deferred costs	26.0	13.3	45.6	25.3
General and administrative	16.2	15.0	34.2	30.5
Loss / (gain) on disposal of assets	1.2	(0.3)	2.2	(0.2)
	206.8	168.7	416.2	344.5
Operating income	27.2	45.5	72.5	53.1
Other expense / (income), net				
Interest income	(0.8)	(0.6)	(1.7)	(1.3)
Interest expense and financing charges	46.8	34.3	83.6	68.4
Other, net	1.3	3.7	5.5	3.6
	47.3	37.4	87.4	70.7
Income / (loss) before income taxes	(20.1)	8.1	(14.9)	(17.6)
Income tax expense	7.9	8.2	16.9	16.8
Net loss	(28.0)	(0.1)	(31.8)	(34.4)
Net loss attributable to non-controlling interest	(13.4)	(1.8)	(21.6)	(2.7)
Net income / (loss) attributable to controlling interest	$ (14.6)	$ 1.7	$ (10.2)	$ (31.7)
Net income / (loss) per common share - basic	$ (0.07)	$ 0.01	$ (0.05)	$ (0.17)
Net income / (loss) per common share - diluted	$ (0.07)	$ 0.01	$ (0.05)	$ (0.17)
Weighted average common shares - basic	213.7	194.0	213.7	191.0
Weighted average common shares - diluted	213.7	204.4	213.7	191.0

See notes to the condensed consolidated financial statements.

SHELF DRILLING

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

	June 30, 2024	December 31, 2023
Assets		
Cash and cash equivalents	$ 138.3	$ 98.2
Accounts and other receivables	219.4	237.1
Less: allowance for credit losses	5.9	8.5
Accounts and other receivables, net	213.5	228.6
Other current assets	100.2	92.1
Total current assets	452.0	418.9
Property and equipment	2,188.2	2,176.8
Less: accumulated depreciation	715.1	689.7
Property and equipment, net	1,473.1	1,487.1
Deferred tax assets	8.7	9.3
Other long-term assets	174.4	183.4
Total assets	$ 2,108.2	$ 2,098.7
Liabilities and equity		
Accounts payable	$ 114.5	$ 115.7
Interest payable	26.1	28.0
Accrued income taxes	15.0	13.1
Current maturities of long-term debt	109.7	82.7
Other current liabilities	73.4	73.7
Total current liabilities	338.7	313.2
Long-term debt	1,279.9	1,242.7
Deferred tax liabilities	9.3	8.7
Other long-term liabilities	107.5	131.8
Total long-term liabilities	1,396.7	1,383.2
Commitments and contingencies (Note 9)	—	—
Common shares of $0.01 par value; 278.1 shares and 234.1 shares authorized as of June 30, 2024 and December 31, 2023, respectively; 213.7 shares issued and outstanding as of June 30, 2024 and December 31, 2023	2.1	2.1
Additional paid-in capital	1,162.6	1,160.3
Accumulated losses	(840.6)	(830.4)
Total controlling interest shareholders' equity	324.1	332.0
Non-controlling interest	48.7	70.3
Total equity	372.8	402.3
Total liabilities and equity	$ 2,108.2	$ 2,098.7

See notes to the condensed consolidated financial statements.

SHELF DRILLING

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Number of common shares				
Balance, beginning of period	213.7	194.0	213.7	176.4
Issuance of common shares	—	—	—	17.6
Balance, end of period	213.7	194.0	213.7	194.0
Common shares				
Balance, beginning of period	$ 2.1	$ 1.9	$ 2.1	$ 1.8
Issuance of common shares	—	—	—	0.1
Balance, end of period	2.1	1.9	2.1	1.9
Additional paid-in capital				
Balance, beginning of period	1,161.3	1,101.2	1,160.3	1,056.6
Issuance of common shares	—	—	—	44.0
Share-based compensation expense, net of forfeitures	1.3	0.6	2.3	1.2
Balance, end of period	1,162.6	1,101.8	1,162.6	1,101.8
Accumulated losses				
Balance, beginning of period	(826.0)	(856.2)	(830.4)	(822.8)
Net income / (loss)	(14.6)	1.7	(10.2)	(31.7)
Balance, end of period	(840.6)	(854.5)	(840.6)	(854.5)
Total controlling interest shareholders' equity				
Balance, beginning of period	337.4	246.9	332.0	235.6
Net income / (loss)	(14.6)	1.7	(10.2)	(31.7)
Issuance of common shares	—	—	—	44.1
Share-based compensation expense, net of forfeitures	1.3	0.6	2.3	1.2
Balance, end of period	324.1	249.2	324.1	249.2
Non-controlling interest				
Balance, beginning of period	62.1	79.0	70.3	79.9
Net loss	(13.4)	(1.8)	(21.6)	(2.7)
Balance, end of period	48.7	77.2	48.7	77.2
Total equity	$ 372.8	$ 326.4	$ 372.8	$ 326.4

See notes to the condensed consolidated financial statements.

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

	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash flows from operating activities		
Net loss	$ (31.8)	$ (34.4)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	42.9	39.8
Provision for / (reversal of provision) for credit losses, net	0.6	(0.4)
Amortization of deferred revenue	(20.8)	(8.5)
Amortization of intangible liability	(6.4)	(6.8)
Share-based compensation expense, net of forfeitures	2.3	1.2
Non-cash portion of loss on debt extinguishment	5.9	—
Loss on debt extinguishment	3.7	—
Amortization of debt issuance costs, premium and discounts	6.2	4.7
Loss / (gain) on disposal of assets	2.2	(0.2)
Deferred tax expense, net	1.2	0.9
Changes in deferred costs, net*	(5.8)	(55.0)
Foreign currency transaction losses	5.2	—
Changes in operating assets and liabilities	25.9	77.9
Net cash provided by operating activities	31.3	19.2
Cash flows from investing activities		
Additions to property and equipment*	(33.6)	(65.2)
Advance payment for property and equipment	(0.8)	(1.6)
Proceeds from disposal of assets	0.7	0.5
Net cash used in investing activities	(33.7)	(66.3)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	309.8	—
Payment of debt issuance costs	(6.4)	(0.2)
Payment of long-term debt	(243.8)	—
Payment of debt extinguishment costs	(3.8)	—
Repayment of term loan	(8.3)	—
Proceeds from credit facility	25.0	—
Repayment of credit facility	(25.0)	—
Proceeds from issuance of common shares, net of issuance costs	—	44.1
Payment of issuance costs for the subsidiary shares issuance to non-controlling interest	—	(0.1)
Net cash provided by financing activities	47.5	43.8
Exchange rate change effect on cash, cash equivalents and restricted cash	(5.2)	—
Net increase / (decrease) in cash, cash equivalents and restricted cash	39.9	(3.3)
Cash, cash equivalents and restricted cash at beginning of period*	107.0	177.3
Cash, cash equivalents and restricted cash at end of period*	$ 146.9	$ 174.0

* 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 June 30, 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 and six months ended June 30, 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 June 30, 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. 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 agreement terms.

The Company accounted for this operating lease and 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Lease revenue [1]	$ —	$ 7.6	$ —	$ 17.5

(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	
	June 30, 2024	December 31, 2023
Current contract liabilities	$ 41.9	$ 40.5
Non-current contract liabilities	48.8	60.0
	$ 90.7	$ 100.5

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

	Six months ended June 30,	
	2024	2023
Balance, beginning of period	$ 100.5	$ 8.4
Increase due to contractual additions	22.1	99.3
Decrease due to amortization of deferred revenue	(20.8)	(8.5)
Decrease due to application of customer deposits and other	(11.1)	—
Balance, end of period	$ 90.7	$ 99.2

SHELF DRILLING

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

Revenues recognized of $21.9 million and $3.7 million during the six months ended June 30, 2024 and 2023, respectively, were included in the beginning contract liabilities balances.

Expected future amortization of contract liabilities, net recorded as of June 30, 2024 is as follows (in millions):

	As of June 30, 2024
Remainder of 2024	$ 23.3
2025	32.1
2026	18.0
2027	14.0
2028	3.3
	$ 90.7

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	
	June 30, 2024	December 31, 2023
Current deferred contract costs	$ 41.9	$ 35.6
Non-current deferred contract costs	36.2	42.9
	$ 78.1	$ 78.5

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

	Six months ended June 30,	
	2024	2023
Balance, beginning of period	$ 78.5	$ 32.1
Increase due to contractual additions	27.7	58.9
Decrease due to amortization of deferred contract costs	(27.4)	(10.5)
Decrease due to impairment of deferred contract costs	(0.7)	—
Balance, end of period	$ 78.1	$ 80.5

In April 2024, the Company received a notice of suspension of operations for four rigs in Saudi Arabia. As a result, the remaining deferred contract costs balance for applicable rigs was fully amortized resulting in higher amortization of deferred costs than it would have been without this change in accounting estimate. During the three and six months ended June 30, 2024, the change in accounting estimate resulted in $5.1 million higher amortization of deferred costs and a $0.02 lower basic and diluted earnings per share.

SHELF DRILLING

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

Allowance for Credit Losses

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

	As of	
	June 30, 2024	December 31, 2023
Allowance for credit losses	$ 5.9	$ 8.5

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

	Six months ended June 30,	
	2024	2023
Balance, beginning of period	$ 8.5	$ 3.8
Provision for / (Reversal of provision for) credit losses, net	0.6	(0.4)
Write-off of uncollectible amounts	(3.2)	—
Balance, end of period	$ 5.9	$ 3.4

Note 4 – Net Income / (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):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Numerator for net income / (loss) per common share				
Net income / (loss) attributable to controlling interest	$ (14.6)	$ 1.7	$ (10.2)	$ (31.7)
Denominator for net income / (loss) per common share				
Weighted average common shares:				
Weighted average common shares - basic	213.7	194.0	213.7	191.0
Weighted average common shares - diluted	213.7	204.4	213.7	191.0
Net income / (loss) per common share - basic	$ (0.07)	$ 0.01	$ (0.05)	$ (0.17)
Net income / (loss) per common share - diluted	$ (0.07)	$ 0.01	$ (0.05)	$ (0.17)
Excluded anti-dilutive common shares	15.3	—	15.3	10.8

In February 2024, the Company granted service 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 and six months ended June 30, 2024, the change in accounting estimate resulted in a $1.0 million and $2.1 million lower depreciation on drilling rigs and equipment with an immaterial impact on basic and diluted earnings per share.

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

Disposal of Assets

Disposal of assets were as follows (in millions):

	Six months ended June 30,	
	2024	2023
Net carrying value	$ 2.9	$ 0.5
Net proceeds	$ 0.7	$ 0.7
Loss / (gain) on disposal of assets	$ 2.2	$ (0.2)

Trident VIII Incident

In April 2024, the Trident VIII rig suffered structural leg damage. The rig was under contract in West Africa at the time of the incident. The Company is pursuing an insurance claim for the rig which has an insured value of $50 million. As of June 30, 2024, the Company recorded an impairment loss of $7.6 million, which included $4.1 million of deferred contract costs, $3.2 million of property and equipment and $0.3 million of prepaid assets. The impairment loss was offset by a gain on insurance recovery and insurance proceeds receivable of $7.6 million. The Company also transferred $3.9 million related to this incident from operating and maintenance to insurance proceeds receivable as of June 30, 2024 and more costs related to this incident are expected to be incurred until the claim is settled. Further estimate of any financial statement impact cannot be made at this time.

Note 6 – Intangible Liability

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

	As of	
	June 30, 2024	December 31, 2023
Intangible liability (1)	$ 14.9	$ 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 June 30, 2024		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of period	$ 43.1	$ (21.8)	$ 21.3
Amortization	—	(6.4)	(6.4)
Balance, end of period	$ 43.1	$ (28.2)	$ 14.9

	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

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

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

	As of June 30, 2024
Remainder of 2024	$ 6.4
2025	7.5
2026	1.0
	$ 14.9
Weighted average life (in years)	1.4

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Amortization of intangible liability (1)	$ 3.2	$ 3.2	$ 6.4	$ 6.8

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

SHELF DRILLING

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	
	June 30, 2024	December 31, 2023
9.625% Senior Secured Notes, due April 2029		
Principal amount	$ 1,095.0	$ 1,095.0
Unamortized debt issuance costs	(17.7)	(19.4)
Unamortized discount	(17.4)	(19.2)
Carrying value	1,059.9	1,056.4
9.875% Senior Secured Bonds, due November 2028		
Principal amount	$ 315.0	—
Unamortized debt issuance costs	(4.9)	—
Unamortized discount	(5.1)	—
Carrying value	305.0	—
10.25% Senior Secured Notes, due October 2025		
Principal amount	—	243.8
Unamortized debt issuance costs	—	(2.9)
Unamortized discount	—	(4.6)
Carrying value	—	236.3
Term Loan, due December 2024		
Principal amount	25.0	33.3
Unamortized debt issuance costs	(0.2)	(0.6)
Unamortized discount	(0.1)	—
Carrying value	24.7	32.7
Total carrying value	1,389.6	1,325.4
Less: Current maturities of long-term debt		
9.625% Senior Secured Notes, due April 2029	75.0	37.5
9.875% Senior Secured Bonds, due November 2028	10.0	—
10.25% Senior Secured Notes, due October 2025	—	12.5
Term Loan, due December 2024	24.7	32.7
	109.7	82.7
Total long-term debt	$ 1,279.9	$ 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 June 30, 2024
Twelve months ending June 30,	
2025	$ 110.0
2026	95.0
2027	95.0
2028	95.0
2029	1,040.0
Total	$ 1,435.0

10.25% Senior Secured Notes, due October 2025

On April 22, 2024, Shelf Drilling (North Sea) Holdings, Ltd. ("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"). On May 22, 2024, the Company made payments of $237.5 million for principal, $3.6 million redemption premium and $1.5 million of accrued interest to fully settle the 10.25% Senior Secured Notes.

Loss on debt extinguishment of $9.6 million was recorded as interest expense and financing charges in the condensed consolidated statements of operations for the three and six months ended June 30, 2024 which included redemption premium of $3.6 million, unamortized debt issuance costs of $2.2 million, unamortized discount of $3.7 million and transaction costs of $0.1 million.

9.875% Senior Secured Bonds, due November 2028

On May 22, 2024, SDNSH completed the issuance of $315.0 million aggregate principal amount of 9.875% senior secured bonds, due November 2028 (the "9.875% Senior Secured Bonds"). The 9.875% Senior Secured Bonds were issued under a bond terms agreement among SDNSH and Nordic Trustee AS, as bond trustee and security agent. The 9.875% Senior Secured Bonds are guaranteed by SDL, Shelf Drilling (North Sea), Ltd. ("SDNS"), Shelf Drilling (North Sea) Intermediate, Ltd. (a subsidiary of SDNS), rig owning entities and charter entities. The 9.875% Senior Secured Bonds are secured by substantially all the assets of SDNS. The bond terms agreement 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. SDNS is subject to the following financial covenants at all times:

1. Cash and cash equivalents of no less than $15.0 million; and
2. Minimum 40% ratio of total equity to total assets after adjusting for differences between the market value and book value of collateral rigs.

The 9.875% Senior Secured Bonds were issued at 98.35% for a discount of $5.2 million. Debt issuance costs were $5.0 million, resulting in net proceeds of $304.8 million.

Interest on the 9.875% Senior Secured Bonds will be paid semi-annually in May and November of each year, beginning in November 2024. The effective interest rate on the 9.875% Senior Secured Bonds is 10.90%. Principal amounts of $10.0 million will be paid semi-annually in May and November of each year, beginning in May 2025.

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

The bond terms agreement contains mandatory redemption provisions due to sale or total loss of SDNS rigs. SDNSH may voluntarily redeem all or part of the 9.875% Senior Secured Bonds on any business day from and including:

1. the issue date to, but not including, the interest payment date falling 24 months after the issue date at a price equal to the make whole amount (as specified in the bond terms agreement);

2. the interest payment date falling on or after 24 months after the issue date to, but not including, the interest payment date falling 30 months after the issue date at a price equal to 104.938% of the nominal amount;

3. the interest payment date falling on or after 30 months after the issue date to, but not including, the interest payment date falling 36 months after the issue date, at a price equal to 102.469% of the nominal amount;

4. the interest payment date falling on or after 36 months after the issue date to, but not including, the interest payment date falling 42 months after the issue date, at a price equal to 101.0% of the nominal amount; and

5. the interest payment date falling on or after 42 months after the issue date to, but not including, the maturity date, at a price equal to 100.0% of the nominal amount.

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 June 30, 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 10.44%. 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 June 30, 2024, debt issuance costs of $1.3 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 which was subsequently paid on May 22, 2024.

SHELF DRILLING

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

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.

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

	As of June 30, 2024		As of December 31, 2023	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.625% Senior Secured Notes, due April 2029	$ 1,059.9	$ 1,046.5	$ 1,056.4	$ 1,071.7
9.875% Senior Secured Bonds, due November 2028	305.0	305.1	—	—
10.25% Senior Secured Notes, due October 2025	—	—	236.3	243.9
	$ 1,364.9	$ 1,351.6	$ 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 June 30, 2024	As of December 31, 2023
Total surety bond facilities	$ 110.9	$ 98.9
Outstanding surety bonds	$ 74.8	$ 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 June 30, 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.

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

Note 10 – Equity

Authorized Share Capital

On June 12, 2024, the Company amended its articles of association to increase the authorized capital to 278.1 million shares.

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.

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 and six months ended June 30, 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 and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Income tax expense	$ 7.9	$ 8.2	$ 16.9	$ 16.8
Effective tax rate	(39)%	101 %	(113)%	(95)%

Income tax expense for the three months ended June 30, 2024 was lower than for the same period in 2023, primarily due to a reduction in tax liabilities for uncertain tax positions in the current period largely resulting from the expiration of a statute of limitations, partially offset by increased deferred tax expense in the current period primarily due to the partial utilization of certain deferred tax assets during the current period which were initially recognized in the prior period.

Income tax expense for the six months ended June 30, 2024 was higher than for the same period in 2023, primarily due to higher revenues and unfavorable prior period adjustments in the current period, largely offset by a reduction in liabilities for uncertain tax positions due to favorable exchange rate fluctuations and due to the expiration of a statute of limitations.

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 June 30, 2024, the 2013 through 2023 income tax periods remain open for examination in multiple jurisdictions.

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

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.

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

	Third party country of incorporation	Third party ownership percentage June 30, 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 six months ended June 30, 2024 and 2023 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
June 30, 2024:						
Revenues	$ —	$ —	$ 48.4	$ —	$ 6.7	$ 55.1
Operating costs and expenses	$ 0.1	$ 0.2	$ 37.6	$ 2.4	$ 5.9	$ 46.2
June 30, 2023:						
Revenues	$ —	$ —	$ 21.5	$ —	$ 6.7	$ 28.2
Operating costs and expenses	$ 0.1	$ 0.2	$ 18.7	$ 3.0	$ 7.1	$ 29.1

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.

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

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of June 30, 2024 (in millions):

	SDVM	PT Hitek	SDNL	SDOSL	SDAL	Total
Assets						
Cash and cash equivalents	$ —	$ 0.2	$ 7.9	$ 0.1	$ 1.5	$ 9.7
Accounts and other receivables, net	—	—	13.7	—	3.5	17.2
Other current assets	—	—	0.5	0.6	0.3	1.4
Total current assets	—	0.2	22.1	0.7	5.3	28.3
Property and equipment, net	—	—	2.0	—	—	2.0
Other long-term assets	—	0.1	1.3	0.5	—	1.9
Total non-current assets	—	0.1	3.3	0.5	—	3.9
Total assets	$ —	$ 0.3	$ 25.4	$ 1.2	$ 5.3	$ 32.2
Liabilities						
Accounts payable	$ —	$ —	$ 9.6	$ —	$ 0.8	$ 10.4
Other current liabilities	—	0.1	2.3	0.6	0.5	3.5
Total current liabilities	—	0.1	11.9	0.6	1.3	13.9
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	$ 11.9	$ 1.1	$ 1.3	$ 14.7
Carrying amount, net	$ (0.1)	$ —	$ 13.5	$ 0.1	$ 4.0	$ 17.5

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

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

	Six months ended June 30,	
	2024	2023
Regulatory and capital maintenance	$ 41.5	$ 48.5
Contract preparation	27.7	58.8
Fleet spares, transition costs and others	17.3	9.3
	86.5	116.6
Rig acquisitions	—	26.8
Total capital expenditures and deferred costs	$ 86.5	$ 143.4

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

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):

	Six months ended June 30,	
	2024	2023
Cash payments for additions to property and equipment	$ 33.6	$ 65.2
Net change in advances and accrued but unpaid additions to property and equipment	1.5	(2.1)
Total capital expenditures	35.1	63.1
Changes in deferred costs, net	5.8	55.0
Add: Amortization of deferred costs	45.6	25.3
Total deferred costs	51.4	80.3
Total capital expenditures and deferred costs	$ 86.5	$ 143.4

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	
	June 30, 2024	December 31, 2023
Cash and cash equivalents	$ 138.3	$ 98.2
Restricted cash included in other current assets	1.0	0.9
Restricted cash included in other long-term assets	7.6	7.9
Total cash, cash equivalents and restricted cash	$ 146.9	$ 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.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Saudi Arabia	$ 49.6	$ 64.7	$ 126.3	$ 119.9
Nigeria	55.2	28.5	104.4	44.2
India	41.4	35.0	78.4	55.7
Thailand	20.9	21.5	42.1	42.5
Italy	17.5	7.4	36.1	14.9
Angola	10.9	10.4	21.7	22.3
Others (1)	35.3	43.5	73.3	91.3
	230.8	211.0	482.3	390.8
Amortization of intangible liability	3.2	3.2	6.4	6.8
Total revenues	$ 234.0	$ 214.2	$ 488.7	$ 397.6

(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	
	June 30, 2024	December 31, 2023
Thailand	$ 427.9	$ 437.1
Saudi Arabia	295.3	305.5
Norway	169.5	163.5
Nigeria	157.0	160.6
India	117.4	96.6
United Arab Emirates	93.3	102.1
Italy	83.3	88.5
United Kingdom	65.7	110.2
Others (1)	275.5	233.9
Total long-lived assets, net	$ 1,684.9	$ 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 SDNS directors, key management personnel, VIEs and entities controlled, jointly controlled or significantly influenced by such parties.

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

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
SDL directors costs	$ 0.5	$ 0.3	$ 1.0	$ 0.8

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

	As of	
	June 30, 2024	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 and six months ended June 30, 2024 and 2023, respectively. The total liability recorded for these costs under accounts payable was immaterial as of June 30, 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
VIE related parties provided goods and services	$ 1.1	$ 0.7	$ 2.1	$ 1.4

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

	As of	
	June 30, 2024	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.

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

The Company has recorded the following (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Lease expense	$ 0.4	$ 0.2	$ 0.7	$ 0.4

The right-of-use assets balance recorded under other long-term assets was immaterial as of June 30, 2024 and December 31, 2023, respectively.

	As of	
	June 30, 2024	December 31, 2023
Lease liabilities		
Other current liabilities	$ —	$ 0.2

Note 16 – Subsequent Events

The Company has evaluated subsequent events through August 14, 2024, the date of issuance of the condensed consolidated financial statements.

Baltic Rig Sale

In July 2024, a subsidiary of the Company executed an agreement for the sale of the Baltic rig for $60.0 million. The transaction is expected to close in the third quarter of 2024.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements contained in this form 10-Q equivalent ("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 June 30, 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 June 2024, the Company announced a delay in commencement of the contract for the Shelf Drilling Barsk in Norway. The contract is now expected to commence in Q4 2024.

In June 2024, the Company secured a 15-month contract extension for the Shelf Drilling Tenacious in direct continuation of its current contract in West Africa.

In July 2024, the Company secured a 17-month contract extension for the Shelf Drilling Winner in direct continuation of its current contract in Denmark.

In July 2024, a subsidiary of the Company executed an agreement for the sale of the Baltic for $60.0 million. The transaction is expected to close in Q3 2024.

The Main Pass IV and Shelf Drilling Achiever are currently being mobilized to West Africa. With reference to our announcement on April 1, 2024, the existing contracts for these rigs in the Middle East were suspended earlier this year. With the planned mobilization of both rigs to West Africa, the Company served notice to terminate the prior contracts. Both rigs are expected to commence new contracts in West Africa in Q4 2024.

Drilling Fleet

The following table summarizes the Company's offshore rigs:

	As of		
	June 30, 2024	**March 31, 2024**	**June 30, 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 seven months of 2024. The OPEC+ group has continued to show willingness to support the oil market as demonstrated by the continuation of the production cuts announced in early June 2024. Tensions in the Middle East and higher anticipated demand from non-OECD countries will also contribute to continued strong oil price levels.

Global jack-up market utilization reached 95% in January 2024 and is now expected to temporarily fall below 90% due to the contract suspensions in the Middle East. This has created some short-term dayrate pressure, with a wide range of pricing data points in recent months, as contractors have begun to redeploy many of the impacted rigs. We continue to see incremental jack-up demand in certain regions, particularly West Africa, and we believe utilization will recover in 2025.

While our results in the third quarter of 2024 will be adversely impacted by the delayed contract commencement of the Shelf Drilling Barsk in Norway, we are confident that we will complete the regulatory approval process, and the rig will commence operations in the fourth quarter. The recent additional round of 5 rig suspensions in the Middle East is expected to have only a modest impact on the jack-up market, and we will continue to pursue new contract opportunities in our other core markets in the short-term. We maintain our positive long-term outlook for jack-up supply and demand. We expect to build further backlog before the end of the year and position the company well heading into 2025.

Operational Measures

We use various operational measures common to our industry to evaluate our operational performance including:

- *Contract backlog* is the maximum contract dayrate revenues that can be earned from firm commitments for contract services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues for the use of our rigs such as bareboat charters or as accommodation units. The contract period excludes revenues from extension options under our contracts, unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to reduced dayrates for rig movements, adverse weather and equipment downtime, among other factors. Actual dayrates may also include contractual adjustments based on market factors, such as Brent crude oil or natural gas prices or cost increases. 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 third party 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		
	June 30, 2024	**March 31, 2024**	**June 30, 2023**
Total contract backlog (in millions)	$ 2,109	$ 2,175	$ 2,617
Weighted average backlog dayrate (in thousands)	$ 88.6	$ 83.6	$ 81.0
Average contract days per rig	721	743	924
Number of contracted rigs	33	35	35

	Three months ended		
	June 30, 2024	**March 31, 2024**	**June 30, 2023**
Average dayrate (in thousands)	$ 82.0	$ 81.7	$ 74.6
Effective utilization	80%	86%	82%
Average marketable rigs	35.4	36.0	34.7

	Six months ended	
	June 30, 2024	June 30, 2023
Average dayrate (in thousands)	$ 81.9	$ 72.3
Effective utilization	83%	79%
Average marketable rigs	35.7	34.4

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		
	June 30, 2024	March 31, 2024	June 30, 2023
Net loss	$ (28.0)	$ (3.8)	$ (0.1)
Add back:			
Interest expense and financing charges, net of interest income [1]	46.0	35.9	33.7
Income tax expense	7.9	9.0	8.2
Depreciation	21.6	21.3	20.8
Amortization of deferred costs	26.0	19.6	13.3
(Gain) / loss on disposal of assets	1.2	1.0	(0.3)
Amortization of intangible liability	(3.2)	(3.2)	(3.2)
EBITDA	71.5	79.8	72.4
One-time corporate transaction costs [2]	—	0.2	0.3
Adjusted EBITDA	$ 71.5	$ 80.0	$ 72.7
Adjusted EBITDA Margin	31%	32%	34%

	Six months ended	
	June 30, 2024	June 30, 2023
Net loss	$ (31.8)	$ (34.4)
Add back:		
Interest expense and financing charges, net of interest income (1)	81.9	67.1
Income tax expense	16.9	16.8
Depreciation	42.9	39.8
Amortization of deferred costs	45.6	25.3
(Gain) / loss on disposal of assets	2.2	(0.2)
Amortization of intangible liability	(6.4)	(6.8)
EBITDA	151.3	107.6
One-time corporate transaction costs (2)	0.2	1.1
Adjusted EBITDA	$ 151.5	$ 108.7
Adjusted EBITDA Margin	31%	28%

(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 $9.6 million loss on debt extinguishment in relation to our debt refinancing transactions during the three and six months ended June 30, 2024.

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

Our restricted subsidiaries accounted for 120%, 115% and 93% of our Adjusted EBITDA for the three months ended June 30, 2024, March 31, 2024 and June 30, 2023, and 117% and 89% for the six months ended June 30, 2024 and 2023, respectively. Our restricted subsidiaries accounted for 82% and 84% of our assets as of both June 30, 2024 and December 31, 2023, respectively.

Operating Results

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

	Three months ended June 30, 2024	Three months ended March 31, 2024	Change	% change
Revenues				
Operating revenues	$ 226.8	$ 247.0	$ (20.2)	(8%)
Other revenues	7.2	7.7	(0.5)	(6%)
	234.0	254.7	(20.7)	(8%)
Operating costs and expenses				
Operating and maintenance	141.8	149.5	(7.7)	(5%)
Depreciation	21.6	21.3	0.3	1%
Amortization of deferred costs	26.0	19.6	6.4	33%
General and administrative	16.2	18.0	(1.8)	(10%)
Loss on disposal of assets	1.2	1.0	0.2	20%
	206.8	209.4	(2.6)	(1%)
Operating income	27.2	45.3	(18.1)	(40%)
Other expense / (income), net				
Interest income	(0.8)	(0.9)	0.1	(11%)
Interest expense and financing charges	46.8	36.8	10.0	27%
Other, net	1.3	4.2	(2.9)	(69%)
	47.3	40.1	7.2	18%
Income / (loss) before income taxes	(20.1)	5.2	(25.3)	(487%)
Income tax expense	7.9	9.0	(1.1)	(12%)
Net loss	$ (28.0)	$ (3.8)	$ (24.2)	637 %

	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	% change
Revenues				
Operating revenues	$ 473.8	$ 368.7	$ 105.1	29%
Other revenues	14.9	28.9	(14.0)	(48%)
	488.7	397.6	91.1	23%
Operating costs and expenses				
Operating and maintenance	291.3	249.1	42.2	17%
Depreciation	42.9	39.8	3.1	8%
Amortization of deferred costs	45.6	25.3	20.3	80%
General and administrative	34.2	30.5	3.7	12%
Loss / (gain) on disposal of assets	2.2	(0.2)	2.4	(1200%)
	416.2	344.5	71.7	21%
Operating income	72.5	53.1	19.4	37%
Other expense / (income), net				
Interest income	(1.7)	(1.3)	(0.4)	31%
Interest expense and financing charges	83.6	68.4	15.2	22%
Other, net	5.5	3.6	1.9	53%
	87.4	70.7	16.7	24 %
Loss before income taxes	(14.9)	(17.6)	2.7	(15)%
Income tax expense	16.9	16.8	0.1	1%
Net loss	$ (31.8)	$ (34.4)	$ 2.6	(8)%

Three months ended June 30, 2024 compared to the three months ended March 31, 2024 and the six months ended June 30, 2024 compared to the six months ended June 30, 2023

Revenues

Total revenues for the three months ended June 30, 2024 decreased by $20.7 million compared to the three months ended March 31, 2024 primarily due to lower utilization across the fleet mainly for four rigs in Saudi Arabia with suspended operations in Q2 2024, one rig in Nigeria that suffered structural leg damage in April 2024 and end of operations for one rig in Egypt in Q1 2024. This was partially offset by two rigs in Nigeria and India that had a full quarter of operations in Q2 2024.

Total revenues for the six months ended June 30, 2024 increased by $91.1 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 late Q2 2023 or Q3 2023, and higher average earned dayrates mainly for four rigs in Nigeria, Denmark and Egypt. This was partially offset by lower utilization for three rigs in Saudi Arabia for which operations were suspended in Q2 2024, for two rigs undergoing contract preparation projects in Nigeria and Vietnam with contract commencement in April and early August 2024 respectively, one rig in Norway that completed its bareboat charter contract in Q4 2023 and for one rig in Egypt currently idle.

Operating and Maintenance

Total operating and maintenance expenses for the three months ended June 30, 2024 were $141.8 million, or 61% of total revenue, compared to $149.5 million, or 59% of total revenue, in the three months ended March 31, 2024. Total operating and maintenance decreased by $7.7 million primarily due to lower operating costs for two rigs in Saudi Arabia that were suspended in Q2 2024, one rig in India that completed planned shipyard in Q1 2024, one rig in Egypt that is idle since February 2024 and various cost savings across the fleet, including lower maintenance costs for certain rigs in India and Saudi Arabia. This was partially offset by higher costs for one rig in Vietnam that was preparing for a new contract which commenced in Q3 2024 and higher mobilization costs for two suspended rigs in Saudi Arabia that were mobilized to West Africa.

Total operating and maintenance expenses for the six months ended June 30, 2024 were $291.3 million, or 60% of total revenue, compared to $249.1 million, or 63% of total revenue, in the six months ended June 30, 2023. Total operating and maintenance increased by $42.2 million primarily due to higher shipyard expenses for one rig in Norway ahead of new contract commencement expected in Q4 2024, higher maintenance and shipyard costs for six rigs in Saudi Arabia, India, Denmark and Nigeria, higher operating costs for two rigs in Saudi Arabia and Nigeria which commenced contracts in late Q2 2023, and higher costs for one suspended rig in Saudi Arabia that was mobilized to West Africa. This was partially offset by lower shipyard expenses mainly for two rigs in India that commenced operations in May 2023 and lower operating costs for one rig in Egypt that completed its contract in February 2024.

Depreciation

Depreciation expense was relatively unchanged in the three months ended June 30, 2024 compared to the three months ended March 31, 2024.

Depreciation expense for the six months ended June 30, 2024 increased by $3.1 million as compared to the same period in 2023 primarily due to higher depreciation for one rig that resumed operations in Q1 2024 and for two rigs that were placed into operations in Q2 2023.

Amortization of Deferred Costs

Amortization of deferred costs increased by $6.4 million in the three months ended June 30, 2024 compared to the three months ended March 31, 2024, primarily due to higher amortization of contract preparation expenditures for three rigs in Saudi Arabia whose operations were suspended in the current quarter and one rig in Nigeria that commenced a new contract in Q2 2024.

Amortization of deferred costs increased by $20.3 million in the six months ended June 30, 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 in Q2 and Q3 2023, for three rigs in Saudi Arabia that were suspended in the current quarter and for one rig in Nigeria that started operations in April 2024.

General and Administrative

General and administrative expenses decreased by $1.8 million in the three months ended June 30, 2024 compared to the three months ended March 31, 2024 primarily due to lower provision for credit losses and professional fees.

General and administrative expenses increased by $3.7 million in the six months ended June 30, 2024 compared to the same period in 2023 primarily due to increased provision for credit losses and personnel costs.

Other Expense / (Income), Net

Other expense / (income), net increased by $7.2 million in the three months ended June 30, 2024 compared to the three months ended March 31, 2024, primarily due to the $10.0 million increase in interest expense and financing charges due to the $9.6 million loss on debt extinguishment related to our debt refinancing transactions in Q2 2024, partly offset by the $2.9 million decrease in other, net expense mainly due to lower foreign exchange loss in the current period.

Other expense / (income), net increased by $16.7 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due the $15.2 million increase in interest expense and financing charges mainly due to the $9.6 million loss on debt extinguishment related to our debt refinancing transactions in May 2024 and $5.3 million higher interest rates on lower total outstanding loans in the current period and $1.9 million increase in other, net expense mainly due to higher foreign exchange loss in the current period.

Income Tax Expense

Income tax expense decreased by $1.1 million for the three months ended June 30, 2024 compared to the three months ended March 31, 2024 primarily due to less unfavorable exchange rate fluctuations against income tax receivables and lower revenue, partially offset by increased deferred tax expense and a smaller reduction in tax liabilities for uncertain tax positions, which benefited from more favorable exchange rate fluctuations in the prior period.

Income tax expense increased by $0.1 million for the six months ended June 30, 2024 compared to the same period in 2023 primarily due to higher revenues and unfavorable prior period adjustments in the current period, largely offset by a reduction in liabilities for uncertain tax positions due to favorable exchange rate fluctuations and due to the expiration of a statute of limitations.

Liquidity and Capital Resources

Sources and Uses of Liquidity

We had $138.3 million and $98.2 million in cash and cash equivalents as of June 30, 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 June 30, 2024, we had restricted cash of $1.0 million and $7.6 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.

Cash Flows

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

	Six months ended June 30		
	2024	**2023**	**Change**
Net cash provided by operating activities	$ 31.3	$ 19.2	$ 12.1
Net cash used in investing activities	(33.7)	(66.3)	32.6
Net cash provided by financing activities	47.5	43.8	3.7
Exchange rate change effect on cash, cash equivalents and restricted cash	(5.2)	—	(5.2)
Net increase / (decrease) in cash, cash equivalents and restricted cash	$ 39.9	$ (3.3)	$ 43.2

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased by $12.1 million during the six months ended June 30, 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 expenditures for rigs undergoing contract preparation projects. This was partly offset by decrease in mobilization fees received in the current period.

During the six months ended June 30, 2024 and 2023, we made cash payments of $69.7 million and $66.1 million, respectively, each in interest and financing charges included in other operating assets and liabilities, net. We also made cash payments of $14.6 million and $17.3 million in income taxes included in other operating assets and liabilities, net during the six months ended June 30, 2024 and 2023, respectively.

Net Cash Used in Investing Activities

Net cash used in investing activities decreased by $32.6 million during the six months ended June 30, 2024 compared to the same period in 2023 primarily due to lower capital expenditures for reactivation and shipyard projects in the current period.

Net Cash Provided by / (Used in) Financing Activities

Net cash provided by financing activities increased by $3.7 million in the six months ended June 30, 2024 compared to the six months ended June 30, 2023 primarily due to $309.8 million proceeds from the issuance of 9.875% Senior Secured Bonds, net of discount in May 2024 compared to $44.1 million net proceeds from the issuance of common shares in February 2023. This was partially offset by payment of $243.8 million for the extinguishment of the 10.25% Senior Secured Notes, $8.3 million principal repayment for the Term Loan in March 2024, $6.4 million for debt issuance costs and $3.8 million for debt extinguishment costs. Additionally, the company drew $25.0 million from the Credit Facility in April 2024, which was repaid in May 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.

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)

	Six months ended June 30	
	2024	**2023**
Revenues		
Operating revenues	$ 414.5	$ 318.5
Other revenues	11.9	8.8
	426.4	327.3
Operating costs and expenses		
Operating and maintenance	218.0	205.6
Depreciation	33.6	30.4
Amortization of deferred costs	45.4	25.3
General and administrative	25.3	20.8
Loss / (gain) on disposal of assets	2.1	(0.2)
	324.4	281.9
Operating income	102.0	45.4
Other expense / (income), net		
Interest income	(2.2)	(0.7)
Interest expense and financing charges	59.1	53.8
Other, net	5.4	2.9
	62.3	56.0
Income / (loss) before income taxes	39.7	(10.6)
Income tax expense	16.6	16.0
Net income / (loss)	$ 23.1	$ (26.6)

Condensed Consolidated Balance Sheets
(In millions)

	As of June 30, 2024	As of December 31, 2023
Assets		
Cash and cash equivalents	$ 101.0	$ 65.6
Accounts and other receivables	186.3	209.2
Less: allowance for credit losses	5.9	5.1
Accounts and other receivables, net	180.4	204.1
Accounts and other receivables, net - related parties	3.9	7.4
Other current assets	86.2	88.0
Total current assets	371.5	365.1
Property and equipment	1,751.2	1,749.7
Less: accumulated depreciation	683.2	667.0
Property and equipment, net	1,068.0	1,082.7
Deferred tax assets	6.4	7.0
Other long-term assets	287.0	302.7
Total assets	$ 1,732.9	$ 1,757.5
Liabilities and equity		
Accounts payable	$ 76.9	$ 94.5
Accounts payable - related parties	—	0.4
Interest payable	22.7	23.8
Accrued income taxes	14.5	12.1
Current maturities of long-term debt	99.7	70.2
Other current liabilities	62.8	70.5
Total current liabilities	276.6	271.5
Long-term debt	984.9	1,018.9
Deferred tax liabilities	6.9	6.5
Other long-term liabilities	87.7	109.0
Total long-term liabilities	1,079.5	1,134.4
Commitments and contingencies		
Additional paid-in capital	1,068.5	1,066.4
Accumulated losses	(691.7)	(714.8)
Total equity	376.8	351.6
Total liabilities and equity	$ 1,732.9	$ 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 June 30, 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 June 30, 2024, we had a total principal amount of indebtedness of $1.4 billion. See Note 7 – Debt in "Item 1. Financial Statements" of "Part I. Financial Information" for a summary of scheduled debt principal payments.

Contingencies

As of June 30, 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 six months ended June 30, 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 six months ended June 30, 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.

Responsibility Statement

We confirm that, to the best of our knowledge, the condensed consolidated financial statements for the six months ended June 30, 2024 and 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 Shelf Drilling, Ltd. and majority owned subsidiaries' condensed consolidated balance sheets as of June 30, 2024 and December 31, 2023 and the related condensed consolidated statements of operations, equity and cashflows for the six months ended June 30, 2024 and 2023.

We also confirm that, to the best of our knowledge, the report includes a true and fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated financial statements, a description of the principal risk and uncertainties for the remaining six months of the financial year and major related party transactions.

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

August 14, 2024

s/ Ernie Danner	s/ David Mullen
Ernie Danner	David Mullen
Chairman	*Director & Chief Executive Officer*