

# **SHELF DRILLING, LTD.**

Form 10-K Equivalent  
for the year ended December 31, 2022

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This Form 10-K equivalent ("Form 10-K Equivalent"), with certain exceptions, is provided pursuant to the Indenture for our 8.25% Senior Unsecured Notes Due 2025 and should be read in its entirety as it pertains to Shelf Drilling, Ltd. Except where indicated, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements are combined. References in this Form 10-K Equivalent to "Shelf," "SDL", the "Company," "Group," "we," "us," "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries.

## FORWARD-LOOKING STATEMENTS

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

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

- our ability to obtain financing and pursue other business opportunities may be limited by our debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies;
- the market value of our rigs and of any rigs we acquire in the future, which may decrease and/or be impaired as a result of Company specific, industry specific or market factors;
- the level of reserves for accounts receivable and other financial assets, as appropriate;
- the proceeds and timing of asset dispositions;
- litigation, investigations, claims, disputes and other contingent liabilities and their effects on our financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- the effect of changes in foreign currency exchange rates;
- 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.”) U.S. laws and
- the other factors listed in “Item 1A. - Risk Factors” and elsewhere in this Form 10-K Equivalent.

## Part I

### Item 1. Business.

#### General

Shelf Drilling, Ltd. (“SDL”) was incorporated on August 14, 2012 (“inception”) as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the “Company”, “we”, “us” or “our”) is a leading international shallow water offshore contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 500 feet, and our fleet consists of 36 independent-leg cantilever (“ILC”) jack-up rigs as of December 31, 2022, making us one of the world’s largest owners and operators of jack-up rigs by number of active shallow water rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange (“OSE”) under the ticker symbol SHLF.

We furnish financial reports, including our Form 10-K Equivalent annual reports and Form 10-Q equivalent quarterly reports, news releases and presentations free of charge on our website at [www.shelfdrilling.com](http://www.shelfdrilling.com). Similar information can also be found on the Euronext website at [live.euronext.com](http://live.euronext.com). Euronext is an exchange group operating regulated markets in seven European countries including the OSE in Norway.

Since our inception, we have applied our “fit-for-purpose” strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. The diversified geographical focus of our jack-ups and the allocation of resources to purchase, build or upgrade rigs are determined by the activities and needs of our customers. Currently, our main customers are national oil companies (“NOCs”), international oil companies (“IOCs”) and independent oil and natural gas companies, who contract our rigs for varying durations.

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through Shelf Drilling Holdings, Ltd. (“SDHL”), an indirect wholly owned subsidiary of SDL. Our corporate offices are in Dubai, United Arab Emirates (“UAE”), geographically close to our rig operations in the Middle East, North Africa and the Mediterranean (together, “MENAM”), Southeast Asia, India, West Africa and North Sea.

#### Recent events

During the year ended December 31, 2022, the Company received 24 new contract awards, including new or extended contracts in all of its key geographic areas, with a particular concentration in the fourth quarter of 2022. This contributed to an increase in our backlog to \$2.7 billion as of December 31, 2022 compared to \$1.7 billion as of December 31, 2021.

In July 2022, the Company completed the acquisition of one premium jack-up drilling rig, subsequently renamed the Shelf Drilling Victory, from a third party for \$30.0 million. In October, the Company secured a five-year contract for the Shelf Drilling Victory for operations in the Arabian Gulf, which is expected to commence in Q2 2023.

On June 23, 2022 the Company entered into an agreement for the acquisition of five jack-up rigs, related contracts, and employees from Noble Corporation (“Noble”) for \$375 million (the “Acquisition”). The Company raised net proceeds of \$48.1 million from equity issuance for this acquisition. These net proceeds, together with the cash at hand were reinvested by the Company into Shelf Drilling (North Sea), Ltd (“SDNS”). On September 26, 2022, Shelf Drilling (North Sea) Holdings, Ltd. (“SDNSH”), an indirect wholly-owned subsidiary of SDNS, completed the issuance of \$250.0 million aggregate principal amount of new 10.25% senior secured notes due October 31, 2025 (the “10.25% Senior Secured Notes”). SDNS used these cash proceeds along with the contributions from the Company and equity financing from external investors to fund the Acquisition. On October 5, 2022, SDNS completed the Acquisition. In October 2022, SDNS secured a two-year contract extension for the Shelf Drilling Winner jack-up rig in

direct continuation of its current contract in Denmark. In addition, since October 12, 2022, SDNS shares are listed on the Euronext Growth Oslo Exchange under the ticker symbol SDNS.

In January 2023, the Company received contract awards totaling five rig years across three standard jack-up rigs in India and Egypt (Trident II, Trident 16 and Rig 141). In March 2023, the Company secured a two-year contract for the Shelf Drilling Scepter.

In February 2023, the Company completed the issuance of 17,636,876 common shares. The gross proceeds from the issuance were \$45.7 million and equity issuance costs are estimated to be \$1.9 million resulting in estimated net proceeds of \$43.8 million.

## Operations

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

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

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

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

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

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

- *Contract backlog* is the maximum contract dayrate revenues that can be earned from firm commitments for contract services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues for the use of our rigs as bareboat charters or as accommodation units. The contract period excludes revenues from extension options under our contracts unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to reduced dayrates for rig movements, adverse weather and equipment downtime, among other factors. Actual dayrates may also include contractual adjustments based on market factors, such as Brent crude oil or natural gas prices or cost increases. Contract backlog is a key indicator of our potential future revenue generation.
- *Total recordable incident rate (“TRIR”)* is the number of recordable safety incidents per 200,000 man-hours.
- *Uptime* is the period during which we perform operations without unplanned stoppage due to mechanical, procedural or other operational events that result in non-productive operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency and directly related to our current and future revenues and profit generation.

The following table includes selected operating measures as of December 31, 2022, 2021 and 2020:

	As of December 31,		
	2022	2021	2020
Contract backlog (in millions)	\$ 2,682	\$ 1,679	\$ 1,377

The following table includes selected operating measures for the years ended December 31, 2022, 2021 and 2020:

	Years ended December 31,		
	2022	2021	2020
TRIR	0.16	0.16	0.19
Uptime	99.3%	99.3%	99.4%

### Customers and Customer Contracts

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

Revenues may increase or decrease largely due to changes in average dayrates and effective utilization as defined in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Average dayrates can be affected by new contract dayrates that are lower or higher than previous dayrates and by changes in the mix of dayrates earned by different rigs in different operating regions. Effective utilization can be affected by the timing of new contracts, contract extensions or terminations and changes in operational uptime. Out of service periods that reduce operational uptime can include planned or unplanned downtime such as for periodic surveys, underwater inspections, contract preparation and upgrades 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 may receive additional compensation or reimbursement for contract preparation, capital upgrades, such as mechanical or structural alterations to a rig necessary to meet customer specifications, and for mobilization costs necessary to relocate the rig for contractual operations. Some contracts also include lump-sum demobilization revenues which are triggered if stipulated conditions are present. These provisions vary and are based on negotiations of individual contracts with customers, which can be influenced by the contract duration, dayrates, local market conditions and other factors.

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

Contract terms range in length from the time necessary to drill or workover one well up to many years. We seek to secure long-term agreements providing enhanced stability and deeper customer relationships rather than the highest possible dayrates on a

shorter-term basis. Typically, NOC contracts are for longer terms when compared to contracts with IOCs and independent oil and natural gas companies, although in certain countries annual government budget approval cycles may limit the term of these contracts.

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

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

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

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

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

For the year ended December 31, 2022, of the 24 contracts or extensions we entered into, 11 represented contract renewals with the existing customer. Based on customer contracts in place as of December 31, 2022, nine are scheduled to expire during 2023, four during 2024, nine in 2025 and 13 in 2026 or later. As of December 31, 2022, our shortest remaining contract term was approximately less than a month and the longest remaining contract term was approximately nine years.

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

Our contracts provide for varying levels of indemnification for both us and our customers. We believe the terms of such indemnification provisions are standard for the industry. In general, the parties assume liability for their respective personnel and property. Our customers typically assume responsibility for, and indemnify us against, well control and subsurface risks under dayrate contracts, which includes indemnifying us from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages, arising from operations under the contract and originating below the surface of the water, including as a result of blow-outs or cratering of the well. However, in certain cases, we may retain limited risk for damage to customer or third-party property on our rigs and retain liability for third-party damages resulting from surface pollution or contamination originating from our equipment. Additionally, we may have contractually agreed upon certain limits to our indemnification rights and can be responsible for damages up to a specified maximum amount. We generally indemnify customers for pollution that originates from our rigs that is within our control (e.g., diesel fuel or other fluids stored onboard for the use of the rig). However, all contracts are individually negotiated, and the degrees of indemnification and/or risk retention can vary from contract to contract, and prevailing market conditions and customer requirements, among other factors, existing when the contract was negotiated can influence such contractual terms. In most instances in which we are indemnified for damages to the well, we are obligated to re-drill the well at a reduced dayrate. However, in certain circumstances our customers may be financially or otherwise unable to honor their contractual



indemnity obligations to us and contractual indemnification may not prevent government authorities or other third-parties from taking action against us or naming the Company in a lawsuit.

The interpretation and enforceability of a contractual indemnity depends upon the specific facts and circumstances involved, as governed by applicable laws, and may ultimately need to be decided by a court or other proceeding, considering the specific contract language, the facts and applicable laws. The law generally considers contractual indemnity for criminal fines and penalties to be against public policy. Regardless of indemnification provisions, local jurisdiction regulations may require us to post surety bonds, letters of credit and parent company guarantees for contract performance. In addition, certain jurisdictions in which we operate, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation. In certain jurisdictions, such customs and laws also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate, we enter into agency or sponsorship agreements, in such jurisdictions. We are currently party to five joint ventures, one in Malaysia, one in Indonesia, two in Nigeria and one in Angola. Although we may not control all aspects of these joint ventures, we are an active participant in and are the primary beneficiary of each of these joint ventures. For more information regarding joint ventures, see “Note 7 – Variable Interest Entities” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data”.

The above description of our customer contracts and indemnification provisions is a general summary of the types of such provisions as of December 31, 2022 and does not contain sufficient details to fully understand our contractual and indemnification risks. For additional information, including but not limited to a discussion of the risk that the indemnification provisions in our contracts may not adequately mitigate our risks, see “Risk Management and Insurance” below and “Item 1A. Risk Factors”.

### **Strategy and Competitive Strengths**

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

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

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

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

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

We maintain a right sized organization with centralized and streamlined systems and processes geared to the specific needs of our business and fleet. Our strategically positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for numerous regional offices. Our centralized structure allows us to coordinate our supply chain networks to serve

all our geographies, standardize equipment and spares across our fleet and centralize management of key engineering and maintenance activities, all of which are key drivers of our industry leading low-cost structure. In addition, since our inception, we have maintained our practice of building high national content through hiring and developing talents locally from the countries in which we operate, including among our regional leadership teams. These local hiring practices minimize the additional costs of bringing in expatriate workers, while enhancing the stability of our operations and closely aligning our goals with the interest of the governments, customers, and local communities where we work. We believe that our centralized organizational structure and high national content provide us with an advantage over our competitors.

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

Our three strategic priorities are as follows:

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

Our three essential values are as follows:

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

We believe that our centralized structure and focus on jack-up rig operations has significantly contributed to the reliability of our operations as seen through our emphasis on safety and operational performance. We had a TRIR of 0.16 for the year ended December 31, 2022, which was 76% below the average of 0.67 reported by the International Association of Drilling Contractors (“IADC”). Our safety track record has consistently exceeded the industry benchmark since inception. See also “Risk Management and Insurance” below. Additionally, we achieved an average fleet uptime of 99.3% in 2022 and have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012. Through ongoing training, appropriate incentive structures at all levels and our Make It Safe Today or “MIST” program, we continue to improve our safety and operational performance as we strive to further reduce workplace incidents.

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

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

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

## **Risk Management and Insurance**

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

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

We maintain insurance coverage which we believe is customary in the industry, including general business liability, hull and machinery, cargo, casualty and third-party liability insurance. Our insurance policies typically consist of twelve-month policy periods, and the next renewal date for a substantial portion of our insurance program is scheduled for November 2023. Our insurance policies may not be adequate to cover all losses and have deductibles, limits of liabilities and exclusions of coverage for certain losses. Further, some pollution and environmental risks are generally not completely insurable. In addition, we may not be able to maintain adequate insurance coverage or obtain insurance for certain risks at rates we consider reasonable and commercially justifiable or with terms comparable to our current arrangements. Our fleet is insured for its estimated fair market value and we periodically evaluate risk exposures, insurance limits and self-insured retentions. As of December 31, 2022, the insured value of our fleet, excluding the Shelf Drilling Barsk rig, was \$2.0 billion. Noble maintains hull and machinery coverage and the excess liability coverage insurance for the Shelf Drilling Barsk rig. SDNS is the named beneficiary of the Shelf Drilling Barsk insurance policy.

The above description of our insurance program is a general summary of the types of such policies in effect as of December 31, 2022 and does not contain sufficient details to fully understand our insurance risks. For additional information, including but not limited to a discussion of the indemnification provisions in our customer contracts and the risk that our insurance policies may not adequately mitigate our risks, see "Customers and Customer Contracts" above and "Item 1A. Risk Factors".

## **Health, Safety and Environment**

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

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

The anchors of our HSE culture are:

- Planning First – To achieve perfect execution, we must plan every task, no matter how small
- Time Out For Safety – All employees have the obligation to call a time out for safety
- Behavior-Based Safety Observations – Formal observations aimed at raising safety awareness and promoting teamwork and accountability
- Management HSE Tours – Visible safety leadership through coaching and mentoring to empower employees and support our safety culture
- Self-Audits and Debrief – Systematic approach to self-evaluation and continuous improvement
- Training – Developing our employees as safety leaders

In 2022, in some areas we continued to apply certain COVID-19 precautions and protocols, in accordance with local laws and regulations, including certain remote working programs, as the need for such programs was being mitigated by vaccination, masking and testing programs. We track health, safety and environment performance on a monthly basis by way of a monthly HSE report, tracking, trending and investigations which are stored in our “HSE dashboard” our custom designed safety database. SDL, on behalf of all subsidiaries, is a member of the IADC and participates in its Incident Statistics Program. The Company’s total absences due to sickness, including COVID-19, were minimal during the year ended December 31, 2022.

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

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

#### *Greenhouse gas regulation*

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

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

In 2020, we formally launched our sustainability program with the publication of our 2019 Annual Report. We monitor and record the CO2 emissions from our rigs and offices by measuring the fuel consumption.

In 2021, we improved our fuel consumption tracking methodology and systems to establish a baseline for all rigs based on the average consumption from the previous months. In 2022, we established a goal to reduce our average daily per rig Scope 1 emissions by 20% over the next 5 years (2026) and by 4% in the fourth quarter of 2022, compared to our 2021 average. This goal is based on a methodology consistent with the Science Based Targets initiative.

For the full year 2022, we achieved a reduction of 5.5%, however we did not meet the 4% reduction target for the fourth quarter due to an increase in the number of rigs working in drilling mode versus workover or plug and abandonment activities. Based on the results seen in 2022, we will look to establish activity-based emissions data and set corresponding activity-linked reduction targets to establish more meaningful goals for our operations.

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

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

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

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

#### *National and local health, safety and environmental regulation*

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

#### *Other regulations*

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

## **Our People**

### *Overview*

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

The following table presents our employees and contractors by category as of December 31, 2022:

	<b>Company employees</b>	<b>Contractors</b>	<b>Total</b>
Rig-based/offshore .....	2,088	1,298	3,386
Shore-based .....	234	58	292
Corporate .....	131	58	189
<b>Total .....</b>	<b>2,453</b>	<b>1,414</b>	<b>3,867</b>

Approximately 88% of our employees and contractors comprise offshore rig-based crew members who carry out day-to-day operations. Our offshore crews include supervisors as well as trained and competent technical specialists in the areas of operations, safety, maintenance and marine support. Offshore crews typically work rotation schedules which vary according to jurisdiction and local practice. However, this can, and has been, adjusted due to COVID-19 related travel delays and restrictions, including quarantine periods in some locations.

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

#### *Nationalization/Local Employment*

A focus on nationalization remains central to our strategy. We view nationalization as important both to ensuring a sustainable business, and to contributing to the communities in which we operate. We are committed on building high national content through hiring and developing nationals from the countries in which we operate, including across our leadership teams. The continued drive and commitment to build high national content has resulted in nationals representing 86% of our offshore employees and contractors as of December 31, 2022. This enables us to strengthen customer and governmental relationships, particularly with NOCs, and results in a lower cost base. In addition, through significant positive impacts on the local economies including increased income and employment, our nationalization strategy directly supports our commitment to the United Nations' Sustainable Development Goals.

The following table shows the percentage of national employees and contractors in our key markets as of December 31, 2022:

	<b>National employees and contractors</b>
MENAM .....	58.9%
North Sea .....	97.9%
Southeast Asia .....	87.6%
India .....	99.8%
West Africa .....	91.3%

#### *New Operating Frontiers*

In 2022 we acquired 5 premium harsh environment jack-up rigs with onshore and offshore teams, that have significantly enhanced our asset quality and expanded our geographical footprint into the North Sea and Qatar. We carefully managed all the critical steps of this transaction, with a particular attention to employee matters, to ensure a seamless and successful transition. In addition to the North Sea and Qatar, we have also started new projects in remote locations such as Angola, Congo, Vietnam, Ghana, and Oman. In Angola for instance, we achieved a nationalization level of 77% in less than a year of operations, which underpins our continuous commitment to drive development of local talents and maximize opportunities for employment for a strong impact in the communities in which we operate.

### *Diversity, Equal Opportunity and Labor and Human Rights*

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

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

We respect labor rights as described in the fundamental conventions of the International Labor Organization, including freedom of association and collective bargaining as well as freedom from forced and compulsory labor, child labor and discrimination in respect of employment and occupation. We are committed to respecting and protecting labor rights as well as fundamental human rights as described in the UN Guiding Principles on Business and Human Rights, both in our internal business as well as those of our business partners, suppliers, customers and others who are directly affected by our activities. We are committed to important issues such as non-discrimination, the right to privacy, employment contracts, protection against harassment and management-employee collaboration. We engage with the relevant employee representative groups, which operate in certain jurisdictions, and encourage active ongoing dialogue to ensure alignment of our collective interests.

Through our ongoing Speak Up initiative we encourage our employees and third-parties to ask compliance and ethics questions, raise concerns and report any actual or suspected misconduct, unethical or illegal behavior, or violations to our code of business conduct and its supporting policies or applicable laws, or seek advice on how to handle such situations. Shelf Drilling has established various channels through which employees and third-parties, such as suppliers, agents, and business partners, can report their concerns. The employees are always encouraged to talk openly and freely with their supervisors first or they can reach out to the Head of Compliance and Ethics or the Executive Vice President. The Company has also made available the Shelf Drilling Ethics Point Helpline, which enables filing of confidential reporting of complaints, concerns and incidents either through the toll-free multilingual telephone hotline or a web-based form. The helpline is operated 24/7 by an independent third-party provider to help maintain confidentiality and, when requested, anonymity. A link to the helpline is also available on our website and intranet.

### *Well being*

Our commitment to supporting the health and wellbeing of our people remains a priority. In 2022, our journey to create a culture of awareness and psychological safety within the workforce began with a primary goal to support the emotional wellbeing of all our employees.

Facilitated by experienced clinicians, Mental Health First Aid (MHFA) Training was delivered across all locations with the aim of developing capable in-house resources by training key personnel to be better equipped to identify and respond to employees experiencing mental wellbeing issues and building a network of mental health champions across the organization.

We are also launching a Global Employee Assistance Program in 2023, that will leverage on a global network of resources and partners with the aim to provide 24/7 emotional and psychological support & solutions to all employees. The program will be available in all locations in multiple languages, while being sensitive to local and cultural differences.

### *Training and Development*

For all Company employees, we provide applicable training related to key Company policies and procedures covering topics such as our code of business conduct, ethics, anti-corruption and conflicts of interest.

For offshore employees, we provide access to a comprehensive training and development program that enables employees to progress from entry level positions through to the most-senior level on a rig. Employees acquire skills, knowledge and experience following a highly structured training matrix that specifies the training required for each role and responsibility. This is channeled into four main categories: on the job training, competency assessments, shore-based professional courses and regulatory and marine licensing training courses. Employee progress toward the next level and compliance with defined training targets are tracked through

our online reporting system. Specific programs, such as the Offshore Development Program, the Fast Track Program, the Engineer Development Program, aim to support the development and the promotion of high potential candidates. Regular reviews are held between the field and corporate management teams on an ad-hoc basis and as part of a structured Annual Succession Planning process to ensure progress towards achieving the designated nationalization objectives as well as the development of adequate bench strength for key positions.

For shore-based and corporate employees, development plans are specific to the individual, their current role and potential future opportunities.

### **Operating Expenses, Capital Expenditures and Deferred Costs**

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

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

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

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

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

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



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

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

## **Item 1A. Risk Factors.**

### **Summary of Principal Risk Factors**

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

#### ***Risks Related to our Business and Industry***

- Our business largely depends on the level of activity in the shallow water drilling industry, which is significantly affected by volatile oil and natural gas prices that drive activity in the oil and natural gas exploration and production industry.
- The industry has been historically competitive, cyclical and subject to price competition. If we are unable to compete successfully with our competitors, we may be materially adversely impacted.
- Supply chain disruptions such as supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase our operating costs, decrease our revenues and adversely impact our operations.
- Public health issues, including epidemics and pandemics such as COVID-19 have had and may continue to have significant adverse consequences including significantly reduced demand for our services, which may result in a material adverse impact on our financial condition, results of operations and cash flows.
- Our future business performance depends on our ability to renew contracts with existing customers and secure new contracts for our fleet of rigs.
- If customers reduce activity levels, terminate, suspend or seek to renegotiate contracts, or if market conditions dictate that we enter into contracts with unfavorable terms or increased risks, we may be materially adversely impacted.
- Our future contracted revenue, or backlog, may not ultimately be realized.
- The duration of our contracts may subject us to certain additional risks.
- We rely on a relatively small number of customers for a substantial portion of our current and future revenues.
- Our purchase of existing jack-up rigs carries risks associated with the condition and quality of those rigs.
- Newbuild rig projects and reactivation of stacked rigs, as well as upgrade, refurbishment and repair projects are subject to various risks, which could cause delays or cost overruns.
- If we were to commit to acquire, construct or lease rigs or reactivate stacked rigs prior to obtaining a customer contract, we could be exposed to a number of risks.
- We may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Company and our future growth.

- We may not be able to keep pace with technological developments and make adequate capital expenditures in response to newer and/or higher specification rigs or more fuel efficient/low-emission rigs being deployed within the industry and therefore our fleet may not satisfy the requirements of some customers.
- Climate change, the regulation of greenhouse gases and increasing development of renewable energy alternatives could have a negative impact on our industry, business and/or reputation.
- Compared to companies with greater resources, we may be at a competitive disadvantage.
- There may be limits to our ability to mobilize drilling rigs between geographic areas, and the duration, risks and associated costs of such mobilizations may be material to our business.
- The fair market value of our long-lived assets, including our drilling rigs and any rigs we acquire in the future, may decrease, which could result in impairments or cause us to incur a loss on the sale of such assets.
- Our labor costs and the operating restrictions that apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.
- Our business involves numerous operating hazards; our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events and our insurance may become more expensive or may become unavailable in the future.
- Our international operations in the shallow water drilling sector involve additional risks, which could adversely affect our business.
- Any failure to comply with the complex laws and regulations governing international trade, including import, export, anti-corruption, economic sanctions and embargoes could adversely affect our operations.
- We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.
- If we or our customers are unable to acquire or renew permits and approvals required for drilling operations, we may be forced to suspend or cease our operations, which may adversely affect our profitability.
- The imposition by customers and/or governments in certain countries related to minimum local content, or local content programs or quotas may subject us to additional requirements and risks.
- Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.
- We are dependent upon cash flows from our operating subsidiaries to meet our obligations, including repayment of our debt. Our corporate structure and operations in multiple jurisdictions may impose limitations on the transfer of funds. If we become unable to pay our interest or debts as they become due or to obtain further credit, we may become subject to insolvency proceedings.
- To service and refinance our indebtedness, fund our capital and liquidity needs or pay any dividends, we may not generate sufficient cash or have access to sufficient funding.
- We rely on proper functioning of our computer and data processing systems that must be regularly updated or replaced, and a large-scale malfunction could result in material adverse disruptions to our business.
- Developing and expanding data security and privacy requirements could increase our operating costs, and any failure by us or our vendors to maintain the security of certain customer, employee and business-related information could result in damage to our reputation, be costly to remediate and result in regulatory action.
- We depend heavily upon the security and reliability of our technology systems and those of our service and equipment vendors, and such systems are subject to cyber-security risks and threats.

- Technology disputes could negatively impact our operations or increase our costs.
- Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.
- If any part of our business is moved outside of its current operative jurisdiction our overall tax exposure may change, which may affect our alleged compliance with applicable tax laws.
- The Russian invasion of Ukraine has affected, and may continue to affect, the oil and gas industry and, in turn, the Company's operations.
- The Acquisition may have an adverse effect on our business.

#### ***Risks Related to our Structure and Ownership of our Common Stock***

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

#### ***General Risk Factors***

- We are exposed to the credit risks of our key customers and certain other third parties.
- We are dependent on our senior management team, other key employees and Directors of our Board, and the business could be negatively impacted if we are unable to attract and retain personnel necessary for our success.
- We are dependent on the availability and retention of skilled personnel, which may be adversely affected by increases in labor costs.

- We may be subject to litigations and disputes that could have a material adverse impact on our business, financial condition, results of operations and cash flows.
- Any relevant change in tax laws, regulations, or treaties, and relevant interpretations thereof, for any country in which we operate, earn income, generate losses or are considered to be a tax resident, and/or the loss of any major tax dispute, or a successful challenge to our intercompany pricing policies or operating structures could have an adverse impact on our financial condition, results of operations and cash flows.
- We are subject to laws and regulations in several jurisdictions, and failure to properly comply with such laws and regulations may adversely affect our operations.
- The price of our common shares could fluctuate significantly.

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

### **Risks Related to our Business and Industry**

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

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

Worldwide demand for oil and natural gas is impacted by:

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

Worldwide production of oil and natural gas is impacted by:

- expectations regarding future energy prices;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- advances in exploration, development and production technologies;
- the discovery rate of new oil and gas reserves and their locations;
- increased supply of oil and gas resulting from growing onshore hydraulic fracturing activity and shale development;
- the diversification of IOCs and the shifting of budget allocations away from traditional oil and gas exploration and development projects into renewable energy and other non-core business projects;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) to set, comply and maintain production levels and pricing and the level of production in non-OPEC countries;
- merger and divestiture activity among oil and gas producers;
- weather conditions, including natural disasters;
- the availability of, and access to, suitable locations from which our customers can explore and produce hydrocarbons and available pipeline and other oil and gas transportation capacity;

- tax laws, regulations and policies or speculation regarding future laws or regulations, including the policies and regulations of various governments regarding exploration and development of their oil and natural gas reserves;
- activities by non-governmental organizations to restrict the exploration, development and production of oil and natural gas so as to reduce the potential harm to the environment from such activities, including emission of carbon dioxide, a greenhouse gas and
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, Russia or other geographic areas or further acts of terrorism in the regions in which we operate, or elsewhere.

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

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

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

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

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

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

***Public health issues, including epidemics and pandemics such as COVID-19 have had and may continue to have significant adverse consequences including significantly reduced demand for our services, which may result in a material adverse impact on our financial condition, results of operations and cash flows.***

The existence of the novel coronavirus (“COVID-19”) was confirmed in early 2020 and spread to countries worldwide, causing disruptions to businesses and economic activity globally. The collapse in the demand for oil caused by this unprecedented global health and economic crisis, coupled with oil oversupply, had a material adverse impact on the demand for our services. These effects have included adverse effects on revenues and net income; disruptions to our operations, including restrictions on crew change travel; customer shutdowns of oil and gas exploration, development and production; supply chain and vendor activity disruptions; employee impacts from illness, school closures and other community response measures, which may cause prolonged absences of personnel who may be difficult or impossible to replace; and temporary closures of our facilities or the facilities of our customers and suppliers. Several of our contracts were early terminated, suspended, shortened or renegotiated which adversely impacted our business.

Additionally, these market and industry conditions placed significant pressure on the liquidity and solvency of many offshore drilling contractors, leading them to pursue restructuring transactions or reorganizations under bankruptcy laws. These transactions could have a material impact on the capital structure and competitive dynamics among offshore drilling companies, which could negatively impact our ability to compete in the industry.

In 2022, the impact of the global rollout of approved COVID-19 vaccines resulted in the reduction of travel restrictions and the gradual reopening of economies. This helped drive an increase in demand for oil and natural gas and optimism for a return to pre-pandemic normalcy.

The extent to which our operating and financial results are affected by emerging or resurgent epidemic or pandemic diseases or viruses and continue to be affected by COVID-19 is dependent on various factors and consequences beyond our control, such as the duration and scope of the health crisis and the related responses by businesses and governments, particularly within the geographic locations where we operate, as well as the speed and effectiveness of these responses, including the effectiveness and the timeliness of vaccinations and treatments. Public health issues and the volatile global economic conditions stemming from such widespread health crisis, has aggravated and could continue to aggravate certain other risk factors affecting our business.

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

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

If we are unable to renew contracts or we are not selected for new contracts, or if the contracts we enter into are delayed, workflow may be interrupted and our business, financial condition and results of operations may be materially adversely affected. Based on 35 customer contracts in place as of December 31, 2022, nine are scheduled to expire before December 31, 2023, four are scheduled to expire during 2024, with a further 22 contracts scheduled to expire at times subsequent to December 31, 2024. Failure to renew a contract could lead to a rig being stacked and/or having to enter into a new contract at lower dayrates, shorter terms or in other geographical areas and could materially adversely affect our revenues, financial condition, results of operations and cash flows.

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

Customers may seek to renegotiate, suspend or terminate their contracts, and during periods of unfavorable market conditions, including low oil and natural gas prices and over-supply of rigs, we are subject to an increased risk of our customers taking such actions. Certain of our customers may have the right to suspend or terminate contracts without limitations. Additionally, certain contracts may contain clauses allowing for termination due to downtime or operational problems above the contractual limits, safety-related issues, if the drilling rig is not delivered to the customer within the specified time period or in other specified circumstances, which may include events beyond our control. Some of these contracts may require us to pay penalties, which could be material.

Certain of our contracts provide for cancellation at the option of the customer upon payment of a penalty to us, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in a drilling rig being idle for an extended period of time. Customers without favorable termination language may seek to renegotiate existing contracts, including for some of the termination reasons described above. During periods of unfavorable market conditions, a customer may no longer need a rig that is under contract or may be able to obtain a comparable rig at a lower dayrate. As a result, customers may seek to renegotiate the terms of their existing contracts to shorten the length of the contract or lower the dayrate or customers may seek to suspend, terminate or otherwise avoid their obligations under those contracts.

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

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

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

The contract backlog relating to our rigs was approximately \$2.7 billion as of December 31, 2022. The amount of contract backlog does not necessarily indicate future earnings, and the contract backlog may be adjusted up or down depending on various factors both within and outside of our control.

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

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

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

***The duration of our contracts may subject us to certain additional risks.***

Our contracts with our customers contain negotiated terms, including dayrates, which are determined at the time when contracts are negotiated. In periods of rising demand for shallow water rigs, customers with reasonably definite drilling programs would typically prefer long-term contracts in order to maintain dayrates at a consistent level. Conversely, in periods of decreasing demand for shallow water rigs, customers generally would prefer well-to-well or other short-term contracts that would allow the customer to benefit from the decreasing dayrates. Additionally, oil and natural gas companies tend to reduce activity levels quickly in response to declining oil and natural gas prices and may be unwilling to commit to long-term contracts during such periods.

Short-term contracts provide additional exposure to changing dayrates, as subsequent contracts will likely be negotiated at new prevailing dayrates and do not provide long-term revenue stability. Long-term contracts limit our ability to benefit from rising dayrates while limiting our risk to falling dayrates but provide for a longer-term source of revenues. However, revenues from long-term contracts are not guaranteed. We may not be able to renew long-term contracts that preserve dayrates and utilization, or our

customers may seek to renegotiate lower dayrates under their existing long-term contracts with us. Unfavorable changes in dayrates or failure to obtain new contracts or renew existing contracts could have a material adverse effect on our revenues, financial condition, results of operations and cash flows.

Generally, short-term contracts can be less profitable as fixed costs related to contract preparation and rig movements benefit the Company over a shorter contract period, while long-term contracts allow for a longer period over which these costs provide benefit. Contract preparation expenses vary based on the scope and length of contract preparation required. Additionally, if our rigs incur idle time between contracts, we typically do not remove personnel from those rigs because we utilize the crew to prepare the rig for its next contract. Moreover, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly.

The oil and natural gas market can also affect our costs and the timing and amount of payments earned from contracted dayrates may differ from actual changes in costs. Our costs tend to increase as the business environment for our services improves and demand for oilfield equipment and skilled labor increases. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. In general, labor costs increase primarily due to higher compensation levels, inflation and these costs can also be affected by exchange rate fluctuations. Equipment maintenance expenses fluctuate depending upon the type of activity the rig is performing and the age and condition of the equipment.

Any increases in costs associated with our contracts could have a material adverse effect on our financial condition, results of operations and cash flows.

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

Our customer base includes NOCs and IOCs, together with a small number of independent oil and gas companies. The drilling industry is subject to the usual risks associated with having a limited number of customers. Our top three customers accounted for 81% of contract backlog and 53% of revenues for the year ended December 31, 2022. Our business, financial condition, results of operations and cash flows could be materially adversely affected if any of these customers were to reduce their contractual commitments to us or suspend or withdraw their approval for us to provide services for them.

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

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

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

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

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

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



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

- project management and execution risk;
- unexpectedly long delivery times for, unexpected costs or shortages of, key equipment, parts and materials;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- unforeseen design and engineering problems;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- labor disputes and work stoppages at the shipyard;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders (scope creep);
- HSE accidents/incidents or other safety hazards;
- failure or delay of third-party service providers;
- disputes with the constructing shipyard or other suppliers;
- last minute changes to the customer's specifications;
- failure or delay in obtaining acceptance of the rig by our customer;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society, certificate of inspection, or other regulatory approvals or permits and
- mobilization between the shipyard and the contract operating site, including any restrictions on the movement of personnel.

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

***If we were to commit to acquire, construct or lease rigs or reactivate stacked rigs prior to obtaining a customer contract, we could be exposed to a number of risks.***

We have in the past, and may in the future, choose to acquire a newbuild or existing rig, lease a rig or reactivate a stacked rig speculatively, without first obtaining a customer contract. Absent a firm customer contract, we may not be able to secure arrangements for these rigs in a timely manner on economically acceptable terms, if at all. Failure to obtain a customer contract could result in the impairment of certain long-lived assets or expensing of costs which would typically be deferred. Failure to contract such rigs on acceptable terms or in a timely manner could adversely affect our business, financial position, results of operations and cash flows.

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

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

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

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

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

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

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

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

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

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

Current and future regulations relating to greenhouse gases and climate change also may result in increased compliance costs or additional operating restrictions on our business. The negative impacts of greenhouse gases and climate change have resulted in

adverse publicity for the oil and natural gas industry and could cause damage to our reputation. In addition, because our business depends on the level of activity in the offshore oil and natural gas industry, existing or future regulations or other agreements related to greenhouse gases and climate change, including carbon taxes or greenhouse gas fees or incentives to conserve energy or use renewable energy alternatives, could decrease the demand for oil and natural gas or decrease exploration activity.

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

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

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

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

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

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

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

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

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

- governmental or other regulations and
- technological advances.

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

For a description of non-cash impairment losses previously recorded, see “Note 11 – Loss on Impairment of Assets” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data”.

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

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

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

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

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

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

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

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

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

As is customary in the offshore drilling industry, we have undertaken to mitigate the risks of our operations through insurance and contractual indemnities from our customers. However, insurance policies have limits and exclusions and may not provide full

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***The imposition by customers and/or governments in certain countries related to minimum local content, or local content programs or quotas may subject us to additional requirements and risks.***

In Saudi Arabia, Saudi Aramco's In-Kingdom Total Value Add program sets goals for suppliers to meet, among other things, specified national content percentage targets. In the UAE, the implementation of the In-Country Value program in Abu Dhabi is also expected to increase local content requirements for all companies contracting with ADNOC. Compliance with these, or other similar programs, could increase the cost of doing business in such jurisdictions or could subject us to fines and penalties or loss of contracts, which could materially adversely affect our revenues, financial condition, results of operations and cash flows.

Several countries in which we operate require foreign entities to comply with certain laws and regulations concerning minimum local content requirements. As a result, we may be required to enter into legally binding arrangements with local entities in those jurisdictions in order to conduct operations. In Indonesia, Malaysia, India, Nigeria, Angola and the UAE, we maintain a series of contractual and legal agreements with local partners and/or agents, whom management believes are an integral part of the successful operation of our business in these markets. In the future, we may enter into similar arrangements in other countries, either due to changing laws or regulations or due to operational requirements in additional markets. If we were to lose the support of these local participants and were unable to find suitable replacements, local regulators may curtail or terminate our operations. In addition, the success of these local relationships depends on the reputation, creditworthiness, stability and continuity of the local partners and/or agents with which we are working. If any of these local partners and/or agents were to become subject to bankruptcy/insolvency proceedings or other adverse regulatory or judicial proceedings, or lose the ability to carry out the operations for any other reason, then our business, financial condition, results of operations and cash flows could be materially adversely impacted.

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

As of December 31, 2022, we had a total principal amount of indebtedness of \$900.0 million of 8.25% Senior Unsecured Notes, due February 2025 ("8.25% Senior Unsecured Notes"), \$310.0 million of 8.875% Senior Secured First Lien Notes, due November 2024 and \$250.0 million of 10.25% Senior Secured Notes. The level of our indebtedness and the terms of the agreements governing our existing indebtedness may contain covenants that restrict our ability to take various actions, such as to:

- incur or guarantee additional indebtedness or issue certain preferred shares;
- pay dividends or make other distributions on, or redeem or repurchase, any equity interests;
- make other restricted payments;
- make certain acquisitions or investments;
- create or incur liens;
- transfer or sell assets;
- incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates and
- consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of our assets or certain subsidiaries' assets.



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

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

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

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

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

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

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

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

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

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

We rely primarily on globally and locally functioning information technology systems across our value chain, including for management financial information and various other processes and transactions. Our ability to effectively manage our business depends on the security, reliability and capacity of these systems. An attack on, or other problems with, our systems could result in the

disclosure of proprietary information about our business or confidential information concerning our customers, vendors or employees, which could result in significant damage to our business and reputation.

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

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

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

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

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

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

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

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

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

We depend heavily on technologies, systems and networks that we manage, and others that are managed by our third-party service and equipment vendors, to conduct our business and operations. Cyber-security risks and threats to such systems continue to grow in sophisticated ways may be difficult to anticipate, detect, prevent or mitigate. If any of the security systems used by us or our vendors for protecting against cyber-security threats prove to be insufficient, our business and financial systems could be compromised, confidential or proprietary information in our possession could be altered, lost or stolen, or our (or our customers’) business operations or safety procedures could be disrupted, degraded or damaged. A cyber-security breach or failure could also result in injury (financial or otherwise) to people, loss of control of, or damage to, our (or our customers’) assets, harm to the environment,

reputational damage, breaches of laws or regulations, litigation and other legal liabilities. In addition, we may incur significant costs to prevent, respond to or mitigate cyber-security risks or events and to defend against any investigations, litigation or other proceedings that may follow such events. Such a failure or breach of our systems could materially adversely impact our reputation, business, financial position, results of operations and cash flows.

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

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

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

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

***If any part of our business is moved outside of its current operative jurisdiction our overall tax exposure may change, which may affect our alleged compliance with applicable tax laws.***

We and most of our subsidiaries are incorporated in the Cayman Islands. We also have subsidiaries in various other jurisdictions. Our consolidated effective tax rate is dependent on where profits are earned and taxed or losses are generated, as different countries have different tax systems and statutory tax rates. Different jurisdictions also have different tax laws and interpretations thereof. If we move some of our operations into a new jurisdiction or acquire companies in jurisdictions in which we do not already operate, our overall effective tax rate may be affected. Further, we may also become exposed to changes in tax policies and amendments to tax legislation, prospectively and/or retroactively, in such jurisdictions.

There can be no assurance that the relevant tax authorities in the jurisdictions in which we operate will agree with our tax calculations and judgements. If a relevant tax authority disputes our assumptions, judgements or calculations, we may incur additional tax expense, including any related interest and penalties. Any changes in our tax exposure may affect our alleged compliance with applicable tax law, and any non-compliance could have a material adverse impact on our financial condition, results of operations and cash flows.

***The Russian invasion of Ukraine has affected, and may continue to affect, the oil and gas industry and, in turn, the Company's operations.***

Since Russia's invasion of Ukraine in the first quarter of 2022, the geopolitical situation in Eastern Europe has and is also expected to continue to have a significant impact on the oil and gas market in particular due to sanctions related to Russia and the export of Russian oil and gas. During the first half of 2022, gas prices have surged to an all-time high and oil prices climbed to 14-year highs, only below its peak in mid-2008. Rapid swings in oil and gas prices further increased the volatility in the energy sector. There can be no guarantee that such prices will be maintained over time, or at all, due to the adverse inflationary effects high energy prices have on the global economy and the evolution of the sanctions against Russia's exportation of oil and gas. Additionally, the Russia-Ukraine conflict is generating further shortages of materials and parts used in oilfield equipment, with the consequence of deteriorating the delivery time of such equipment and parts, and potentially impacting the Company's operations. At the same time, sourcing of available quality products and equipment has become more challenging and, when available, such products and equipment have become more expensive to acquire, which has adversely impacted the Company's operating costs. The long term effects of the supply chain disruptions resulting from the Russia-Ukraine conflict are unpredictable and could have a material adverse effect on the Company's revenues, financial condition, results of operations or cash flows.

***The Acquisition may have an adverse effect on our business.***

On October 5, 2022 we completed our acquisition of five jack-up rigs, related contracts, support and infrastructure from Noble. The Acquisition involves significant challenges and risks, including that the Acquisition may not advance our business

strategy, that we get an unsatisfactory return on our investment, that the Acquisition raises new compliance-related obligations and challenges, that we have difficulty integrating and retaining employees and managing business processes and that the Acquisition distracts management from our other businesses. It may take longer than expected to realize the full benefits from the Acquisition such as increased revenue or enhanced efficiencies, or the benefits may ultimately be smaller than we expected. These events could adversely affect our consolidated financial statements.

### **Risks Related to our Structure and Ownership of our Common Stock**

***We are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to our U.S. shareholders.***

For U.S. federal income tax purposes, a foreign corporation will be treated as a Passive Foreign Investment Company (“PFIC”), if either (i) at least 75.0% of its gross income for any taxable year (including its proportionate share of the gross income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation’s stock) consists of certain types of “passive” income or (ii) at least 50.0% of the average value of the corporation’s assets (including its proportionate share of the assets of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation’s stock) either produce or are held for the production of those types of “passive” income. Passive income for these purposes includes certain rents and royalties, dividends, interest, net gains from the sale or exchange of investment property, and net gains from commodities and securities transactions. Passive income does not include income derived from the performance of services.

We believe that we will not be treated as a PFIC for any relevant period as any income we receive from offshore drilling service contracts should be treated as “services income” rather than as passive income under the PFIC rules. In addition, the assets we own and utilize to generate this “services income” should not be considered passive assets.

Although there is significant legal authority supporting our position, including relevant statutory provisions, legislative history, case law and various pronouncements from the U.S. Internal Revenue Service (“IRS”), there is a possibility that the IRS may still characterize this income as “passive” income in light of a prior case characterizing income from the time chartering of vessels as rental income rather than services income for other tax purposes. However, the IRS has subsequently formally announced that it does not agree with the decision in that case. Despite this IRS announcement, no assurance can be given that the IRS or a relevant court will accept our position that we are not a PFIC.

If we were to be treated as a PFIC for any relevant period, our U.S. shareholders may face adverse U.S. tax consequences. Under the PFIC rules, a U.S. shareholder would be liable to pay U.S. federal income tax at the highest applicable rates on ordinary income upon the receipt of certain “excess” distributions and upon any gain from the disposition of our shares, plus certain interest and penalties. Although shareholders can make certain elections to mitigate the application of the PFIC rules, these elections can themselves cause other adverse tax consequences to the electing shareholder.

***Subsequent to our initial public offering in 2018, we are subject to both Cayman Islands regulatory requirements and the requirements applicable for Companies listed on the Oslo Stock Exchange, and any subsequent changes to these requirements, and, as such, we may be subject to review by the relevant authorities.***

From the time of our June 25, 2018 initial public offering, we are subject to both the Cayman Islands regulatory requirements and the requirements applicable for companies listed on the Oslo Stock Exchange. These requirements affect our financial statements, corporate governance, communications with shareholders, transactions involving our common stock, such as dividends and stock repurchases, and other items as per the relevant laws and regulations. Any of these documents or actions may be subject to review by the relevant authorities. Compliance with these requirements and any subsequent changes in the requirements or the interpretation of requirements by relevant authorities could have a material adverse impact on our business, financial condition, results of operations and cash flows.

***Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the U.S., and our shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights under the laws of other jurisdictions.***

Our corporate affairs are governed by our Articles of Association (“Articles”) and by the laws governing companies incorporated in the Cayman Islands. The rights of our shareholders and the responsibilities of members of the Board of Directors under Cayman Islands law may not be as clearly established as under the laws of other jurisdictions. In addition, the rights of shareholders as they relate to, for example, the exercise of shareholder rights, are governed by Cayman Islands law and our Articles and differ from the rights of shareholders under other jurisdictions, including Norway and the U.S. The holders of our common shares

may have more difficulty in protecting their interests in the face of actions by the Board of Directors than if we were incorporated in the U.S. or Norway. Additionally, it could be difficult for a common shareholder to prevail in a claim against us under, or to enforce liabilities predicated upon, securities laws in jurisdictions other than the Cayman Islands.

***Certain of our shareholders own a significant proportion of our common shares, and their interests may conflict with those of ours or other shareholders.***

Our largest shareholders are affiliates of Castle Harlan, Inc., Lime Rock Partners (together, the “Sponsors”) and China Merchants Industry Holdings Company Limited (“China Merchants”). These shareholders beneficially own, collectively, a significant proportion of our common shares. The Company’s Articles contain certain preferential governance rights for the Sponsors, including the right of the Sponsors to appoint and remove directors, subject to certain ownership thresholds being met. Additionally, as of December 31, 2022, China Merchants was our largest shareholder and has representation on the Board of Directors. Accordingly, the Sponsors and China Merchants can exercise significant influence over our affairs.

If circumstances arise where the interests of the Sponsors or China Merchants conflict with the interests of other shareholders, the other shareholders could be disadvantaged by the ability of these large shareholders to influence actions contrary to the other shareholders' interests. Specifically, the level of voting influence of the Sponsors and China Merchants may impact other shareholders' ability as minority shareholders to have an influence on the result of special resolutions which shall be required for certain types of transactions, such as the increase or reduction of our share capital, certain share transactions or the approval for a merger, or that involve an actual or potential change of control of us, including transactions in which shareholders might receive a premium for their shares over prevailing market prices.

***In the recent past, we have not paid any dividends on our common shares, our ability to pay dividends is subject to certain restrictions and the availability and timing of future dividends, if any, is uncertain, which could influence the price of our common shares.***

In recent years, we have not issued dividends to our common shareholders, and we did not distribute any dividends for the financial year ended December 31, 2022. Agreements governing our existing indebtedness place certain restrictions on our ability and the ability of our restricted subsidiaries to pay dividends. Consequently, the only opportunity for an investor in our common stock to achieve a return on their investment may be to sell the common shares at a price greater than the price paid. In addition, any amendments to our existing debt agreements or any new debt arrangements may also prohibit or further restrict our ability to pay dividends on our common shares.

Subject to such prohibitions and restrictions, the Board of Directors will determine the amount and timing of dividends on our common shares, if any, that we may pay in future periods. In making this determination, the Board of Directors will consider all relevant factors, including the amount of cash available for dividends, capital expenditures, covenants, prohibitions or limitations with respect to dividends, applicable law, general operational requirements and other variables. We cannot predict the amount or timing of any future dividends, and if we do commence the payment of dividends, we may be unable to pay, maintain or increase dividends over time. Therefore, investors may not be able to realize any return on their investment in our common shares for an extended period of time, if at all.

The annual dividend yield of our common stock as compared to yields on other financial instruments, which may fluctuate with market interest rates, could influence the market price of our common shares. As such, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of our common shares.

***Future issuances of our common shares or other securities could dilute the holdings of holders of our common shares and could materially affect the price of our common shares, and preemptive rights are not available to holders of our common shares.***

We may in the future decide to offer additional common shares or other securities in order, among other needs, to finance new capital-intensive projects, in connection with unanticipated liabilities, as currency in merger and acquisition transactions, for employee share-based awards, for regulatory requirements, to fund our expenses or for any other corporate purposes.

There can be no assurance that we will not decide to conduct further offerings of securities in the future. Under Cayman Islands law and our Articles, holders of our common shares do not have preemptive rights that maintain their relative ownership percentages prior to the issuance of any new common shares. Without preemptive rights and depending on the structure of any future offering, certain common shareholders may not have the ability to purchase additional equity securities. Future issuances of common shares or other securities may result in substantial dilution in the ownership percentage of, and may have the effect of diluting the

value of, holdings and voting interests of common shareholders. Additionally, such transactions could have an adverse effect on market value of our common shares.

***Future sales, or the possibility of future sales of a substantial number of our common shares could affect the market price of our common shares.***

We cannot predict what effect, if any, future sales of our common shares, or the availability of our common shares for future sales, will have on the market price of our common shares. Transaction volumes of our common stock have historically been low, and therefore our stock price may be significantly impacted by large transactions. Sales of substantial amounts of our common shares in the public market, including by the Sponsors or China Merchants, who own a significant number of our outstanding common stock, or the perception that such sales could occur, could adversely affect the market price of our common shares, making it more difficult for our common shareholders to sell their common shares or us to sell equity securities in the future at a time and price that they deem appropriate. Additionally, all common shares owned by the Sponsors are unrestricted and thus are eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

***Exchange rate fluctuations could adversely affect the value of our common shares and dividends paid on the common shares, if any, for an investor whose principal currency is not U.S. dollars.***

Our common shares are priced and traded in Norwegian Krone (“NOK”) on the Oslo Stock Exchange. Dividends declared by our Board of Directors, if any, would likely be denominated in our functional currency of U.S. dollars, and would be paid to the common shareholders through DNB Bank ASA (“DNB”), being our VPS registrar (the “VPS Registrar”). Such payments would be transacted in the bank account currency of the relevant common shareholder’s account, as previously provided to the VPS Registrar. Common shareholders registered in the VPS who have not supplied their bank account details would not receive dividend payments unless and until they register their bank account details for their VPS account and inform the VPS Registrar. The exchange rate(s) applied when transacting payments of dividends to the relevant common shareholder's currency would be the VPS Registrar's exchange rate on the payment date. Exchange rate movements of U.S. dollars would therefore affect the value of these dividends and distributions for investors whose account currency is not U.S. dollars. Further, the market value of the common shares as expressed in foreign currencies will fluctuate in part as a result of foreign exchange rate fluctuations. This could affect the value of the common shares and of any dividends paid on the common shares for an investor whose principal currency is not U.S. dollars.

***The transfer of our common shares and their underlying assets is subject to restrictions under the securities laws of the U.S. and other jurisdictions.***

Our common shares or underlying assets have not been registered under the Securities Exchange Act of 1934 in the U.S. or any U.S. state securities laws or any other jurisdiction outside of Norway and the Cayman Islands, and may not be registered in the future. As such, our common shares or underlying assets may not be offered or sold in the U.S. except pursuant to an exemption from the registration requirements of the Securities Exchange Act of 1934 in the U.S. and other applicable securities laws. In addition, common shareholders residing or domiciled in the U.S. and/or other jurisdictions may not be able to participate in future capital increases.

***Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway.***

We are an exempted company, limited by shares and incorporated under the laws of the Cayman Islands. The members of the Board of Directors and management reside in the U.S., Saudi Arabia, Australia, China, the U.K. and the UAE. As a result, it may be impossible for investors to effect service of process or to enforce judgments obtained in non-Cayman Islands or non-Norwegian courts against us, our Board of Directors or our management.

### **General Risk Factors**

***We are exposed to the credit risks of our key customers and certain other third parties.***

We are subject to risks of loss resulting from non-payment or non-performance by third parties. Although we monitor and manage credit risks, some of our customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. During more challenging market environments, we are subject to an increased risk of customers seeking to repudiate contracts. Our customers’ ability to meet their contractual obligations may also be adversely affected by restricted credit markets and economic downturns. As of December 31, 2022, our allowance for credit losses was \$3.8 million. If one or several key customers or other parties were to default on their obligations to us, our business, financial condition, results of operations and cash flows could be materially adversely impacted.

***We are dependent on our senior management team, other key employees and the Directors of our Board, and the business could be negatively impacted if we are unable to attract and retain personnel necessary for our success.***

Our performance is, to a large extent, dependent on highly qualified personnel, including management, other key employees and Directors of our Board (“Key Personnel”), and our continued ability to compete effectively, implement our strategy and further develop our business depends on our ability to attract new and qualified Key Personnel and to retain and motivate existing Key Personnel. Attracting qualified personnel has proved increasingly important as our industry has developed and become more advanced. An important factor contributing to our leading position and global footprint has been our ability to retain qualified employees throughout our organizational structure.

Further, the competition for Key Personnel is intense from competitors within the oil and natural gas industry, as well as from businesses outside this industry. We may not be able to retain our Key Personnel nor attract and retain replacements for Key Personnel in the future, or the cost to attract and retain Key Personnel may increase. Our competitors may actively seek to recruit management personnel or other key employees and may succeed in such efforts. Financial difficulties and other factors might have further negative impacts on our ability to retain Key Personnel or recruit new talent.

Any loss of the services of management, other key employees, or Directors of our Board, particularly to competitors, the inability to attract and retain highly skilled key personnel and the increased costs to replace such Key Personnel could have a material adverse impact on our business, financial condition, results of operations and cash flows.

***We are dependent on the availability and retention of skilled personnel, which may be adversely affected by increases in labor costs.***

We require highly skilled personnel to operate and provide technical services and support for our operations. Many of our customers require specific minimum levels of experience and technical qualification for certain positions on rigs which they contract. We are also subject to nationalization programs in various countries, whereby we must hire a certain percentage of local personnel within a specified time period. Hiring and retaining qualified employees can be especially difficult during periods of high utilization and demand for drilling services, when there is increasing competition for personnel. Such difficulties and increased costs to recruit and retain qualified employees could have a material adverse effect on our results of operations and cash flows.

***We may be subject to litigation and disputes that could have a material adverse impact on our business, financial condition, results of operations and cash flows.***

From time to time, we are involved in litigation and disputes. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment disputes, tax matters and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any dispute, claim or other litigation matter. We may not have insurance for litigation or claims that may arise, or our insurance coverage may not be sufficient, insurers may not remain solvent, other claims may exhaust some or all of the insurance available to us or insurers may interpret our insurance policies such that they do not cover certain claim losses. Litigation may result in adverse outcomes, substantial defense costs, the diversion of management’s resources and other impacts inherent in litigation or relating to the claims that may arise, any of which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Our business is incorporated in the Cayman Islands and operates through our many subsidiaries in various countries throughout the world. Our income tax exposure is based upon the relevant tax laws, regulations and treaties that apply to the various countries in which we operate or earn income or are deemed to be a tax resident.

Our income tax returns are subject to examination and review and our effective tax rate may be impacted if:

- there are any significant changes to applicable tax laws, regulations or tax treaties, and the interpretation thereof in the various countries in which we operate, earn income, generate losses or are deemed to be a tax resident;
- any tax authority successfully challenges our intercompany pricing policies or operating structures;

- any tax authority interprets a treaty in a manner that is adverse to our structure or previous tax positions;
- any tax authority successfully challenges the taxable presence of any of our key subsidiaries in a relevant jurisdiction or
- we lose a key tax dispute in a jurisdiction.

Transactions taking place between our companies and related companies must be carried out in accordance with arm's length principles in order to avoid adverse tax consequences. There can be no assurance that the tax authorities will conclude that our transfer pricing policies are calculated using appropriate arm's length prices for intercompany transactions. Any changes in intercompany pricing could change our taxable income or losses in various jurisdictions, which could change our effective tax rate and tax expense.

Any of the above factors could cause a significant change to our local statutory tax rates and/or our effective tax rate on worldwide earnings. In addition, if a local statutory tax rate changes, we may need to revalue our deferred tax assets and liabilities or recalculate our valuation allowances, liabilities for uncertain tax positions or other tax allowances and reserves relevant to that jurisdiction. Additionally, if we do not generate sufficient income in jurisdictions with tax loss carryforwards or other changes are made regarding their value or utilization, we may be required to reduce the value of these tax assets. Any of these changes could have a material adverse impact on our financial position, results of operations and cash flows.

***We are subject to laws and regulations in several jurisdictions, and failure to properly comply with such laws and regulations may adversely affect our operations.***

We are a Cayman Islands exempted company, limited by shares listed on the Oslo Stock Exchange. In addition, we have established operations in various other jurisdictions. Due to these international business activities, we are subject to laws and regulations in multiple jurisdictions. Laws and regulations are subject to continual changes, and some legislative changes may be directly disadvantageous to our business or could oblige us to change our operations or amend our strategy. Any failure to comply with applicable national and/or international laws could lead to costly litigations, penalties and other sanctions, and unplanned operational and strategic changes could increase our costs or decrease our profitability. Any of the above could have a material adverse impact on our business, financial condition, results of operations and cash flows.

***The price of our common shares could fluctuate significantly.***

The trading volume and price of our common shares could fluctuate significantly. Factors both within and outside of our control that could negatively affect the price of our common shares or result in fluctuations in the price or trading volume of our common shares including, but not limited to, changes in our actual or projected results of operations or those of our competitors, changes in earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of our strategy as well as the evaluation of the related risks, changes in general economic conditions, changes in shareholders and other factors. Volatility in market price of securities may also occur without regard to the operating performance of a company. The price of our common shares may therefore fluctuate based upon factors that are not specific to us, and these fluctuations may materially affect the price of our common shares.

## **Item 1B. Unresolved Staff Comments.**

Not applicable.

## **Item 2. Properties.**

### **Overview**

Our properties consist primarily of our mobile fleet of jack-up rigs and related equipment that is located and operates across five core operating regions: MENAM, India, West Africa, Southeast Asia and North Sea. We also own or lease office space for our corporate headquarters in Dubai, UAE and shore-based facilities in UAE, Saudi Arabia, Bahrain, Egypt, Italy, Hungary, Indonesia, Malaysia, Vietnam, Singapore, Thailand, Mauritius, India, Nigeria, Angola, Qatar, Denmark and United Kingdom to support rig operations.

### **Fleet**

Our fleet consists of 36 ILC jack-up rigs as of December 31, 2022. The ILC design allows each leg to be independently raised or lowered and permits the drilling platform to be extended out from the hull to perform operations over certain types of pre-existing platforms or structures. We believe these design features provide greater operational flexibility, safety and efficiency than alternative designs. Many of our jack-up rigs further feature proven, reliable technology and processes, utilizing mechanical features with



generally lower operating costs compared to newer, higher-specification rigs. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers' typical shallow water operations.

We have taken steps in recent years to enhance our fleet, including our construction of newbuild rigs and acquisition of premium jack-up rigs. From 2016 through 2022 we added 15 premium jack-up rigs to our fleet at prices significantly less than the historic cost of construction for comparable newbuild rigs, including:

- In 2016 the newbuild rig Shelf Drilling Chaophraya was delivered;
- In 2017 the newbuild rig Shelf Drilling Krathong was delivered and the Shelf Drilling Mentor, Shelf Drilling Tenacious, and Shelf Drilling Resourceful were acquired;
- In 2018 the Shelf Drilling Scepter was acquired;
- In 2019 the Shelf Drilling Achiever and Shelf Drilling Journey were acquired;
- In 2020 the Shelf Drilling Enterprise was acquired; and
- In 2022 the Shelf Drilling Victory, Shelf Drilling Barsk, Shelf Drilling Fortress, Shelf Drilling Odyssey, Shelf Drilling Perseverance and Shelf Drilling Winner were acquired.

The Shelf Drilling Journey was subsequently and opportunistically sold in February 2021. See “Note 9 – Assets Held for Sale” to our Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” for additional information.

#### **Maintenance and Certifications**

Our organizational objective is to maintain our assets to provide optimal operating performance while minimizing out of service time and total capital expenditures. Each of our rigs is subject to the maintenance and inspection regime governed by the IMO's Code for the Construction and Equipment of Mobile Offshore Drilling Units. Our rigs are subject to periodic testing with a major inspection every five years under the International Association of Classification Societies Special Periodic Survey (“SPS”) requirements. This inspection typically takes six to twelve weeks and is often scheduled between customer contracts to minimize downtime. Our fleet is also subject to Underwater Inspections in Lieu of Drydocking (“UWILD”), intermediate surveys and annual inspections between each SPS. The marine equipment of our fleet is certified according to international safety standards under the International Safety Management Code and is certified by the American Bureau of Shipping classification society, enabling universal recognition of our equipment as being qualified for international operations, however, our equipment maintenance standards are governed by the guidelines, recommendations and standards provided by the American Petroleum Institute.

The following table sets forth certain information concerning our rig fleet as of December 31, 2022:

Rig Name	Design	Year Built / Last Upgrade	Maximum Water Depth (feet)	Maximum Drilling Depth (feet)	Location
<b>NORTH SEA</b>					
Shelf Drilling Perseverance	Friede & Goldman JU-2000E	2008	400	30,000	United Kingdom
Shelf Drilling Fortress	Friede & Goldman JU-3000N	2014	400	35,000	United Kingdom
Shelf Drilling Winner	Friede & Goldman JU-3000N	2014	400	35,000	Denmark
Shelf Drilling Barsk	GustoMSC CJ70-X150-ST	2016	492	32,810	Norway
<b>MENAM</b>					
High Island II	MLT 82-SD-C	1979 / 2011	270	20,000	Saudi Arabia
High Island IV	MLT 82-SD-C	1980 / 2021	270	20,000	Saudi Arabia
Key Manhattan	MLT 116-C	1980 / 2010	350	25,000	Italy
High Island V	MLT 82-SD-C	1981 / 2013	270	20,000	Saudi Arabia
Harvey H. Ward	F&G L-780 Mod II	1981 / 2011	300	25,000	UAE
Main Pass I	F&G L-780 Mod II	1982 / 2013	300	25,000	Saudi Arabia
Main Pass IV	F&G L-780 Mod II	1982 / 2021	300	25,000	Saudi Arabia
Rig 141	MLT 82-SD-C	1982	250	20,000	Egypt
Trident 16	Modec 300-C38	1982 / 2012	300	25,000	Egypt
High Island IX	MLT 82-SD-C	1983 / 2012	250	20,000	Saudi Arabia
Compact Driller	MLT 116-C	1992 / 2019	300	25,000	Oman
Shelf Drilling Victory	Baker Marine Pacific Class 375	2008	375	30,000	UAE
Shelf Drilling Resourceful <sup>(1)</sup>	LeTourneau Super 116 C	2008 / 2017	350	30,000	Italy
Shelf Drilling Odyssey	Friede & Goldman JU-3000N	2014	400	35,000	Qatar
Shelf Drilling Achiever	GustoMSC CJ46-X100-D	2019	350	30,000	Saudi Arabia
<b>India</b>					
C.E. Thornton	MLT 53-SC	1974 / 1984	300	21,000	India
F.G. McClintock	MLT 53-SC	1975 / 2002	300	21,000	India
Trident II	MLT 84-SC Mod	1977 / 1985	300	21,000	India
Ron Tappmeyer	MLT 116-C	1978	300	25,000	India
J.T. Angel	F&G L-780 Mod II	1982	300	25,000	India
Key Singapore	MLT 116-C	1982 / 2015	350	25,000	India
Trident XII	Baker Marine BMC 300-IC	1982 / 1992	300	21,000	India
Parameswara	Baker Marine BMC 300-IC	1983 / 2001	300	25,000	India
<b>West Africa</b>					
Adriatic I	MLT 116-C	1981 / 2014	350	25,000	Nigeria
Trident VIII	Modec 300-C35	1981 / 2018	300	21,000	Ghana
Baltic	MLT Super 300	1983 / 2015	375	25,000	Nigeria
Shelf Drilling Tenacious	Baker Marine Pacific 375	2007 / 2022	375	30,000	Angola
Shelf Drilling Mentor	LeTourneau Super 116 E	2010 / 2017	350	30,000	Nigeria
<b>Southeast Asia</b>					
Shelf Drilling Enterprise	Baker Marine Pacific Class 375	2007 / 2020	375	30,000	Thailand
Shelf Drilling Scepter	Keppel FELS Super B	2008 / 2019	350	35,000	Singapore
Shelf Drilling Chaophraya	LeTourneau Super 116E	2016	350	30,000	Thailand
Shelf Drilling Krathong	LeTourneau Super 116E	2017	350	30,000	Thailand

(1) Rig was in international waters in the process of mobilization to the listed location as of December 31, 2022.

### Item 3. Legal Proceedings.

Information regarding legal proceedings is set forth in “Note 15 – Commitments and Contingencies” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data”.

### Item 4. Mine Safety Disclosures.

Not applicable.

## Part II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is listed on the OSE under the ticker symbol “SHLF”. The number of holders of record of our common stock as of March 16, 2023 was 3,082. The number of beneficial shareholders is substantially greater than the number of holders as a large portion of our common stock is held through brokerage firms.

Oslo Børs is a stock exchange listing which complies with EU requirements and Norwegian stock exchange legislation. On December 30, 2022, the last reported sale price of our common shares on the OSE was 22.05 NOK per share, which was equivalent to approximately \$2.25 per share based on the Bloomberg Composite Rate of 9.80 NOK to \$1.00 in effect on that date. The following table sets forth the high and low close prices for our common shares as reported on the Oslo Stock Exchange for the periods listed below. Share prices are presented in \$ per common share based on the Bloomberg Composite Rate on each day of measurement.

	2022	
	High	Low
First quarter .....	\$ 1.67	\$ 0.74
Second quarter .....	2.41	1.31
Third quarter .....	1.93	1.10
Fourth quarter .....	2.58	1.50
	2021	
	High	Low
First quarter .....	\$ 0.69	\$ 0.30
Second quarter .....	0.65	0.55
Third quarter .....	0.58	0.41
Fourth quarter .....	0.95	0.52

#### Dividends

In recent years, the Company has not issued dividends to its common shareholders, and the Company did not distribute any dividends for the financial year ended December 31, 2022. The Company’s future dividend policy is within the discretion of the Board of Directors, who will consider issuing dividends to holders of common shares with other relevant considerations and factors, including but not limited to the Company’s working capital and capital expenditure needs, results of operations, financial condition and investment opportunities. Certain of the Company’s debt agreements contain covenants that limit the payment of dividends.

See “Note 13 – Debt” and “Note 18 – Shareholders’ Equity” to our Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” for additional information.

## Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Oslo Stock Exchange All Share Index (“OSEAX”) for the period ending on December 31, 2022. The graph assumes an investment of \$100 at the beginning of this period. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



## Issuer Purchases of Equity Securities

On September 1, 2019, the Board of Directors approved a share repurchase program under which the Company could repurchase shares of the Company’s common stock for an aggregate of \$25.0 million over a period of two years from the date of approval (the “2019 Repurchase Program”). Any repurchased shares were canceled and resumed the status of authorized and unissued shares upon the repurchase date, as the repurchased shares were considered constructively retired on the repurchase date. Shares were repurchased in the open market on the OSE. In accordance with Cayman Islands law, the repurchased shares were canceled by default immediately after repurchase. In March 2020, the Company suspended its repurchase activities under the 2019 Repurchase Program and the program expired on September 1, 2021.

The Company repurchased approximately 721,000 shares of common stock at an average price of \$2.16 (19.50 NOK) per share during the year ended December 31, 2020. No amounts were repurchased during the years ended December 31, 2022 and 2021.

## Item 6. [Reserved]

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our results of operations, liquidity and capital resources includes a comparison of the years ended December 31, 2022 and 2021. This information should be read in conjunction with the information contained in “Part I. Item 1. Business”, Part I. Item 1A. Risk Factors” and the audited consolidated financial statements and the notes thereto included under “Item 8. Financial Statements and Supplementary Data” elsewhere in this Form 10-K Equivalent.

### Overview

We are a leading international shallow water offshore contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 500 feet, and our fleet consists of 36 ILC jack-up rigs as of December 31, 2022.

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. We believe that this strategy has enabled us to execute our vision of being the “international jack-up contractor of choice” and will allow for sustainable, long-term profitability across our fleet.

Our fleet is well-suited to our core operating regions. The MENAM, Southeast Asia, India and West Africa markets are generally characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure. The rigs acquired as part of the Acquisition are extremely well suited to operate in the North Sea harsh environment.

We have one reportable segment, Contract Services, which reflects how we manage our business and that our market is dependent upon the worldwide oil and natural gas industry. The rigs comprising our fleet operate in a single market and are mobile. As a result, our rigs can be deployed globally to meet the changing needs of our customers, which largely consist of NOCs, IOCs and independent oil and gas companies.

See “Item 1. Business” for more information about our business, including discussions of our recent events; operations; customers and customer contracts; strategy and competitive strengths; risk management and insurance; health, safety and environment; our people and operating expenses, capital expenditures and deferred costs.

## Outlook

Brent crude oil prices, the key driver in the demand for shallow water drilling activity, improved from an average of \$71 per barrel in 2021 to \$99 per barrel in 2022. Increasing global demand for hydrocarbons combined with tight supply, after years of underinvestment in production activities, drove oil prices to levels not seen since 2014. Natural gas prices reached record highs in 2022, particularly in Europe, due to acute supply-side constraints and uncertainty regarding the future of Russian imports. Due to concerns on inflation and a potential economic slowdown, commodity prices moderated during the second half of the year but remain at levels supportive of additional investment in shallow water projects. Brent crude oil prices have averaged \$84 per barrel year to date 2023, and oil demand is projected to further increase in 2023 with the re-opening of the Chinese economy post the zero-covid policy. Supply and demand dynamics are expected to remain tight for the foreseeable future.

The global number of contracted jack-up rigs increased from 350 in January 2022 to 386 in March 2023 and marketed utilization increased from 84% to 91% over the same period. The Middle East region was the primary driver of this activity increase in 2022, and we expect other markets, particularly Southeast Asia, India and West Africa, to contribute to higher rig demand levels in 2023. Rigs previously stacked and under construction comprised most of the increase in contracted jack-ups in 2022. Following years of rig retirements and the recent surge in demand, the jack-up supply overhang from the last decade has been effectively eliminated. With marketed utilization rising and spare rig capacity declining, dayrates on new jack-up fixtures have accelerated across all regions, and we expect this trend to continue in 2023.

During the fourth quarter of 2022, our EBITDA increased 14% sequentially to \$75 million, primarily due to the integration of the five premium harsh environment rigs acquired from Noble Corporation in October 2022. As of December 31, 2022, our backlog was \$2.7 billion, with 35 of our 36 rigs under contract, compared to \$1.7 billion as of September 30, 2022. Capital expenditures will remain elevated during the first half of 2023, as we prepare several rigs for new long-term contracts at attractive dayrate levels. We expect to see significant further growth in EBITDA in the second half of 2023 and deleveraging of our balance sheet, as we strive to achieve a refinancing of our debt obligations ahead of maturity dates in late 2024 and early 2025.

## Operational measures

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

- *Contract backlog* is the maximum contract dayrate revenues that can be earned from firm commitments for contract services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues for the use of our rigs as bareboat charters or as accommodation units. The contract period excludes revenues from extension options under our contracts unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to reduced dayrates for rig movements, adverse weather and equipment downtime, among other factors. Actual dayrates may also

include contractual adjustments based on market factors, such as Brent crude oil or natural gas prices or cost increases, and such adjustments are not estimated in the backlog dayrate. Contract backlog is a key indicator of our potential future revenue generation.

- *Average dayrate* is the average contract dayrate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average dayrate can be calculated related to historical revenues or contract backlog.
- *Contracted rigs* consist of all of our rigs that are under contract, including rigs currently operating under a contract and rigs preparing for an upcoming contract.
- *Average contracted days per rig* is the total remaining contracted days for all contracted rigs divided by the number of contracted rigs.
- *Total recordable incident rate* (“TRIR”) is the number of recordable safety incidents per 200,000 man-hours.
- *Marketable rigs* consist of all of our rigs that are operating or are available to operate, but excluding rigs under bareboat charter agreements, stacked rigs, rigs under contract for activities other than drilling, plug and abandonment or associated services, as applicable.
- *Uptime* is the period during which we perform well operations without stoppage due to mechanical, procedural or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency and directly related to our current and future revenues and profit generation.
- *Effective utilization* is the number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenues. Effective utilization measures the dayrate revenue efficiency of our marketable rigs. Effective utilization varies due to changes in operational uptime, planned downtime for periodic surveys, timing of underwater inspections, contract preparation and upgrades, time between contracts and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, force majeure, mobilization or other rates that apply under certain circumstances. We exclude all other types of revenues from the calculation of effective utilization.

The following table includes selected operating measures as of December 31, 2022, 2021 and 2020:

	<b>As of December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Contract backlog (in millions) .....	\$ 2,682	\$ 1,679	\$ 1,377
Weighted average backlog dayrate (in thousands) .....	\$ 78.6	\$ 67.7	\$ 67.2
Contracted rigs .....	35	28	29
Average contracted days per rig .....	974	885	706

Contract backlog as of December 31, 2022 is expected to be recognized over the periods as per the following table, subject to certain limitations and adjustments as discussed above:

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Thereafter</b>	<b>Total</b>
Contract backlog (in millions) .....	\$ 722	\$ 683	\$ 494	\$ 783	\$ 2,682

The following table includes selected operating measures for the years ended December 31, 2022, 2021 and 2020:

	Years ended December 31,		
	2022	2021	2020
TRIR .....	0.16	0.16	0.19
IADC Average TRIR .....	0.67	0.57	0.47
Weighted average actual dayrate (in thousands) .....	\$ 63.4	\$ 60.5	\$ 58.9
Average marketable rigs .....	31.0	30.6	32.1
Uptime .....	99.3%	99.3%	99.4%
Effective utilization .....	83%	73%	80%

### Financial measures

In addition to terms under U.S. generally accepted accounting principles (“GAAP”), we utilize certain non-GAAP financial measures. We present the non-GAAP measures, which include adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) and Adjusted EBITDA divided by total revenues excluding the amortization of intangible liability (“Adjusted EBITDA Margin”) in addition to net income (loss), which is the most directly comparable GAAP financial measure. We believe that Adjusted EBITDA and Adjusted EBITDA Margin are useful non-GAAP financial measures because they are widely used in our industry to measure a company’s operating performance without regard to the excluded items, which can vary substantially from company to company, and are also useful to an investor in evaluating the performance of the business over time. In addition, our management uses Adjusted EBITDA and Adjusted EBITDA Margin in presentations to our Board of Directors to provide a consistent basis to measure the operating performance of our business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with our shareholders, lenders, noteholders, rating agencies and others concerning our financial performance. Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly titled measures employed by other companies and should not be considered in isolation or as a substitute for net income (loss) or other data prepared in accordance with GAAP. Adjusted EBITDA and Adjusted EBITDA margin have significant limitations, including but not limited to the exclusion from these numbers of various cash requirements to operate our business.

Our financial measures for the years ended December 31, 2022, 2021 and 2020 were as follows (in thousands, except Adjusted EBITDA Margin):

	Years ended December 31,		
	2022	2021	2020
<b>Net loss</b> .....	\$ (24,213)	\$ (78,637)	\$ (274,859)
Add back:			
Interest expense and financing charges, net of interest income <sup>(1)</sup> .....	114,133	113,077	89,528
Income tax expense .....	34,140	18,470	19,695
Depreciation .....	62,191	65,820	69,895
Amortization of deferred costs .....	64,305	38,930	47,148
Loss on impairment of assets .....	—	—	249,156
Loss / (gain) on disposal of assets .....	3,324	53	(3,601)
Amortization of intangible liability .....	(7,600)	—	—
<b>EBITDA</b> .....	<b>\$ 246,280</b>	<b>\$ 157,713</b>	<b>\$ 196,962</b>
Acquired rig reactivation costs <sup>(2)</sup> .....	—	—	816
One-time corporate transaction costs <sup>(3)</sup> .....	2,280	585	2,483
<b>Adjusted EBITDA</b> .....	<b>\$ 248,560</b>	<b>\$ 158,298</b>	<b>\$ 200,261</b>
<b>Adjusted EBITDA Margin</b> <sup>(4)</sup> .....	<b>36 %</b>	<b>30 %</b>	<b>34 %</b>

(1) Represents interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt, net of interest income. This also includes the \$10.1 million loss on debt extinguishment in relation to our debt refinancing transactions during the year ended December 31, 2021.

- (2) Represents the expenditures accounted for as operating expenses in accordance with GAAP, which were incurred in connection with the reactivation of stacked or idle rigs acquired with the specific intention to reactivate and deploy.
- (3) Represents certain one-time third-party professional services and certain costs related to acquisitions.
- (4) Represents Adjusted EBITDA divided by the total revenues excluding the amortization of intangible liability.

Our restricted subsidiaries accounted for 93%, 100% and 100% of our Adjusted EBITDA for the years ended December 31, 2022, 2021 and 2020, respectively, and 75% and 100% of our assets as of December 31, 2022 and 2021, respectively.

**Operating Results for the Year Ended December 31, 2022 Compared to the Year Ended December 31, 2021**  
(In thousands, except percentages)

	Years ended December 31,		Change	% change
	2022	2021		
<b>Revenues</b>				
Operating revenues .....	\$ 662,119	\$ 515,069	\$ 147,050	29%
Other revenues .....	33,102	11,497	21,605	188%
	<u>695,221</u>	<u>526,566</u>	<u>168,655</u>	<u>32 %</u>
<b>Operating costs and expenses</b>				
Operating and maintenance .....	385,675	323,994	61,681	19%
Depreciation .....	62,191	65,820	(3,629)	(6%)
Amortization of deferred costs .....	64,305	38,930	25,375	65%
General and administrative .....	57,231	46,407	10,824	23%
Loss on disposal of assets .....	3,324	53	3,271	6,172%
	<u>572,726</u>	<u>475,204</u>	<u>97,522</u>	<u>21 %</u>
<b>Operating income</b> .....	<u>122,495</u>	<u>51,362</u>	<u>71,133</u>	<u>138 %</u>
<b>Other (expense) / income, net</b> .....				
Interest income .....	683	47	636	1353%
Interest expense and financing charges .....	(114,816)	(113,124)	(1,692)	1%
Other, net .....	1,565	1,548	17	1%
	<u>(112,568)</u>	<u>(111,529)</u>	<u>(1,039)</u>	<u>1 %</u>
<b>Income / (loss) before income taxes</b> .....	<u>9,927</u>	<u>(60,167)</u>	<u>70,094</u>	<u>(116%)</u>
Income tax expense .....	34,140	18,470	15,670	85%
<b>Net loss</b> .....	<u>\$ (24,213)</u>	<u>\$ (78,637)</u>	<u>\$ 54,424</u>	<u>(69)%</u>

**Revenues**

Total revenues for 2022 were \$695.2 million compared to \$526.6 million for 2021. Revenues for 2022 consisted of \$662.1 million (95.2%) of operating revenues and \$33.1 million (4.8%) of other revenues. In 2021, these same revenues were \$515.1 million (97.8%) and \$11.5 million (2.2%), respectively.

Total revenues for 2022 increased by \$168.7 million compared to the same period in 2021 primarily due to \$75.9 million related to higher effective utilization across the fleet, as 12 more rigs were operating, including the recently acquired rigs, during 2022 that were not operating for the full comparative period in 2021, \$59.5 million from higher recharges, amortization of mobilization and capital upgrade, \$25.7 million from higher average earned dayrates and \$7.6 million of amortization from intangible liability.

**Operating and maintenance expenses**

Total operating and maintenance expenses for 2022 were \$385.7 million, or 55.5% of total revenue, compared to \$324.0 million, or 61.5% of total revenue, in 2021. Operating and maintenance expenses in 2022 consisted of \$346.5 million rig-related expenses and \$39.2 million shore-based expenses. In 2021, these expenses were \$290.5 million and \$33.5 million, respectively.



The increase in total rig-related expenses of \$56.0 million primarily consisted of \$31.1 million higher maintenance and shipyard expenses, \$27.4 million higher operating expenses for the recently acquired rigs and for rigs that were not operating for the full comparative period in 2021 and \$6.7 million in other rig cost increases. This was partially offset by \$9.3 million in lower expenses for rigs divested in prior periods. Shore-based expenses increased by \$5.7 million for the year ended December 31, 2022 compared to the same period in 2021 mainly due to the increase in activity.

#### ***Depreciation expense***

Depreciation expense in 2022 was \$62.2 million compared to \$65.8 million in 2021. The \$3.6 million decrease was primarily due to the \$10.2 million lower depreciation on drilling rigs and equipment due to a change in accounting estimate related to the useful lives of certain rigs, partly offset by \$5.3 million higher depreciation for the recently acquired rigs.

#### ***Amortization of deferred costs***

The amortization of deferred costs in 2022 was \$64.3 million compared to \$38.9 million in 2021. The increase \$25.4 million in amortization for the year ended December 31, 2022 was primarily related to increased amortization on drilling rigs which started contracts in late 2021 and 2022 and higher amortization of contract preparation expenses for four rigs in Saudi Arabia.

#### ***General and administrative expenses***

General and administrative expenses in 2022 were \$57.2 million compared to \$46.4 million in 2021. The \$10.8 million increase primarily resulted from an increase in compensation and benefits expenses over the prior year and certain one-time costs incurred for the Acquisition.

#### ***Loss on disposal of assets***

Loss on disposal of assets was \$3.3 million in the year ended December 31, 2022, compared to a loss of \$0.1 million for the same period in 2021. The \$3.2 million increase in loss was primarily related to the disposal of certain fleet spares equipment during the current year.

#### ***Other (expense) / income, net***

Other (expense) / income, net, consisting of interest expense and finance charges, interest income and other, net was relatively unchanged with an expense of \$(112.6) million in 2022 compared to \$(111.5) million in 2021.

Interest expense and financing charges in the year ended December 31, 2022 were \$1.7 million higher compared to the same period in 2021, primarily due to \$15.2 million of higher interest expense on the 8.875% Senior Secured First Lien Notes, due November 15, 2024 (the “8.875% Notes”) issued in March 2021 and the 10.25% Senior Secured Notes issued in September 2022. This was partially offset by \$10.1 million loss on debt extinguishment and \$2.9 million lower interest expense in the year ended December 31, 2022, related to the termination of the revolving credit facility, due April 2023 (“SDHL Revolver”) and the 8.75% Senior Secured Notes, due November 15, 2024 (the “8.75% Senior Secured Notes”).

#### ***Income tax expense***

Income tax expense in 2022 was \$34.1 million compared to \$18.5 million in 2021. While the Company is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period-to-period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions, (d) changes in the Company’s rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction, (e) results of income tax audits and/or related settlements, and (f) fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

Income tax expense in 2022 was higher than in 2021 primarily due to an increase in revenues, an increase in tax expense related to prior year tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar and higher tax rates in certain new jurisdictions in 2022.

## Liquidity and Capital Resources

### *Sources and uses of liquidity*

We had \$140.8 million and \$232.3 million in cash and cash equivalents as of December 31, 2022 and 2021, 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 and deferred expenditures, costs related to debt financing and debt servicing and income taxes.

On June 24, 2022, the Company issued 38.4 million common shares resulting in net proceeds of \$48.1 million. On September 26, 2022, SDNSH, an indirect wholly-owned subsidiary of SDNS, completed the issuance of \$250.0 million aggregate principal amount of 10.25% Senior Secured Notes. . On October 3, 2022, SDNS issued common shares to non-controlling interest in a private placement for gross proceeds of \$80.0 million and equity issuance costs of \$4.7 million, resulting in net proceeds of \$75.3 million. The equity and debt proceeds, along with cash on hand, were used to finance the Acquisition.

In February 2023, the Company completed the issuance of 17.6 million common shares resulting in net proceeds of \$43.8 million. The net proceeds will be used for general corporate purposes, including capex requirements associated with multiple recent long-term contract awards.

Restricted cash consists of cash deposits held related to bank guarantees and are recorded according to the maturity date plus expected extensions and renewals as either other current assets or other long-term assets in the consolidated balance sheets. As of December 31, 2022, we had restricted cash of \$12.6 million and \$24.0 million in other current assets and other long-term assets, respectively. As of December 31, 2021, we had restricted cash of \$2.8 million and \$18.1 million in other current assets and other long-term assets, respectively. The increase in restricted cash as of December 31, 2022 as compared to December 31, 2021, was due to higher outstanding bank guarantees relating to ongoing projects as of December 31, 2022.

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

### *Going concern assumption as per Oslo Børs reporting requirements*

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

### *Discussion of Cash flows for the Year ended December 31, 2022 compared to the year ended December 31, 2021*

The following table sets out certain information regarding our cash flows for the years ended December 31, 2022 and 2021:

	<b>Years ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net cash provided by / (used in) operating activities .....	\$ 19,796	\$ (16,241)
Net cash (used in) / provided by investing activities .....	(457,386)	23,568
Net cash provided by financing activities .....	361,719	156,928
Net (decrease) / increase in cash, cash equivalents and restricted cash .....	\$ (75,871)	\$ 164,255

*Net cash provided by / (used in) operating activities*

Net cash provided by operating activities totaled \$19.8 million in 2022 compared to net cash used in of \$16.2 million in 2021. The increase of \$36.0 million in cash provided by operating activities was primarily due to an increase in revenues in 2022 when compared to the prior year.

During 2022 and 2021, we made cash payments of \$101.8 million and \$96.0 million in interest and financing charges, respectively, included in other operating assets and liabilities, net. We also made cash payments of \$25.9 million and \$16.7 million in income taxes included in other operating assets and liabilities, net during 2022 and 2021, respectively.

*Net cash (used in) / provided by investing activities*

Net cash used in investing activities totaled \$457.4 million in 2022 compared to net cash provided by of \$23.6 million in 2021.

Cash used for capital expenditures totaled \$453.7 million and \$45.9 million in 2022 and 2021, respectively. The \$407.8 million increase was primarily due to the \$375.0 million Acquisition in 2022 and \$30.0 million related to the purchase of the Shelf Drilling Victory in July 2022. In addition, the Company made an advance payment of \$5.6 million for the purchase of fleet spares which is expected to be delivered in early 2023.

The net proceeds from disposal of assets amounted to \$1.8 million and \$69.4 million in 2022 and 2021, respectively. The \$67.6 million decrease was primarily related to the sale of the Shelf Drilling Journey, High Island VII, Trident 15, Key Hawaii, Galveston Key and Randolph Yost in 2021.

*Net cash provided by financing activities*

Net cash provided by financing activities totaled \$361.7 million in 2022 compared to \$156.9 million in 2021.

Net cash provided by financing activities in 2022 consisted of \$242.5 million in proceeds from issuance of the 10.25% Senior Secured Notes, net of discount, less \$4.5 million in debt financing costs, \$75.4 million of net proceeds from the issuance of SDNS common shares to non-controlling interests and \$48.3 million of net proceeds from the issuance of 38.4 million common shares in June 2022.

Net cash provided by financing activities in 2021 consisted of \$304.1 million in proceeds from issuance of the 8.875% Notes, net of discount, less \$7.3 million in debt financing costs, partially offset by cash payments of \$80.0 million and \$55.0 million to retire the 8.75% Senior Secured Notes and SDHL Revolver, respectively, and \$4.9 million in related debt extinguishment costs.

***Capital expenditures and deferred costs***

Capital expenditures and deferred costs include fixed asset purchases, investments associated with the construction of newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades), mobilization and stacked rig reactivations. Capital expenditures and deferred costs can vary from quarter-to-quarter and year-to-year depending upon the requirements of existing and new customers, the number and scope of out-of-service projects, the timing of regulatory surveys and inspections and the number of rig reactivations. Capital additions are included in property and equipment and are depreciated over the estimated remaining useful life of the assets. Deferred costs are included in other current assets and other long-term assets on the consolidated balance sheet and are amortized over the relevant periods covering: (i) the underlying firm contract period to which the expenditures relate or (ii) the period until the next planned similar expenditure is to be made.

The table below sets out our capital expenditures and deferred costs for the years ended December 31, 2022 and 2021 in thousands):

	Years ended December 31,	
	2022	2021
Regulatory and capital maintenance <sup>(1)</sup> .....	\$ 66,084	\$ 67,321
Contract preparation <sup>(2)</sup> .....	32,699	28,710
Fleet spares and other <sup>(3)</sup> .....	12,052	15,628
	\$ 110,835	\$ 111,659
Rig acquisitions <sup>(4)</sup> .....	476,376	1,462
Total capital expenditure and deferred costs .....	\$ 587,211	\$ 113,121

(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 expenditures as and when required by that rig, which will result in an expenditure charge to that rig and a credit to fleet spares and (ii) office and infrastructure expenditures.

(4) Includes capital expenditures and deferred costs associated with the Acquisition and the Shelf Drilling Victory acquisition and readiness projects.

Capital expenditures and deferred costs were \$587.2 million and \$113.1 million in 2022 and 2021, respectively. The increase of \$474.1 million was primarily due to the \$417.7 million related to the acquisition of five high-specification and harsh environment jack-up rigs from Noble in October 2022, \$58.1 million related to the purchase and rig readiness project for the Shelf Drilling Victory and \$2.8 million higher regulatory, capital maintenance and contract preparation costs, partly offset by the \$3.6 million lower spending in fleet spares.

The following table reconciles the cash payments related to additions to property and equipment and changes in deferred costs, net to the total capital expenditures and deferred costs for the years ended December 31, 2022 and 2021 (in thousands):

	Years ended December 31,	
	2022	2021
Cash payments for additions to property and equipment .....	\$ 453,659	\$ 45,852
Noncash increase to fair value of rigs in the Acquisition .....	42,678	—
Net change in accrued but unpaid additions to property and equipment .....	15,232	(5,752)
Total capital expenditures .....	\$ 511,569	\$ 40,100
Changes in deferred costs, net .....	\$ 11,337	\$ 34,091
Add: Amortization of deferred costs .....	64,305	38,930
Total deferred costs .....	\$ 75,642	\$ 73,021
Total capital expenditure and deferred costs .....	\$ 587,211	\$ 113,121

## Material Cash Requirements

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of December 31, 2022, our anticipated material cash requirements consisted primarily of payments related to debt servicing and repayments, operating costs and expenses, operating lease obligations, capital expenditures and deferred costs and income taxes.

As of December 31, 2022, we had a total principal amount of indebtedness of \$1.5 billion which related to the 8.25% Senior Unsecured Notes, 8.875% Notes and 10.25% Senior Secured Notes. Interest related to each of these note issuances is payable semi-

annually. The semi-annual principal payments for the 10.25% Senior Secured Notes begin in October 2023. See “Note 13 – Debt” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

As of December 31, 2022, we had operating lease obligations outstanding of \$13.7 million. See “Note 10 – Leases” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

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

The Company is currently challenging a tax assessment of \$7.7 million related to one of the Company’s operations. The Company is appealing the assessment and believes it is more likely than not that it will ultimately prevail. In January 2022, the Company began making required monthly tax deposits calculated over a six year period while the Company’s appeal is being considered.

The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE, Nigeria and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of December 31, 2022 and 2021, the Company’s total surety bond facilities totaled \$99.2 million and \$68.0 million, respectively of which \$72.6 million and \$43.6 million was outstanding, respectively.

## Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL, SDHL and SDNS for the years ended December 31, 2022, 2021 and 2020, and certain adjustments to show the differences in this financial information between SDL and SDHL and between SDHL and SDHL excluding SDNS for these periods. The adjustments between SDL and SDHL primarily reflect the existence of preferred shares at SDL outstanding in 2018 and general and administrative costs relating to certain professional expenses that are recorded at SDL and not at SDHL. The adjustments between SDHL and SDHL excluding SDNS primarily reflect SDHL excluding the operations, assets, liabilities and cash flows of the five rigs acquired in the Acquisition (see Note 4 – Acquisition to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” for more details). This information is presented pursuant to the Indenture for our 8.25% Senior Unsecured Notes.

### Consolidated Statements of Operations for the year ended December 31, 2022

(In thousands)

	SDL	Adjustments	SDHL	SDNS	Other adjustments	SDHL excluding SDNS
	A	B	A + B = C	D	E	C - D + E
<b>Revenues</b>						
Operating revenues .....	\$ 662,119	\$ —	\$ 662,119	\$ 35,011	\$ —	\$ 627,108
Other revenues .....	33,102	—	33,102	13,782	—	19,320
	695,221	—	695,221	48,793	—	646,428
<b>Operating costs and expenses</b>						
Operating and maintenance ...	385,675	—	385,675	19,800	—	365,875
Depreciation .....	62,191	—	62,191	4,156	—	58,035
Amortization of deferred costs .....	64,305	—	64,305	—	—	64,305
General and administrative ...	57,231	(2,219)	55,012	6,189	—	48,823
Loss on disposal of assets .....	3,324	—	3,324	—	—	3,324
	572,726	(2,219)	570,507	30,145	—	540,362
<b>Operating income</b> .....	122,495	2,219	124,714	18,648	—	106,066
<b>Other (expense) / income, net</b> .....						
Interest income .....	683	—	683	95	—	588
Interest expense and financing charges .....	(114,816)	—	(114,816)	(7,694)	—	(107,122)
Other, net .....	1,565	12	1,577	(608)	—	2,185
	(112,568)	12	(112,556)	(8,207)	—	(104,349)
<b>Income before income taxes</b>	9,927	2,231	12,158	10,441	—	1,717
Income tax expense .....	34,140	—	34,140	1,150	—	32,990
<b>Net (loss) / income</b> .....	\$ (24,213)	\$ 2,231	\$ (21,982)	\$ 9,291	\$ —	\$ (31,273)
Net income attributable to non-controlling interest <sup>(1)</sup> .....	4,592	—	4,592	—	(4,592)	—
<b>Net (loss) / income attributable to controlling interest</b> .....	\$ (28,805)	\$ 2,231	\$ (26,574)	\$ 9,291	\$ 4,592	\$ (31,273)

(1) This \$4.6 million amount relates to the elimination of the non-controlling interest when computing the net loss attributable to controlling interest for SDHL excluding SDNS.

*Consolidated Balance Sheets as of December 31, 2022*

*(In thousands, except per share data)*

	<b>SDL</b>	<b>Adjustments</b>	<b>SDHL</b>	<b>SDNS</b>	<b>Other adjustments</b>	<b>SDHL excluding SDNS</b>
	<b>A</b>	<b>B</b>	<b>A + B = C</b>	<b>D</b>	<b>E</b>	<b>C - D + E</b>
<b>Assets</b>						
Cash and cash equivalents .....	\$ 140,841	\$ (2,039)	\$ 138,802	\$ 52,487	\$ —	\$ 86,315
Accounts and other receivables, net <sup>(1)</sup> ..	175,657	3,558	179,215	32,305	1,577	148,487
Other current assets .....	79,764	—	79,764	240	—	79,524
<b>Total current assets</b> .....	<b>396,262</b>	<b>1,519</b>	<b>397,781</b>	<b>85,032</b>	<b>1,577</b>	<b>314,326</b>
Property and equipment .....	2,087,942	—	2,087,942	420,738	—	1,667,204
Less: accumulated depreciation .....	611,557	—	611,557	4,156	—	607,401
Property and equipment, net .....	1,476,385	—	1,476,385	416,582	—	1,059,803
Deferred tax assets .....	4,844	—	4,844	2,090	—	2,754
Other long-term assets <sup>(2)</sup> .....	168,847	—	168,847	6,761	120,000	282,086
<b>Total assets</b> .....	<b>\$ 2,046,338</b>	<b>\$ 1,519</b>	<b>\$ 2,047,857</b>	<b>\$ 510,465</b>	<b>\$ 121,577</b>	<b>\$ 1,658,969</b>
<b>Liabilities and equity</b>						
Accounts payable .....	\$ 114,288	\$ (174)	\$ 114,114	\$ 16,944	\$ —	\$ 97,170
Account payable - related party <sup>(3)</sup> .....	—	—	—	1,577	1,577	—
Interest payable .....	38,328	—	38,328	6,762	—	31,566
Accrued income taxes .....	9,069	—	9,069	715	—	8,354
Other current liabilities .....	40,317	—	40,317	4,038	—	36,279
<b>Total current liabilities</b> .....	<b>202,002</b>	<b>(174)</b>	<b>201,828</b>	<b>30,036</b>	<b>1,577</b>	<b>173,369</b>
Long-term debt .....	1,436,668	—	1,436,668	238,780	—	1,197,888
Deferred tax liabilities .....	10,023	—	10,023	2,139	—	7,884
Other long-term liabilities .....	82,154	—	82,154	34,901	—	47,253
<b>Total long-term liabilities</b> .....	<b>1,528,845</b>	<b>—</b>	<b>1,528,845</b>	<b>275,820</b>	<b>—</b>	<b>1,253,025</b>
Commitments and contingencies .....						—
Common shares <sup>(4)</sup> .....	1,764	(1,764)	—	1,000	1,000	—
Additional paid-in capital <sup>(5)</sup> .....	1,056,571	(92,070)	964,501	194,324	194,319	964,496
Accumulated losses <sup>(6)</sup> .....	(822,755)	95,527	(727,228)	9,285	4,592	(731,921)
Total controlling interest shareholders' equity .....	235,580	1,693	237,273	204,609	199,911	232,575
Non-controlling interest <sup>(7)</sup> .....	79,911	—	79,911	—	(79,911)	—
<b>Total equity</b> .....	<b>315,491</b>	<b>1,693</b>	<b>317,184</b>	<b>204,609</b>	<b>120,000</b>	<b>232,575</b>
<b>Total liabilities and equity</b> .....	<b>\$ 2,046,338</b>	<b>\$ 1,519</b>	<b>\$ 2,047,857</b>	<b>\$ 510,465</b>	<b>\$ 121,577</b>	<b>\$ 1,658,969</b>

(1) The \$3.6 million primarily relates to legal and accounting fees paid by SDHL on behalf of SDL. The \$1.6 million relates to the elimination of the intercompany balance due to SDHL from SDNS.

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

(3) The \$1.6 million relates to the elimination of the intercompany balance due to SDHL by SDNS.

(4) This \$1.8 million adjustment reflects the total number of SDL outstanding shares of 176,368,767 with a par value of \$0.01 per share. The \$1.0 million reflects SDNS outstanding shares of 100,000,000 with a par value of \$0.01 per share that are eliminated at the consolidated SDHL.

- (5) The \$92.1 million adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. (“SDIL”) to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd. (“Midco”) which is 100% directly owned by SDL. The \$194.3 million relates to the elimination of common shares issued at SDNS that are eliminated at the consolidated SDHL level.
- (6) The \$95.5 million adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividends at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL. The \$4.6 million relates to the non-controlling interest that is eliminated at the consolidated SDHL level.
- (7) The \$79.9 million adjustment relates to the non-controlling interest that is eliminated at the consolidated SDHL level.



*Consolidated Statements of Cash flows for year ended December 31, 2022*

*(In thousands)*

	<u>SDL</u>	<u>Adjustments</u>	<u>SDHL</u>	<u>SDNS</u>	<u>Other adjustments</u>	<u>SDHL excluding SDNS</u>
	<u>A</u>	<u>B</u>	<u>A + B = C</u>	<u>D</u>	<u>E</u>	<u>C - D + E</u>
<b>Cash flows from operating activities</b>						
Net (loss) / income .....	\$ (24,213)	\$ 2,231	\$ (21,982)	\$ 9,291	\$ —	\$ (31,273)
Adjustments to reconcile net (loss) / income to net cash provided by / (used in) operating activities .....						
Depreciation .....	62,191	—	62,191	4,156	—	58,035
Provision for credit losses, net .....	742	—	742	23	—	719
Amortization of deferred revenue .....	(43,605)	—	(43,605)	—	—	(43,605)
Amortization of intangible liability .....	(7,600)	—	(7,600)	(7,600)	—	—
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation .....	2,566	(651)	1,915	—	—	1,915
Amortization of debt issue costs, premium and discount .....	6,291	—	6,291	932	—	5,359
Loss on disposal of assets .....	3,324	—	3,324	—	—	3,324
Deferred tax expense, net .....	1,337	—	1,337	435	—	902
Changes in deferred costs, net .....	(11,337)	—	(11,337)	(44)	—	(11,293)
Changes in operating assets and liabilities						
Intercompany receivables .....	—	(1,941)	(1,941)	—	—	(1,941)
Other operating assets and liabilities, net	30,100	93	30,193	(6,854)	—	37,047
Net cash provided by / (used in) operating activities .....	19,796	(268)	19,528	339	—	19,189
<b>Cash flows from investing activities</b>						—
Additions to property and equipment .....	(453,659)	—	(453,659)	(376,759)	—	(76,900)
Advance payment for property and equipment .....	(5,552)	—	(5,552)	—	—	(5,552)
Proceeds from disposal of assets .....	1,825	—	1,825	—	—	1,825
Net cash used in investing activities ..	(457,386)	—	(457,386)	(376,759)	—	(80,627)
<b>Cash flows from financing activities</b>						
Proceeds from debt issuance .....	242,500	—	242,500	242,500	—	—
Payment of debt issuance costs .....	(4,481)	—	(4,481)	(4,455)	—	(26)
Proceeds from subsidiary shares issuance to non-controlling interest <sup>(1)</sup> .....	75,433	—	75,433	—	(75,433)	—
Investment by SDHL to subsidiaries <sup>(2)</sup> .....	—	—	—	—	(120,000)	(120,000)
Proceeds from issuance of common shares, net of issuance costs <sup>(3)</sup> .....	48,267	1,733	50,000	195,433	195,433	50,000
Net cash provided by / (used in) financing activities .....	361,719	1,733	363,452	433,478	—	(70,026)
Net (decrease) / increase in cash, cash equivalents and restricted cash .....	(75,871)	1,465	(74,406)	57,058	—	(131,464)
Cash, cash equivalents and restricted cash at beginning of year .....	253,218	(3,503)	249,715	(1)	—	249,716
<b>Cash, cash equivalents and restricted cash at end of year .....</b>	<b>\$ 177,347</b>	<b>\$ (2,038)</b>	<b>\$ 175,309</b>	<b>\$ 57,057</b>	<b>\$ —</b>	<b>\$ 118,252</b>

- (1) The \$75.4 million adjustment relates to the common shares issued by SDNS to external investors that are eliminated once SDNS is removed.
- (2) The \$120.0 million adjustment relates to the investment by SDHL into SDNS once SDNS is removed.
- (3) The \$195.4 million adjustment relates to the issuance of SDNS common shares that were eliminated at SDHL.

**Consolidated Statements of Operations for the year ended December 31, 2021**  
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Revenues</b>			
Operating revenues .....	\$ 515,069	\$ —	\$ 515,069
Other revenues .....	11,497	—	11,497
	526,566	—	526,566
<b>Operating costs and expenses</b>			
Operating and maintenance .....	323,994	—	323,994
Depreciation .....	65,820	—	65,820
Amortization of deferred costs .....	38,930	—	38,930
General and administrative .....	46,407	(1,319)	45,088
Loss on disposal of assets .....	53	—	53
	475,204	(1,319)	473,885
<b>Operating income</b> .....	51,362	1,319	52,681
<b>Other (expense) / income, net</b>			
Interest income .....	47	—	47
Interest expense and financing charges .....	(113,124)	—	(113,124)
Other, net .....	1,548	3	1,551
	(111,529)	3	(111,526)
<b>Loss before income taxes</b> .....	(60,167)	1,322	(58,845)
Income tax expense .....	18,470	—	18,470
<b>Net loss and net loss attributable to common shares</b> .....	\$ (78,637)	\$ 1,322	\$ (77,315)

*Consolidated Balance Sheets as of December 31, 2021*  
(In thousands, except per share data)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Assets</b>			
Cash and cash equivalents .....	\$ 232,315	\$ (3,503)	\$ 228,812
Accounts and other receivables, net <sup>(1)</sup> .....	136,251	1,617	137,868
Other current assets .....	68,080	—	68,080
Total current assets .....	436,646	(1,886)	434,760
Property and equipment .....	1,588,062	—	1,588,062
Less accumulated depreciation .....	555,975	—	555,975
Property and equipment, net .....	1,032,087	—	1,032,087
Deferred tax assets .....	3,241	—	3,241
Other long-term assets .....	145,563	—	145,563
<b>Total assets</b> .....	<b>\$ 1,617,537</b>	<b>\$ (1,886)</b>	<b>\$ 1,615,651</b>
<b>Liabilities and equity</b>			
Accounts payable .....	\$ 68,624	\$ (147)	\$ 68,477
Interest payable .....	31,565	—	31,565
Accrued income taxes .....	4,977	—	4,977
Other current liabilities .....	53,715	—	53,715
Total current liabilities .....	158,881	(147)	158,734
Long-term debt .....	1,192,529	—	1,192,529
Deferred tax liabilities .....	7,469	—	7,469
Other long-term liabilities .....	44,987	—	44,987
Total long-term liabilities .....	1,244,985	—	1,244,985
Commitments and contingencies			
Common shares <sup>(2)</sup> .....	1,371	(1,371)	—
Additional paid-in capital <sup>(3)</sup> .....	1,006,250	(93,663)	912,587
Accumulated losses <sup>(4)</sup> .....	(793,950)	93,295	(700,655)
Total equity .....	213,671	(1,739)	211,932
<b>Total liabilities and equity</b> .....	<b>\$ 1,617,537</b>	<b>\$ (1,886)</b>	<b>\$ 1,615,651</b>

(1) This adjustment primarily relates to legal and accounting fees paid by SDHL on behalf of SDL.

(2) This adjustment reflects the total number of SDL's outstanding shares of 137,115,793 with a par value of \$0.01 per share.

(3) This adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. ("SDIL") to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd. ("Midco") which is 100% directly owned by SDL.

(4) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividend at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL.

*Consolidated Statements of Cash flows for year ended December 31, 2021*  
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Cash flows from operating activities</b>			
Net loss .....	\$ (78,637)	\$ 1,322	\$ (77,315)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation .....	65,820	—	65,820
Provision for doubtful accounts, net .....	675	—	675
Amortization of deferred revenue .....	(15,433)	—	(15,433)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation .....	3,345	(150)	3,195
Non-cash loss on debt extinguishment .....	5,232	—	5,232
Debt extinguishment costs .....	4,865	—	4,865
Amortization of debt issue costs, premiums and discounts .....	4,670	—	4,670
Loss on disposal of assets .....	53	—	53
Deferred tax expense, net .....	595	—	595
Changes in deferred costs, net .....	(34,091)	—	(34,091)
Changes in operating assets and liabilities			
Intercompany receivables and payables, net .....	—	(1,504)	(1,504)
Other operating assets and liabilities, net .....	26,665	343	27,008
Net cash used in operating activities .....	(16,241)	11	(16,230)
<b>Cash flows from investing activities</b>			
Additions to property and equipment .....	(45,852)	—	(45,852)
Proceeds from disposal of assets .....	69,420	—	69,420
Net cash provided by investing activities .....	23,568	—	23,568
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt .....	304,054	—	304,054
Repayments of long-term debt .....	(80,000)	—	(80,000)
Repayments of revolving credit facility .....	(55,000)	—	(55,000)
Payments of debt extinguishment and retirement costs .....	(4,860)	—	(4,860)
Payments of debt financing costs .....	(7,266)	—	(7,266)
Net cash provided by financing activities .....	156,928	—	156,928
Net increase in cash, cash equivalents and restricted cash .....	164,255	11	164,266
Cash, cash equivalents and restricted cash at beginning of year .....	88,963	(3,514)	85,449
<b>Cash, cash equivalents and restricted cash at end of year .....</b>	<b>\$ 253,218</b>	<b>\$ (3,503)</b>	<b>\$ 249,715</b>

*Consolidated Statements of Operations for the year ended December 31, 2020*  
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Revenues</b>			
Operating revenues .....	\$ 570,343	\$ —	\$ 570,343
Other revenues .....	14,833	—	14,833
	585,176	—	585,176
<b>Operating costs and expenses</b>			
Operating and maintenance .....	341,426	—	341,426
Depreciation .....	69,895	—	69,895
Amortization of deferred costs .....	47,148	—	47,148
General and administrative .....	45,849	(208)	45,641
Loss on impairment of assets .....	249,156	—	249,156
Gain on disposal of assets .....	(3,601)	—	(3,601)
	749,873	(208)	749,665
<b>Operating loss</b> .....	(164,697)	208	(164,489)
<b>Other (expense) / income, net</b>			
Interest income .....	175	—	175
Interest expense and financing charges .....	(89,703)	—	(89,703)
Other, net .....	(939)	(8)	(947)
	(90,467)	(8)	(90,475)
<b>Loss before income taxes</b> .....	(255,164)	200	(254,964)
Income tax expense .....	19,695	—	19,695
<b>Net loss and net loss attributable to common shares</b> .....	\$ (274,859)	\$ 200	\$ (274,659)

*Consolidated Balance Sheets as of December 31, 2020*  
(In thousands, except per share data)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Assets</b>			
Cash and cash equivalents .....	\$ 73,408	\$ (3,514)	\$ 69,894
Accounts and other receivables, net <sup>(1)</sup> .....	129,009	594	129,603
Assets held for sale .....	77,075	—	77,075
Other current assets .....	56,654	—	56,654
Total current assets .....	336,146	(2,920)	333,226
Property and equipment .....	1,575,114	—	1,575,114
Less accumulated depreciation .....	508,794	—	508,794
Property and equipment, net .....	1,066,320	—	1,066,320
Deferred tax assets .....	1,958	—	1,958
Other long-term assets .....	111,929	—	111,929
<b>Total assets</b> .....	<b>\$ 1,516,353</b>	<b>\$ (2,920)</b>	<b>\$ 1,513,433</b>
<b>Liabilities and equity</b>			
Accounts payable .....	\$ 66,632	\$ (3)	\$ 66,629
Interest payable .....	29,333	—	29,333
Accrued income taxes .....	4,680	—	4,680
Other current liabilities .....	46,682	—	46,682
Total current liabilities .....	147,327	(3)	147,324
Long-term debt .....	1,023,963	—	1,023,963
Deferred tax liabilities .....	5,591	—	5,591
Other long-term liabilities .....	50,509	—	50,509
Total long-term liabilities .....	1,080,063	—	1,080,063
Commitments and contingencies			
Common shares <sup>(2)</sup> .....	1,362	(1,362)	—
Additional paid-in capital <sup>(3)</sup> .....	1,002,914	(93,528)	909,386
Accumulated losses <sup>(4)</sup> .....	(715,313)	91,973	(623,340)
Total equity .....	288,963	(2,917)	286,046
<b>Total liabilities and equity</b> .....	<b>\$ 1,516,353</b>	<b>\$ (2,920)</b>	<b>\$ 1,513,433</b>

(1) This adjustment primarily relates to legal and accounting fees paid by SDHL on behalf of SDL.

(2) This adjustment reflects the total number of outstanding shares of 136,223,040 with a par value of \$0.01 per share.

(3) This adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. (“SDIL”) to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd. (“Midco”) which is 100% directly owned by SDL.

(4) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividend at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL.

*Consolidated Statements of Cash flows for year ended December 31, 2020*  
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
<b>Cash flows from operating activities</b>			
Net loss .....	\$ (274,859)	\$ 200	\$ (274,659)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation .....	69,895	—	69,895
Loss on impairment of assets .....	249,156	—	249,156
Loss on derivative financial instruments, net .....	334	—	334
Provision for doubtful accounts, net .....	2,634	—	2,634
Amortization of deferred revenue .....	(12,417)	—	(12,417)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation .....	4,169	(77)	4,092
Amortization of debt issue costs and premium .....	3,335	—	3,335
Gain on disposal of assets .....	(3,601)	—	(3,601)
Deferred tax expense, net .....	1,182	—	1,182
Payments for settlement of derivative financial instruments, net .....	(334)	—	(334)
Changes in deferred costs, net .....	5,327	—	5,327
Changes in operating assets and liabilities			
Intercompany receivables .....	—	(128)	(128)
Other operating assets and liabilities, net .....	9,397	6	9,403
Net cash provided by operating activities .....	54,218	1	54,219
<b>Cash flows from investing activities</b>			
Additions to property and equipment .....	(111,817)	—	(111,817)
Deposits related to rig sales, net .....	15,948	—	15,948
Proceeds from disposal of assets .....	7,194	—	7,194
Net cash used in investing activities .....	(88,675)	—	(88,675)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt .....	80,000	—	80,000
Proceeds from revolving credit facility .....	75,000	—	75,000
Repayments of revolving credit facility .....	(55,000)	—	(55,000)
Purchase of common shares <sup>(1)</sup> .....	(1,639)	1,639	—
Ordinary shares dividend paid <sup>(2)</sup> .....	—	(3,000)	(3,000)
Payments of debt financing costs .....	(3,240)	—	(3,240)
Net cash provided by financing activities .....	95,121	(1,361)	93,760
Net increase in cash, cash equivalents and restricted cash .....	60,664	(1,360)	59,304
Cash, cash equivalents and restricted cash at beginning of period .....	28,299	(2,154)	26,145
<b>Cash, cash equivalents and restricted cash at end of year .....</b>	<b>\$ 88,963</b>	<b>\$ (3,514)</b>	<b>\$ 85,449</b>

(1) This adjustment relates to the repurchase of common shares recorded at SDL level.

(2) This adjustment reflects the ordinary shares dividend paid by SDHL to fund SDL's repurchase of common shares.

## **Off Balance Sheet Arrangements**

### ***Contingent liabilities***

The majority of the contingent liabilities that we are exposed to relate to legal proceedings, certain contractual and customs obligations secured by surety bonds and bank guarantees and uncertain tax positions. See “Note 12 – Income Taxes ” and “Note 15 – Commitments and Contingencies” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”. As of December 31, 2022, we are not exposed to any contingent liabilities that are expected to result in a material adverse effect on our consolidated financial position, results of operations or cash flows.

### ***Derivative Instruments***

The Board of Directors has approved policies and procedures for derivative instruments that require the approval of our Chief Financial Officer prior to entering into any derivative instruments. From time to time, we may choose to enter into a variety of derivative instruments in connection with the management of our exposure to fluctuations in interest rates and currency exchange rates. We do not enter into derivative transactions for speculative purposes; however, we may enter into certain transactions that do not meet the criteria for hedge accounting.

### ***Off-balance Sheet Financing***

We had no off-balance sheet arrangements during the years ended December 31, 2022 and 2021.

## **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in the preparation of our consolidated financial statements.

We identify our critical accounting policies as those that are significant to our results of operations, financial condition and cash flows and that require management’s most difficult, subjective or complex estimates and judgements in matters that are inherently uncertain. We believe that our more critical accounting policies include revenue recognition, operating expenses and deferred costs, property and equipment, assets held for sale, leases and impairment of long-lived assets.

Our significant accounting policies are included in “Note 2 – Significant Accounting Policies” to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

### ***Revenue Recognition***

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets or contract liabilities, as appropriate on the Company’s consolidated balance sheets.

The Company’s services provided under each contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company’s control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:



### *Operating Revenues*

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of services related to drilling, completion, maintenance and decommissioning of oil and natural gas wells. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a period could vary based on the actual operations. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed to the extent it is probable that a significant revenue reversal will not occur. We have applied the disclosure practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

The Company may earn lump-sum fees relating to contract preparation, capital upgrades and mobilization in certain contracts, which are typically invoiced at the commencement or initial phase of the contract. These activities are not considered to be revenue generating activities distinct from the performance of services under the contract. Therefore, such revenues are recorded as a contract liability and amortized on a straight-line basis over the initial firm contract term. Certain customers may also make advance payments of dayrate revenues, which are deferred and recognized when the related dayrate services are provided. Upfront fees for contract preparation, capital upgrades and mobilization and advance payments from customers for future services are recorded as contract liabilities in other current liabilities and other long-term liabilities, as appropriate, in the consolidated balance sheets.

The Company may earn lump-sum fees relating to contract demobilization, which are typically invoiced at the end of the contract and may contain provisions stipulating conditions that must be present for such revenues to be received. The Company assesses the likelihood of receiving this revenue based on prior experience and knowledge of market conditions and other factors. Demobilization fees are recorded when it is unconditional and probable that there will not be a material cumulative revenue reversal, which typically occurs near the end of the contract term. Once the recognition criteria are met, the demobilization revenues are recorded as operating revenues over the remaining contract term and a contract asset is recorded for any revenue recognized prior to invoicing.

Many contracts have termination and/or extension options which can be exercised at the option of the customer. In certain cases, the Company can charge an early termination fee if a contract is terminated by the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. Revenues related to an extension option are typically accounted for as a contract modification as a separate contract.

### *Other Revenues*

Other revenues consist of amounts billed for goods and services such as catering, additional equipment and personnel, consumables or accommodations. The Company may use third parties for the provision of such goods and services. Judgement is involved in identifying the performance obligations in these customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customer. The Company generally is considered to be a principal in revenue transactions when it obtains control of a good or service before it is transferred to the customer. The Company typically acts as a principal in the provision of catering, accommodation services, additional personnel and the provision of additional equipment and consumables directly used to provide integrated services to the customer. The Company generally acts as an agent in the provision of other equipment and consumables for the customer.

### *Operating Costs and Expenses and Deferred Costs*

Operating costs and expenses are generally recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs in other current assets or other long-term assets, as appropriate, on the consolidated balance sheets.

Deferred contract costs include certain contract preparation and upfront mobilization expenditures for rigs entering binding services contracts. Such costs are generally considered costs to fulfil the Company's future performance obligations under the related contract and are therefore deferred and amortized on a straight-line basis over the contract term. Certain deferred contract costs are related to contractually required inspections, and such costs are amortized on a straight-line basis over the time period until the next scheduled inspection. See Note 5 – Revenues, Contract Liabilities, Deferred Contract Costs and Allowance for Credit Losses. Demobilization costs which are incurred at the end of a contract and costs associated with rig preparation and of mobilization of without a firm contract are expensed as incurred.

Non-contractual deferred costs include costs of inspections incurred to obtain regulatory certifications to operate the rigs and periodic major overhauls of equipment. Regulatory certifications, including Special Periodic Surveys (“SPS”) and Underwater Inspections in Lieu of Dry-docking (“UWILDs”), are deferred and amortized on a straight-line basis over the time period until the next survey or inspection, generally 30 to 60 months. Periodic major overhauls are deferred and amortized on a straight-line basis over a period of five years.

***Property and Equipment, Net***

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the functionality or life of the asset are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment. Property and equipment is subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

The estimated useful lives of property and equipment are as follows:

	<b>Years</b>
Rigs .....	30
Equipment and spares .....	9 - 13
Building .....	30
Other .....	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. On December 31, 2021, the Company had a change in accounting estimate, which resulted in a change in the useful lives of 12 rigs. As a result, depreciation for the year ended December 31, 2022 was less than it would have been without this change in accounting estimate. During the year ended December 31, 2022, the change in accounting estimate resulted in a \$10.2 million lower depreciation on drilling rigs and equipment and a \$0.06 higher basic and diluted earnings per share. This change did not have a material impact on the Company’s consolidated financial statements for the year ended December 31, 2021

The remaining estimated average useful life of existing rigs in the Company’s fleet as of December 31, 2022 is approximately 12 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

***Assets Held for Sale***

Property and equipment is reclassified as asset held for sale when (a) there is a committed plan to sell the asset that is unlikely to be subject to significant changes or termination, (b) the asset is available for immediate sale, (c) actions are initiated to complete the sale, including an active program to locate a buyer, (d) the sale is expected to be completed within one year and (e) the asset is being actively marketed at a price that is reasonable relative to its fair value. Assets held for sale are recorded at the lower of carrying value or fair value less estimated costs to sell and are subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below.

***Leases***

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has made an accounting policy election to present the lease and associated non-lease

operations as a single component based upon the predominant component. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception. The Company considers all relevant contractual provisions, including renewal and termination options, to determine the term of the lease. Renewal or termination options that are reasonably certain of exercise by the lessee and those controlled by the lessor are included in determining the lease term. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option. See also Note 10 – Leases.

#### *Short-Term Leases*

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Expenses for short-term leases are recognized on a straight-line basis over the lease term under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

#### *The Company as a Lessee*

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases for which it is a lessee at the lease commencement date. Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. For any contract considered predominantly a lease, all non-lease components are included in the initial measurement of the lease liability. Finance lease and operating lease liabilities are recorded separately. The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets. Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in "Impairment of Long-Lived Assets" below. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. The Company has made an accounting policy election to account for lease concessions related to the effects of the COVID-19 pandemic, as though enforceable rights and obligations for those concessions existed in the original lease contract and, therefore, the Company does not account for these concessions as lease modifications. The Company instead accounts for rent reductions as a negative variable lease payment in the period in which that payment would have become due and accounts for temporary rent deferrals as a short-term lease payable until the amount becomes due and payable.

Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made. Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

#### *The Company as a Lessor*

The Company's contracts with customers contain lease components related to the underlying rigs and equipment, in addition to service components of labor and expertise to operate the rig and equipment. The service component of operating a rig is predominant in the Company's contracts, therefore, the Company accounts for its revenues from contracts with customers as service revenues with a single performance obligation. See "Revenue Recognition" above.

#### ***Impairment of Long-Lived Assets***

The Company evaluates property and equipment, right-of-use assets and other long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment indicators can include changes in the general economic and business environment, industry specific indicators, Company specific factors or conditions

related to a specific asset or asset group. An impairment loss on an asset or asset group is recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets, deferred costs and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company's asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment evaluations are, by nature, highly subjective. The critical estimates are significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions including but not limited to those such as projected rig utilization, dayrates, operating, overhead and major project costs, remaining useful life, salvage value and discount rate as well as cost inflation assumptions. The Company estimates the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

### **New Accounting Pronouncements**

See "Note 3 – Recently Issued Accounting Pronouncements" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for a discussion on recently adopted and issued accounting pronouncements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

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

#### **Liquidity Risk**

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

#### **Interest Rate Risk**

We are exposed to interest rate risk related to the fixed rate debt under the 8.25% Senior Unsecured Notes, the 8.875% Notes and the 10.25% Senior Secured Notes. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes us to changes in market interest rates if and when maturing debt is refinanced with new debt.

We have in the past and may in the future utilize interest rate swaps to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's borrowings, for which we maintain documented policies and procedures to monitor and control the use of derivative instrument. We are not engaged in derivative transactions for speculative or trading purposes.

#### **Foreign Currency Risk**

Our international operations expose us to currency exchange rate risk. This risk is primarily associated with compensation costs of employees and purchasing costs from non-U.S. suppliers, which are denominated in currencies other than the U.S. dollar. We do not have any non-U.S. dollar debt and thus are not exposed to currency risk related to debt.

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

Further, we have in the past and may in the future utilize foreign currency forward exchange contracts ("forex contracts") to manage a portion of foreign exchange risk, for which we maintain documented policies and procedures to monitor and control the use of the derivative instruments. Our forex contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract fixing date. We are not engaged in derivative transactions for speculative or trading purposes.

**Credit Risk**

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents, restricted cash and accounts receivables. We generally maintain cash and cash equivalents and restricted cash at commercial banks with high credit ratings.

Our trade receivables are with a variety of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. We perform ongoing credit evaluations of our customers, and generally do not require material collateral. We may from time-to-time require our customers to make an advance payment or issue a bank guarantee/letter of credit in our favor to cover the risk of non-payment under our contracts.

We determine our expected credit losses for our pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations. Allowance for credit losses was \$3.8 million and \$3.2 million as of December 31, 2022 and 2021, respectively.

**Item 8. Financial Statements and Supplementary Data.**

The Consolidated Financial Statements as of December 31, 2022 can be found in the Exhibits section pages F-1 to F-47.

**Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

**Item 9A. Controls and Procedures.**

We are not required to report this Item.

**Item 9B. Other Information.**

None

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

## Part III

### Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth information concerning our executive officers and directors, including their ages, as of December 31, 2022:

Name	Age as of December 31, 2022	Position
Ernie Danner	68	Chairman of the Board
David Mullen	64	Director and Chief Executive Officer
John K. Castle	82	Director
J. William Franklin, Jr. <sup>(1)</sup>	51	Director
Dongyang Lou	46	Director
David B. Pittaway	71	Director
John Reynolds	52	Director
Benjamin Sebel	52	Director
Usama Trabulsi	77	Director
David Williams	69	Director
William Hoffman	62	Executive Vice President and Chief Operating Officer
Gregory O'Brien	36	Executive Vice President and Chief Financial Officer
Ian Clark	63	Executive Vice President

(1) Stepped down as a director of the Company on March 6, 2023.

#### *Directors*

##### *Ernie Danner, Chairman of the Board*

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

##### *David Mullen, Director & Chief Executive Officer*

Mr. Mullen has over 35 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a UK listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. degree in Geophysics from University College Galway.

##### *John K. Castle, Director*

Mr. Castle joined our board of directors in November 2012 and has served as Chairman of the Nomination Committee since February 2019. Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. since 1987, and as Chairman and Chief Executive Officer of Branford Castle, Inc since 1986. Prior to forming Castle Harlan, Inc., Mr. Castle was President and

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

*J. William Franklin, Jr., Director*

Mr. Franklin joined our board of directors in September 2012 and has served as Chairman of the Compensation Committee since May 2020. He joined Lime Rock Partners in 2003 and was named a Managing Director in 2008. Currently based in Houston, Mr. Franklin has worked in the firm's Houston, Calgary, and Westport, Connecticut locations and has played a leadership role in the firm's investment efforts in the oilfield service and exploration and production sectors in North America and internationally. Before joining Lime Rock Partners, he had experience in private equity, energy company operations, and energy finance at Riverstone Holdings from 2000 to 2003, Simmons & Company International from 1996 to 1998, and Parker & Parsley Petroleum Company from 1995 to 1996. Mr. Franklin currently serves on the board of directors of Ardyne Arsenal Resources, Liquila Ventures and OilSERV. He has previously served on a number of the boards of private equity backed oil and gas related companies and is a former candidate for state representative in Texas. He is a graduate of the University of Texas at Austin (B.A., B.B.A.) and Harvard Business School (M.B.A.).

*Dongyang Lou, Director*

Mr. Lou joined our board of directors in August 2020 and is currently the Chief Financial Officer of China Merchants Energy Shipping Co., Ltd. which is listed on the Shanghai Stock Exchange. Previously, he was the Chairman and non-executive director of CMIC Ocean En-Tech Holding Co., Ltd. from April 2018 to December 2022 the Chief Financial Officer of China Merchants Industry Holdings Co., Ltd. Mr. Lou served as an engineer in the Chemical Engineering Office of the Institute of Standardization of Nuclear Industry and as secretary-general for the National Technical Committee for Standardization of Radioisotopes from July 1997 to October 2001, as an engineer in the Planning Department in China Isotope Company from October 2001 to August 2003, as a specialist of the board of supervisors for Key Large State-Owned Enterprises under the State Council from August 2003 to August 2004, as deputy head of the board of supervisors for Key Large State-Owned Enterprises under the State Council from September 2008 to September 2012, as an assistant to the department director of the intellectual property administrative department of China Merchants Group Limited ("CM Group") from September 2012 to May 2015, as an assistant to the department director of the finance department (intellectual property department) of CM Group from May 2015 to October 2015, and as a deputy department director of the finance department (intellectual property department) of CM Group from October 2015 to November 2017. Mr. Lou obtained a bachelor's degree in applied chemistry from Peking University in 1997 and a master's degree in business administration also from Peking University in 2002.

*David B. Pittaway, Director*

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

*John Reynolds, Director*

Mr. Reynolds joined our board of directors in September 2012 and is co-founder and a Managing Director of Lime Rock Partners. He joined Goldman Sachs in 1992 and spent six years in the Investment Research Department where he had senior analyst

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

*Benjamin Sebel, Director*

Mr. Sebel joined our board of directors in November 2012. He is a Senior Advisor to Branford Castle Partners and was previously a Managing Director at CHAMP Private Equity, having been with the firm from 2005 until 2014. Immediately prior, Mr. Sebel was a Managing Director at Castle Harlan for seven years, and is experienced in all aspects of private equity investment including deal origination, realizations and fundraising in both the United States and Australia. Immediately prior to joining Castle Harlan, Mr. Sebel worked at Goldman Sachs & Co. in its Capital Markets Group. Previously, Mr. Sebel spent two years as Special Advisor to the Hon. Nick Greiner AC, a former premier of New South Wales, and commenced his career in the Management Consulting Services Group of PricewaterhouseCoopers (Australia), where he also qualified as a Chartered Accountant. Mr. Sebel is currently a director of Sunless (Australia) Pty Ltd and an Investment Committee Member at Commencer Capital and Glow Capital Partners. Mr. Sebel was formerly Chairman of Rocking Horse Finance Group, Chairman of Gerard Lighting Group, and on the board of Riverina Fresh Pty. Ltd., ATF Services, Centric Wealth Limited, Healthcare Australia Holdings Pty Limited, Study Group Pty Limited, United Malt Holdings, Ion Track, Inc., Associated Packaging Technologies, Inc., Equipment Support Services, Inc. and AdobeAir, Inc. Mr. Sebel holds a Bachelor of Commerce (First Class Honours) from the University of New South Wales, an M.B.A. from the Harvard Business School, and is a graduate of the Australian Institute of Company Directors.

*Usama Trabulsi, Director*

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

*David Williams, Director*

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

***Executive officers***

*David Mullen, Director & Chief Executive Officer*

Mr. Mullen has been our Chief Executive Officer since October 2012. See "—Directors."

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

Mr. Hoffman has worked on rigs around the world and has over 40 years' experience in the global oil and gas drilling industry. Mr. Hoffman joined Shelf Drilling in October 2012. From August 2009 to April 2011, Mr. Hoffman was Senior Vice



President and Chief Operating Officer of Seahawk Drilling, a Houston and Gulf of Mexico-based jack-up drilling provider where he was responsible for the company's daily operations and strategic business plan implementation. From 1991 through August 2009, Mr. Hoffman spent 18 years with Noble Corporation where he held senior operational and executive roles, including Vice President of Worldwide Marketing, Vice President of Western Hemisphere Operations and President of Noble's engineering services division, Triton Engineering Services. Mr. Hoffman received a B.S. degree from Southwest Texas State University.

*Gregory O'Brien, Executive Vice President & Chief Financial Officer*

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

*Ian Clark, Executive Vice President*

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

**Item 11. Executive Compensation.**

We are not required to report this Item.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders Matters.**

We are not required to report this Item.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

We are not required to report this Item.

**Item 14. Principal Accounting Fee and Services.**

We are not required to report this Item.

**Part IV**

**Item 15. Exhibit and Financial Statement Schedules.**

Financial Statements pages F-1 to F-47.

Material agreements governing indebtedness can be found on our website at [www.shelfdrilling.com](http://www.shelfdrilling.com) in the investor relations section under key documents.

# **Shelf Drilling, Ltd.**

Consolidated Financial Statements  
for the years ended December 31, 2022, 2021 and 2020

**SHELF DRILLING, LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022, 2021 and 2020**

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## Independent Auditor's Report

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

### **Opinion**

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and December 31, 2021, and the related consolidated statements of operations, comprehensive loss, equity and cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the "Consolidated Financial Statements").

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 31, 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

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

In preparing the Consolidated Financial Statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the Consolidated Financial Statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists.

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Jacques Fakhoury, Douglas O'Mahony, Wassim El Afchal, Murad Ainsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy



The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Consolidated Financial Statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Consolidated Financial Statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises information in the annual report, but does not include the Consolidated Financial Statements and our auditor's report thereon. Our opinion on the Consolidated Financial Statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the Consolidated Financial Statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

**PricewaterhouseCoopers  
Dubai, United Arab Emirates  
March 20, 2023**

**SHELF DRILLING, LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	Years ended December 31,		
	2022	2021	2020
<b>Revenues</b>			
Operating revenues .....	\$ 662,119	\$ 515,069	\$ 570,343
Other revenues .....	33,102	11,497	14,833
	695,221	526,566	585,176
<b>Operating costs and expenses</b>			
Operating and maintenance .....	385,675	323,994	341,426
Depreciation .....	62,191	65,820	69,895
Amortization of deferred costs .....	64,305	38,930	47,148
General and administrative .....	57,231	46,407	45,849
Loss on impairment of assets .....	—	—	249,156
Loss / (gain) on disposal of assets .....	3,324	53	(3,601)
	572,726	475,204	749,873
<b>Operating income / (loss)</b> .....	122,495	51,362	(164,697)
<b>Other (expense) / income, net</b>			
Interest income .....	683	47	175
Interest expense and financing charges .....	(114,816)	(113,124)	(89,703)
Other, net .....	1,565	1,548	(939)
	(112,568)	(111,529)	(90,467)
<b>Income / (loss) before income taxes</b> .....	9,927	(60,167)	(255,164)
Income tax expense .....	34,140	18,470	19,695
<b>Net loss</b> .....	\$ (24,213)	\$ (78,637)	\$ (274,859)
Net income attributable to non-controlling interest .....	4,592	—	—
<b>Net loss attributable to controlling interest</b> .....	\$ (28,805)	\$ (78,637)	\$ (274,859)
Loss per common share - basic and diluted .....	\$ (0.18)	\$ (0.57)	\$ (2.02)
Weighted average common shares - basic and diluted .....	157,322	136,816	136,157

See notes to the consolidated financial statements.

**SHELF DRILLING, LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(In thousands)

	<b>Years ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Net loss</b> .....	\$ (24,213)	\$ (78,637)	\$ (274,859)
Other comprehensive loss, net of tax .....			
Change in unrealized losses on derivative financial instruments .....			
Changes in unrealized losses .....	—	—	(574)
Reclassification of net loss from other comprehensive loss to net loss .....	—	—	334
	\$ —	\$ —	\$ (240)
<b>Total comprehensive loss</b> .....	\$ (24,213)	\$ (78,637)	\$ (275,099)
Total comprehensive income attributable to non-controlling interest .....	4,592	—	—
<b>Total comprehensive loss attributable to controlling interest</b> .....	\$ (28,805)	\$ (78,637)	\$ (275,099)

See notes to the consolidated financial statements.

**SHELF DRILLING, LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)

	As of December 31,	
	2022	2021
<b>Assets</b>		
Cash and cash equivalents.....	\$ 140,841	\$ 232,315
Accounts and other receivables, net.....	175,657	136,251
Other current assets.....	79,764	68,080
<b>Total current assets</b> .....	<b>396,262</b>	<b>436,646</b>
Property and equipment.....	2,087,942	1,588,062
Less: accumulated depreciation.....	611,557	555,975
Property and equipment, net.....	1,476,385	1,032,087
Deferred tax assets.....	4,844	3,241
Other long-term assets.....	168,847	145,563
<b>Total assets</b> .....	<b>\$ 2,046,338</b>	<b>\$ 1,617,537</b>
<b>Liabilities and equity</b>		
Accounts payable.....	\$ 114,288	\$ 68,624
Interest payable.....	38,328	31,565
Accrued income taxes.....	9,069	4,977
Other current liabilities.....	40,317	53,715
<b>Total current liabilities</b> .....	<b>202,002</b>	<b>158,881</b>
Long-term debt.....	1,436,668	1,192,529
Deferred tax liabilities.....	10,023	7,469
Other long-term liabilities.....	82,154	44,987
<b>Total long-term liabilities</b> .....	<b>1,528,845</b>	<b>1,244,985</b>
Commitments and contingencies (Note 15).....	—	—
Common shares of \$0.01 par value; 234,063 and 184,063 shares authorized as of December 31, 2022 and 2021, respectively; 176,369 and 137,116 issued and outstanding as of December 31, 2022 and 2021, respectively.....	1,764	1,371
Additional paid-in capital.....	1,056,571	1,006,250
Accumulated losses.....	(822,755)	(793,950)
<b>Total controlling interest shareholders' equity</b> .....	<b>235,580</b>	<b>213,671</b>
Non-controlling interest.....	79,911	—
<b>Total equity</b> .....	<b>315,491</b>	<b>213,671</b>
<b>Total liabilities and equity</b> .....	<b>\$ 2,046,338</b>	<b>\$ 1,617,537</b>

See notes to the consolidated financial statements.



**SHELF DRILLING, LTD.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(In thousands)

	Common shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated losses	Total controlling interest shareholders' equity	Non-controlling interest	Total equity
	Shares	Amount						
Balance as of December 31, 2019	136,643	\$ 1,366	\$ 1,000,298	\$ 240	\$ (440,454)	\$ 561,450	\$ —	\$ 561,450
Net loss	—	—	—	—	(274,859)	(274,859)	—	(274,859)
Net unrealized loss on derivative financial instruments	—	—	—	(240)	—	(240)	—	(240)
Issuance of common shares	301	3	(3)	—	—	—	—	—
Repurchase of common shares	(721)	(7)	(1,550)	—	—	(1,557)	—	(1,557)
Share-based compensation expense, net of forfeitures	—	—	4,169	—	—	4,169	—	4,169
Balance as of December 31, 2020	136,223	1,362	1,002,914	—	(715,313)	288,963	—	288,963
Net loss	—	—	—	—	(78,637)	(78,637)	—	(78,637)
Issuance of common shares	893	9	(9)	—	—	—	—	—
Share-based compensation expense, net of forfeitures	—	—	3,345	—	—	3,345	—	3,345
Balance as of December 31, 2021	137,116	1,371	1,006,250	—	(793,950)	213,671	—	213,671
Net income / (loss)	—	—	—	—	(28,805)	(28,805)	4,592	(24,213)
Issuance of common shares	39,253	393	47,755	—	—	48,148	—	48,148
Subsidiary shares issuance to non-controlling interest	—	—	—	—	—	—	75,319	75,319
Share-based compensation expense, net of forfeitures	—	—	2,566	—	—	2,566	—	2,566
Balance as of December 31, 2022	176,369	\$ 1,764	\$ 1,056,571	\$ —	\$ (822,755)	\$ 235,580	\$ 79,911	\$ 315,491

See notes to the consolidated financial statements.

**SHELF DRILLING, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Years ended December 31,		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
Net loss	\$ (24,213)	\$ (78,637)	\$ (274,859)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities			
Depreciation	62,191	65,820	69,895
Loss on impairment of assets	—	—	249,156
Provision for credit losses, net	742	675	2,634
Amortization of deferred revenue	(43,605)	(15,433)	(12,417)
Amortization of intangible liability	(7,600)	—	—
Share-based compensation expense, net of forfeitures	2,566	3,345	4,169
Non-cash portion of loss on debt extinguishment	—	5,232	—
Debt extinguishment costs	—	4,865	—
Amortization of debt issuance costs, premium and discounts	6,291	4,670	3,335
Loss / (gain) on disposal of assets	3,324	53	(3,601)
Deferred tax expense, net	1,337	595	1,182
Loss on derivative financial instruments, net	—	—	334
Payments for settlement of derivative financial instruments, net	—	—	(334)
Changes in deferred costs, net*	(11,337)	(34,091)	5,327
Changes in operating assets and liabilities*	30,100	26,665	9,397
Net cash provided by / (used in) operating activities	19,796	(16,241)	54,218
<b>Cash flows from investing activities</b>			
Additions to property and equipment*	(453,659)	(45,852)	(111,817)
Advance payment for property and equipment	(5,552)	—	—
Proceeds from disposal of assets	1,825	69,420	7,194
Deposits related to rig sales, net	—	—	15,948
Net cash (used in) / provided by investing activities	(457,386)	23,568	(88,675)
<b>Cash flows from financing activities</b>			
Proceeds from debt issuance	242,500	304,054	80,000
Payment of debt issuance costs	(4,481)	(7,266)	(3,240)
Proceeds from subsidiary shares issuance to non-controlling interest, net of issuance costs	75,433	—	—
Proceeds from issuance of common shares, net of issuance costs	48,267	—	—
Repayments of long-term debt	—	(80,000)	—
Proceeds from revolving credit facility	—	—	75,000
Repayments of revolving credit facility	—	(55,000)	(55,000)
Payment of debt extinguishment and retirement costs	—	(4,860)	—
Purchase of common shares	—	—	(1,639)
Net cash provided by financing activities	361,719	156,928	95,121
Net (decrease) / increase in cash, cash equivalents and restricted cash	(75,871)	164,255	60,664
Cash, cash equivalents and restricted cash at beginning of year*	253,218	88,963	28,299
<b>Cash, cash equivalents and restricted cash at end of year*</b>	<b>\$ 177,347</b>	<b>\$ 253,218</b>	<b>\$ 88,963</b>

\*See Note 22 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs, a breakout of the changes in operating assets and liabilities and a reconciliation of cash, cash equivalents and restricted cash balances.

See notes to the consolidated financial statements.

**SHELF DRILLING, LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**



**Note 1 – Nature of Business**

Shelf Drilling, Ltd. (“SDL”) was incorporated on August 14, 2012 (“inception”) as a private corporation in the Cayman Islands. SDL with its majority owned subsidiaries (together, the “Company”, “we” or “our”) is a leading international shallow water offshore contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 500 feet and our fleet consists of 36 independent-leg cantilever (“ILC”) jack-up rigs as of December 31, 2022. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange (“OSE”) under the ticker symbol SHLF.

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through Shelf Drilling Holdings, Ltd. (“SDHL”) an indirect wholly owned subsidiary of SDL. Our corporate offices are in Dubai, United Arab Emirates (“UAE”), geographically close to our rig operations in the Middle East, North Africa and the Mediterranean (together, “MENAM”), Southeast Asia, India, West Africa and North Sea. Our largest shareholders are affiliates of Castle Harlan, Inc., Lime Rock Partners and China Merchants Industry Holdings Company Limited (“China Merchants”). Additionally, other shareholders may have large holdings as reported in public filings in accordance with the rules of the OSE.

**Note 2 – Significant Accounting Policies**

**Basis of Presentation**

The Company has prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”). The amounts are presented in United States (“U.S.”) dollars (“\$”) rounded to the nearest thousand, unless otherwise stated.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those entities that meet the criteria for variable interest entities (“VIEs”) for which the Company is deemed to be the primary beneficiary. Intercompany balances and transactions are eliminated in consolidation. We separately present within equity on our consolidated balance sheets the ownership interests attributable to parties with noncontrolling interests in our consolidated subsidiaries, and we separately present net income attributable to such parties on our consolidated statements of operations.

As of December 31, 2022, the Company’s consolidated financial statements include five entities that meet the definition of VIEs. See Note 7 – Variable Interest Entities. As of December 31, 2022, the Company does not have any investments which meet the criteria to be reported under the equity method of accounting.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but are not limited to, the following: collectability of receivables, depreciable or amortizable lives of assets, term of lease obligations, fair market value of acquired rigs and drilling contract intangibles, impairment assessment of assets, provision for income taxes, valuation of share-based compensation, postemployment benefits and contingencies. Actual results could differ from those estimates.

**Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-level hierarchy of fair value measurement, which reflects the degree to which objective prices in external active markets are available to measure fair value, is as follows:

- Level 1 — Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2 — Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
- Level 3 — Unobservable inputs are used when little or no market data is available.

**SHELF DRILLING, LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**



Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the relevant fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

### **Revenue Recognition**

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets or contract liabilities, as appropriate on the Company's consolidated balance sheets.

The Company's services provided under each contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:

#### *Operating Revenues*

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of services related to drilling, completion, maintenance and decommissioning of oil and natural gas wells. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a period could vary based on the actual operations. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed to the extent it is probable that a significant revenue reversal will not occur. We have applied the disclosure practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

The Company may earn lump-sum fees relating to contract preparation, capital upgrades and mobilization in certain contracts, which are typically invoiced at the commencement or initial phase of the contract. These activities are not considered to be revenue generating activities distinct from the performance of services under the contract. Therefore, such revenues are recorded as a contract liability and amortized on a straight-line basis over the initial firm contract term. Certain customers may also make advance payments of dayrate revenues, which are deferred and recognized when the related dayrate services are provided. Upfront fees for contract preparation, capital upgrades and mobilization and advance payments from customers for future services are recorded as contract liabilities in other current liabilities and other long-term liabilities, as appropriate, in the consolidated balance sheets.

The Company may earn lump-sum fees relating to contract demobilization, which are typically invoiced at the end of the contract and may contain provisions stipulating conditions that must be present for such revenues to be received. The Company assesses the likelihood of receiving this revenue based on prior experience and knowledge of market conditions and other factors. Demobilization fees are recorded when it is unconditional and probable that there will not be a material cumulative revenue reversal, which typically occurs near the end of the contract term. Once the recognition criteria are met, the demobilization revenues are recorded as operating revenues over the remaining contract term and a contract asset is recorded for any revenue recognized prior to invoicing.

Many contracts have termination and/or extension options which can be exercised at the option of the customer. In certain cases, the Company can charge an early termination fee if a contract is terminated by the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. Revenues related to an extension option are typically accounted for as a contract modification as a separate contract.

#### *Other Revenues*

Other revenues consist of amounts billed for goods and services such as catering, additional equipment and personnel, consumables or accommodations. The Company may use third parties for the provision of such goods and services. Judgement is involved in identifying the performance obligations in these customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customer. The Company generally is considered to be a principal in revenue transactions when it obtains control of a good or service before it is transferred to the customer. The Company

**SHELF DRILLING, LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**



typically acts as a principal in the provision of catering, accommodation services, additional personnel and the provision of additional equipment and consumables directly used to provide integrated services to the customer. The Company generally acts as an agent in the provision of other equipment and consumables for the customer.

**Operating Costs and Expenses and Deferred Costs**

Operating costs and expenses are generally recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs in other current assets or other long-term assets, as appropriate, on the consolidated balance sheets.

Deferred contract costs include certain contract preparation and upfront mobilization expenditures for rigs entering binding services contracts. Such costs are generally considered costs to fulfil the Company's future performance obligations under the related contract and are therefore deferred and amortized on a straight-line basis over the contract term. Certain deferred contract costs are related to contractually required inspections, and such costs are amortized on a straight-line basis over the time period until the next scheduled inspection. See Note 5 – Revenues, Contract Liabilities, Deferred Contract Costs and Allowance for Credit Losses. Demobilization costs which are incurred at the end of a contract and costs associated with rig preparation and of mobilization of without a firm contract are expensed as incurred.

Non-contractual deferred costs include costs of inspections incurred to obtain regulatory certifications to operate the rigs and periodic major overhauls of equipment. Regulatory certifications, including Special Periodic Surveys ("SPS") and Underwater Inspections in Lieu of Dry-docking ("UWILDs"), are deferred and amortized on a straight-line basis over the time period until the next survey or inspection, generally 30 to 60 months. Periodic major overhauls are deferred and amortized on a straight-line basis over a period of five years.

**Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents are comprised of cash on hand, cash in banks and highly liquid funds with an original maturity of three months or less. Other bank deposits, if any, with maturity of less than a year are classified as short-term bank deposits within other current assets in the consolidated balance sheets. Bank overdrafts, if any, are classified as current liabilities in the consolidated balance sheets.

Restricted cash consists of cash deposits held related to bank guarantees. Restricted cash balances are recorded, according to their maturity date, as either other current assets or other long-term assets in the consolidated balance sheets.

**Accounts and Other Receivables, Net**

The Company's accounts and other receivables consist primarily of trade accounts receivable from the provision of services, with original credit terms of less than one year. Accounts and other receivables are recorded in the consolidated balance sheets at their nominal amounts, net of allowance for credit losses, or the estimated net realizable value, which approximates fair value.

**Allowance for Credit Losses**

The Company applies the current expected credit losses ("CECL") model to financial assets measured on an amortized cost basis, primarily its trade accounts receivable, and off balance sheet exposures to credit losses. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information, as adjusted for future expectations.

The Company pools its receivable assets using its internal determination of collection risk, which is based on several factors, including the size and type of customer, the Company's prior collections experience with the customer, and the country or region in which the customer operates. Adjustments to the Company's historical loss rates were made with consideration of the increasing risk of default related to the COVID-19 pandemic and any relevant customers and oil and gas industry specific factors, as needed. Management reviews its assumptions each reporting period and makes adjustments as needed to reflect changes in historical loss rates and expectations, which management believes provides a reasonable estimation of future losses. The pooling of assets and the adjustment of historical loss rates include a high degree of judgement and actual results can differ materially from these expectations.

For other financial instruments measured on an amortized cost basis and off balance sheet credit exposures, the Company considers quantitative and qualitative information, including historical experience and future expectations, which management believes provide a reasonable basis for the estimation of future losses.

**SHELF DRILLING, LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**



The Company records a provision for credit losses in its general and administrative expenses in the consolidated statements of operations to reflect the net change in the allowance for credit losses during the period. Amounts determined to be uncollectible are written-off against the allowance for credit losses.

**Intangible Liability**

The Company acquired certain existing drilling contracts for future contract drilling services in connection with the Acquisition. See Note 4 – Acquisition for additional details. The terms of these contracts included fixed dayrates that were below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Intangible liability is recorded as current and non-current liability and amortized as operating revenue on a straight-line basis over the respective contract term. The Company immediately amortizes any remaining intangible liability balance upon cancellation of the underlying contract.

**Property and Equipment, Net**

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the functionality or life of the asset are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment. Property and equipment is subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

The estimated useful lives of property and equipment are as follows:

	<b>Years</b>
Rigs .....	30
Equipment and spares .....	9 - 13
Building .....	30
Other .....	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. On December 31, 2021, the Company had a change in accounting estimate, which resulted in a change in the useful lives of 12 rigs. As a result, depreciation for the year ended December 31, 2022 was less than it would have been without this change in accounting estimate. During the year ended December 31, 2022, the change in accounting estimate resulted in a \$10.2 million lower depreciation on drilling rigs and equipment and a \$0.06 higher basic and diluted earnings per share. This change did not have a material impact on the Company’s consolidated financial statements for the year ended December 31, 2021.

The remaining estimated average useful life of existing rigs in the Company’s fleet as of December 31, 2022 is approximately 12 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

**Assets Held for Sale**

Property and equipment is reclassified as asset held for sale when (a) there is a committed plan to sell the asset that is unlikely to be subject to significant changes or termination, (b) the asset is available for immediate sale, (c) actions are initiated to complete the sale, including an active program to locate a buyer, (d) the sale is expected to be completed within one year and (e) the asset is being actively marketed at a price that is reasonable relative to its fair value. Assets held for sale are recorded at the lower of

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carrying value or fair value less estimated costs to sell and are subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below.

**Leases**

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception. The Company considers all relevant contractual provisions, including renewal and termination options, to determine the term of the lease. Renewal or termination options that are reasonably certain of exercise by the lessee and those controlled by the lessor are included in determining the lease term. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option. See also Note 10 – Leases.

*Short-Term Leases*

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Expenses for short-term leases are recognized on a straight-line basis over the lease term under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

*The Company as a Lessee*

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases for which it is a lessee at the lease commencement date. Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company’s incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. For any contract considered predominantly a lease, all non-lease components are included in the initial measurement of the lease liability. Finance lease and operating lease liabilities are recorded separately. The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets. Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in “Impairment of Long-Lived Assets” below. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. The Company has made an accounting policy election to account for lease concessions related to the effects of the COVID-19 pandemic, as though enforceable rights and obligations for those concessions existed in the original lease contract and, therefore, the Company does not account for these concessions as lease modifications. The Company instead accounts for rent reductions as a negative variable lease payment in the period in which that payment would have become due and accounts for temporary rent deferrals as a short-term lease payable until the amount becomes due and payable.

Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made. Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

*The Company as a Lessor*

The Company’s contracts with customers contain lease components related to the underlying rigs and equipment, in addition to service components of labor and expertise to operate the rig and equipment. The service component of operating a rig is

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predominant in the Company's contracts, therefore, the Company accounts for its revenues from contracts with customers as service revenues with a single performance obligation. See "Revenue Recognition" above.

### **Impairment of Long-Lived Assets**

The Company evaluates property and equipment, right-of-use assets and other long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment indicators can include changes in the general economic and business environment, industry specific indicators, Company specific factors or conditions related to a specific asset or asset group. An impairment loss on an asset or asset group is recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets, deferred costs and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company's asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment evaluations are, by nature, highly subjective. The critical estimates are significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions including but not limited to those such as projected rig utilization, dayrates, operating, overhead and major project costs, remaining useful life, salvage value and discount rate as well as cost inflation assumptions. The Company estimates the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

### **Income Taxes**

Provision for income taxes is based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. Current income tax expense reflects an estimate of the Company's income tax liability for the current year, including changes in prior year tax estimates as returns are filed, and any tax audit adjustments.

Deferred income taxes reflect the "temporary differences" between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax effected by applying the relevant tax rate, based on enacted tax laws and rates applicable to the periods in which the reversal of such differences is expected to affect taxable income. The Company records net deferred tax assets to the extent the assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized. Liabilities for uncertain tax positions are recorded as long-term liabilities for tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to uncertain tax positions are included as a component of income tax expense.

The Company is subject to the tax laws, including relevant regulations, treaties and court rulings, of the countries and jurisdictions in which it operates. The provision for income taxes is based upon interpretation of the relevant tax laws in effect at the time the expense was incurred. If the relevant taxing authorities do not agree with the Company's interpretation and application of such laws, or if any such laws are changed retroactively, additional tax may be imposed which could significantly increase the Company's effective tax rate related to its worldwide earnings.

### **Share-Based Compensation**

The Company issues share-based compensation under its 2017 Long-Term Incentive Plan (the "2017 LTIP"), generally in the form of nonqualified stock options ("NQSOs") and restricted share units ("RSUs"). Share-based compensation awards may contain a combination of time based, performance based and/or market based vesting conditions. Share-based compensation is recognized in the consolidated statements of operations based on the grant date fair value and the estimated number of options, shares or RSUs that are ultimately expected to vest.

The Company determines the grant date fair value of its NQSOs with time based vesting conditions, using the Black-Scholes-Merton model, using inputs and assumptions, including the market price of the shares on the date of grant, the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the expected term.



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The Company determines the grant date fair value of its RSUs with performance and/or market based vesting conditions using the Stochastic or Monte-Carlo valuation technique, using inputs and assumptions, including the market price of the shares on the date of grant, the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the remaining term prior to vesting.

The grant date fair value of the Company's share-based compensation awards that are ultimately expected to vest is recognized as an expense over the applicable vesting period. The Company has made an accounting policy election to recognize the expense for awards with a service condition and graded vesting features on a straight-line vesting method over the applicable vesting period. Any subsequent changes in the estimated number of shares or RSUs expected to vest will be recorded as cumulative catch-up adjustment to compensation cost in the period in which the change in estimate occurs. For awards with a market condition, compensation cost is recognized over the service period regardless of whether the market conditions are ultimately achieved. For awards which vest only after a specific event such as an exit event or Initial Public Offering ("IPO"), compensation expense is recognized upon the occurrence of the event. The Company has made an accounting policy election to account for any forfeitures in compensation expense as they occur.

The Company evaluates any modifications to its stock-based awards and accounts for them in the period of modification based on the appropriate service, performance, and/or market conditions. When the cancellation of an award is accompanied by the concurrent grant of a replacement award, it is accounted for as a modification of the terms of the cancelled award. The Company has made an accounting policy election to pool the costs and expenses of a cancelled award(s) and any concurrent replacement awards and expense them over the remaining vesting period of the replacement award, to the extent that the vesting period of the replacement award exceeds the remaining vesting period of the original award.

### **Employee Benefit Plans**

The Company sponsors various employee benefit programs, including shore-based retention plans, defined contribution plans, end of service plans, and a defined benefit plan. See also Note 14 – Employee Benefit Plans.

#### *Shore-Based Retention Plans*

The Company has various shore-based retention plans for which associated payouts are typically made upon vesting, provided the participant is still employed by the Company. The retention plans consist of awards granted for certain employees that generally vest over a period ranging from one to four years. The Company recognizes these retention plan expenses over the plan's vesting period and accrues a liability for their ultimate payment. Expenses and the corresponding liability are reversed if an employee termination results in the forfeiture of accrued retention payments prior to vesting.

Certain of our Company retention plans are paid in advance of vesting and contain a repayment provision, which requires employees to repay the retention amount if employment is not maintained through the end of the vesting period, with certain exceptions. For retention plans paid in advance, the Company records an asset upon payment which is amortized as retention plan expenses over the vesting period. Expenses are reversed and a receivable from an employee is recorded if an employee termination results in the forfeiture of the retention award.

#### *Defined Contribution Plans*

The Company sponsors several defined contribution plans for certain employees in various jurisdictions. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. These plans include various plans under international jurisdictions. These plans include Company matching amounts, based on jurisdiction, and other Company payments, which may be based on job category or years of service. The Company's contributions are expensed as incurred and the Company has no further obligations for these plans.

#### *End of Service Plans*

The Company offers end of service plans (defined benefit plans) to employees in certain countries in accordance with the labor laws in these countries or Company policies. The Company makes cash payments whenever the departure of an employee triggers the requirement to pay benefits. In certain countries for which management estimates that end of service liabilities are significant, the Company obtains a third-party valuation to estimate the end of service benefit liability based on actuarial assumptions that include an employee census and historical data.

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*Defined Benefit Plan*

Certain employees are eligible for defined benefits under a Company plan and these benefits are fully vested. The employee's benefit amount is calculated based on the employee's base salary and various other factors, as outlined in the plan. The Company immediately recognizes any gains and losses from this plan and accrues a liability for the ultimate payments. Benefits are paid in a single lump sum cash payment when a participant is no longer employed by the Company.

The plan does not have any assets, nor does the Company intend to fund the plan. Amounts expected to be paid under the defined benefit plan are determined based on actuarial assumptions.

**Debt**

Premiums, discounts and debt issuance costs related to the issuance of term debt are deferred and recorded as an adjustment to the associated debt balance on the consolidated balance sheets. These amounts are amortized to interest expense using the effective interest method through the maturity of the related debt.

Debt issuance costs related to line-of-credit arrangements, regardless of whether there is any outstanding balance, are recorded under other long-term assets on the consolidated balance sheets and amortized to interest expense on a straight-line basis over the term of the line-of-credit arrangement.

In the event of early retirement of debt, any extinguishment costs and unamortized premiums, discounts and debt issuance costs associated with the retired debt are expensed as interest expense and financing charges in the consolidated statements of operations.

**Earnings / (Loss) Per Share**

Basic earnings / (loss) per share ("EPS") is calculated by dividing the net income or loss attributable to common shares by the weighted average number of common shares outstanding during the period, excluding contingently forfeitable unvested share-based compensation. The two-class method is used for participating securities, as applicable.

Diluted EPS adjusts the weighted average number of common shares outstanding in the basic EPS calculation for the effect of potential future issuances of common stock relating primarily to share-based compensation awards and other potentially dilutive instruments using the treasury stock method.

The dilutive effect of share-based awards using the treasury stock method consists of the total awards to be issued in a future period less an "assumed" buy back of shares. The "assumed" buy back of shares is computed using the average market price of common stock for the relevant period as the price per share and "assumed" proceeds which includes the award's exercise price, if any, and the average unrecognized compensation expense of the award during the period. This calculation can result in a significantly lower dilutive effect than the stock-based awards currently outstanding and/or in certain awards being anti-dilutive. Anti-dilutive awards can become dilutive in future periods based on changes in the average market price of common stock and decreases in the unrecognized compensation costs.

In periods of net losses attributable to common shareholders, all potentially dilutive securities will be anti-dilutive, and therefore basic and diluted EPS will be the same.

**Foreign Currency**

The Company's functional currency is the U.S. dollar. As is customary in the oil and natural gas industry, the majority of the Company's revenues are denominated in U.S. dollars.

A significant amount of the Company's expenditures including interest expense and corporate expenses are denominated in U.S. dollars or are effectively denominated in U.S. dollars, as the payment currency is fixed to the U.S. dollar. However, certain subsidiaries have a significant amount of their operating expenses payable in local currencies. To limit the potential risk of currency fluctuations, when management believes that market conditions are favorable the Company may choose to enter into a series of monthly foreign currency forward contracts as discussed in "Derivative Financial Instruments" below. As such, the Company's exposure to non-U.S. dollar denominated currency exchange rate fluctuations may be limited by such derivatives. All transactions denominated in non-U.S. dollar currencies are recorded in U.S. dollars at the prevailing exchange rate. Realized transaction gains or losses and gains and losses from the remeasurement of assets and liabilities denominated in non-U.S. dollar currencies are reported as other, net in the consolidated statements of operations.

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**Derivative Financial Instruments**

The Company's derivative financial instruments consist of foreign currency forward exchange contracts ("forex contracts") and interest rate swaps which the Company may designate as cash flow hedges. Each derivative contract is stated in the consolidated balance sheets at fair value. Derivatives with asset fair values are reported in other current assets or other long-term assets and derivatives with liability fair values are reported in other current liabilities or other long-term liabilities on the consolidated balance sheets, depending on their maturity date.

The Company has documented policies and procedures to monitor and control the use of the derivative instruments. The Company does not engage in derivative transactions for speculative or trading purposes.

Derivative gains and losses are reflected in the consolidated statements of operations except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of the derivative financial instruments to their fair value are recorded as a component of accumulated other comprehensive income / (loss) ("AOCIL"), in the consolidated balance sheets. These changes in fair value for each designated hedge included in the assessment of hedge effectiveness will remain in AOCIL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the forecast hedged transaction will not occur.

*Foreign Currency Forward Exchange Contracts*

The Company may enter into forex contracts when management believes that market conditions are favorable to purchase such contracts with the expectation that the contracts, when settled, will reduce the exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of these contracts are based on the monthly forecast of expenditures in which the Company conducts significant business and for which there is a financial market. These forward contracts are derivatives and any change in fair value included in the assessment of hedge effectiveness is recognized in AOCIL. The net gains / (losses) on forex contracts reclassified from AOCIL are recorded as operating and maintenance expense.

**Note 3 – Recently Issued Accounting Pronouncements**

**Standards not yet adopted**

In March 2020, the FASB issued ASU No. 2020-04—Reference Rate Reform (Topic 848) — Facilitation of the Effects of Reference Rate Reform on Financial Reporting and related clarifying guidance, which provides relief for companies preparing for discontinuation of interest rates such as the London Interbank Offered Rate ("LIBOR") in 2021. The ASU provides companies with optional expedients mainly relating to eligible contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The key optional expedients generally allow a Company (1) to account for and present contract modifications as an event that does not require contract remeasurement or reassessment of a previous accounting determination at the modification date, (2) to continue hedge accounting when certain critical terms of a hedging relationship change, and (3) to make a one-time election to sell and/or reclassify certain held-to-maturity debt securities. This ASU is effective for all entities as of March 12, 2020 and can be applied prospectively as of the beginning of the interim period that includes March 12, 2020 through December 31, 2024. As this ASU has an open effective date until December 31, 2024, the Company does not anticipate that this standard, if implemented, will have a material effect on the Company.

**Note 4 – Acquisition**

On June 23, 2022, the Company entered into an agreement for the acquisition of five jack-up rigs, related contracts, support and infrastructure from Noble Corporation ("Noble") for \$375.0 million (the "Acquisition"). The Company raised net equity of \$48.1 million in June 2022 for the Acquisition. See Note 18 – Shareholders' Equity for details.

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

SDNS was a wholly-owned subsidiary of the Company as of September 30, 2022. On October 3, 2022, SDNS completed private placement of common shares for gross proceeds of \$80.0 million and equity issuance costs of \$4.7 million resulting in net proceeds of \$75.3 million. As of October 3, 2022, SDNS is owned 60% by the Company and 40% by external investors. SDNS used equity proceeds along with new debt to fund the completion of the Acquisition on October 5, 2022. See Note 13 – Debt for details. Since October 12, 2022, SDNS shares are listed on the Euronext Growth Oslo Exchange under the ticker symbol SDNS.

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

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

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

	<b>As of October 5, 2022</b>
Total consideration .....	\$ 375,000
<b>Assets acquired and liabilities assumed</b>	
Jack-up rigs <sup>(1)</sup> .....	\$ 417,678
Intangible liability, current <sup>(2)</sup> .....	(7,711)
Intangible liability, non-current <sup>(2)</sup> .....	(35,353)
Deferred tax asset .....	2,525
Deferred tax liability .....	(2,139)
Net assets acquired .....	<u>\$ 375,000</u>

(1) Recorded in property and equipment line item on the consolidated balance sheets.

(2) See Note 6 – Intangible Liability for details.

**Note 5 – Revenues, Contract Liabilities, Deferred Contract Costs and Allowance for Credit Losses**

**Revenues**

See the consolidated statement of operations for the amounts of operating revenues and other revenues. As of December 31, 2022, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through June 2031. Refer to “Revenue Recognition” and “Operating Costs and Expenses and Deferred Costs” in Note 2 – Significant Accounting Policies for information on our accounting policies for revenue recognition and certain operating costs and expenses that are deferred and amortized over future periods. See Note 24 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

*Lease revenue*

On October 5, 2022 a subsidiary of the Company signed a bareboat charter agreement with a Noble subsidiary for the Shelf Drilling Barsk rig that was acquired as part of the Acquisition. See Note 4 – Acquisition for additional details. The Noble subsidiary leased the rig from the Company for the remaining term of its drilling contract with Equinor ASA, which is expected to end in September 2023. The Company receives payments of \$2.0 million per month, which is true-up at periodic intervals for revenues and expenses per the terms of the agreement. The Company is accounting for this operating lease and these variable lease payments under ASC 842 Leases. The lease payments are recognized as revenue over the lease term as use of the asset occurs.

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Amounts recorded for lease revenue were as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Lease revenue <sup>(1)</sup>	\$ 12,137	\$ —	\$ —

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

**Contract liabilities and deferred contract costs**

*Contract liabilities*

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

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

	As of December 31,	
	2022	2021
Current contract liabilities	\$ 4,910	\$ 29,036
Non-current contract liabilities	3,514	1,757
	\$ 8,424	\$ 30,793

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

	Years ended December 31,	
	2022	2021
Balance, beginning of year	\$ 30,793	\$ 14,965
Increase due to contractual additions	23,562	31,261
Decrease due to amortization of deferred revenue	(43,605)	(15,433)
Decrease due to application of customer deposits and other	(2,326)	—
Balance, end of year	\$ 8,424	\$ 30,793

Approximately \$29.0 million and \$9.7 million of revenues recognized during the years ended December 31, 2022 and 2021, respectively, were included in the beginning contract liabilities balance.

Expected future amortization of contract liabilities, net recorded as of December 31, 2022 is as follows (in thousands):

	As of December 31, 2022
2023	\$ 4,910
2024	2,364
2025	1,150
	\$ 8,424

*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.

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

	As of December 31,	
	2022	2021
Current deferred contract costs .....	\$ 14,827	\$ 23,563
Non-current deferred contract costs .....	17,300	13,127
	\$ 32,127	\$ 36,690

Significant changes in deferred contract costs were as follows (in thousands):

	As of December 31,	
	2022	2021
Balance, beginning of year .....	\$ 36,690	\$ 25,876
Increase due to contractual additions .....	32,700	28,710
Decrease due to amortization of deferred contract costs .....	(37,263)	(17,896)
Balance, end of year .....	\$ 32,127	\$ 36,690

**Allowance for credit losses**

Allowance for credit losses was \$3.8 million and \$3.2 million as of December 31, 2022 and 2021, respectively. Movements in allowance for credit losses were as follows (in thousands):

	As of December 31,	
	2022	2021
Balance, beginning of year .....	\$ 3,186	\$ 2,639
Provision for credit losses, net .....	742	675
Write-off of uncollectible amounts .....	(69)	(128)
Foreign exchange and other .....	(15)	—
Balance, end of year .....	\$ 3,844	\$ 3,186

**Note 6 – Intangible Liability**

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

	Years ended December 31,		
	2022	2021	2020
Amortization of intangible liability <sup>(1)</sup> .....	\$ 7,600	\$ —	\$ —

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

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

	As of December 31, 2022		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of year .....	\$ —	\$ —	\$ —
Additions .....	43,064	—	43,064
Amortization .....	—	(7,600)	(7,600)
Balance, end of year .....	\$ 43,064	\$ (7,600)	\$ 35,464

As of December 31, 2022, the amortization included \$4.3 million of accelerated amortization due to change in accounting estimate due to an unexercised option by the customer.

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	<b>As of December 31, 2022</b>
Intangible liability	
Current portion <sup>(1)</sup>	\$ 2,152
Non-current portion <sup>(2)</sup>	33,312
	\$ 35,464

(1) Recorded in other current liabilities line item on the consolidated balance sheets.

(2) Recorded in other long-term liabilities line item on the consolidated balance sheets.

The estimated future amortizations of the intangible liability is as follows (in thousands):

	<b>As of December 31, 2022</b>
2023	\$ 14,186
2024	12,764
2025	7,533
2026	981
	\$ 35,464

Weighted average life (in years)	2.6
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**Note 7 – Variable Interest Entities**

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of VIEs providing services which are Shelf Drilling Ventures (Malaysia) Sdn. Bhd. (“SDVM”), PT. Hitek Nusantara Offshore Drilling (“PT Hitek”), Shelf Drilling (Nigeria) Limited (“SDNL”), Shelf Drilling Offshore Services Limited (“SDOSL”) and Shelf Drilling (Angola), Limitada (“SDAL”) and which are included in these consolidated financial statements. In June 2021, the Company entered into a contract for drilling services in Angola, and as a result in September 2021, the Company exercised its existing contractual right to transfer legal ownership of 49% of the shares in SDAL for which it is the primary beneficiary.

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

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

	<b>Third party country of incorporation</b>	<b>Third party ownership percentage</b>	
		<b>As of December 31,</b>	
		<b>2022</b>	<b>2021</b>
SDVM	Malaysia	60%	60%
PT Hitek	Indonesia	20%	20%
SDNL	Nigeria	51%	51%
SDOSL	Nigeria	20%	20%
SDAL	Angola	51%	51%

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

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Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	<u>SDVM</u>	<u>PT Hitek</u>	<u>SDNL</u>	<u>SDOSL</u>	<u>SDAL</u>	<u>Total</u>
<b>December 31, 2022:</b>						
Revenues .....	\$ —	—	42,505	—	11,692	\$ 54,197
Operating costs and expenses .....	\$ 55	297	37,684	5,664	12,522	\$ 56,222
<b>December 31, 2021:</b>						
Revenues .....	\$ —	—	29,202	—	—	\$ 29,202
Operating costs and expenses .....	\$ 260	469	29,159	5,236	320	\$ 35,444
<b>December 31, 2020:</b>						
Revenues .....	\$ —	—	43,583	—	—	\$ 43,583
Operating costs and expenses .....	\$ 265	576	39,428	6,756	—	\$ 47,025

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

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

	<u>SDVM</u>	<u>PT Hitek</u>	<u>SDNL</u>	<u>SDOSL</u>	<u>SDAL</u>	<u>Total</u>
<b>Assets</b>						
Cash and cash equivalents .....	\$ 33	\$ 188	\$ 159	\$ 20	\$ 263	\$ 663
Accounts and other receivables, net .....	—	32	19,642	8	2,851	22,533
Other current assets .....	—	—	290	1,041	59	1,390
<b>Total current assets</b> .....	<b>33</b>	<b>220</b>	<b>20,091</b>	<b>1,069</b>	<b>3,173</b>	<b>24,586</b>
Property and equipment, net .....	—	—	2,069	—	7	2,076
Other long-term assets .....	5	19	3,173	377	55	3,629
<b>Total non-current assets</b> .....	<b>5</b>	<b>19</b>	<b>5,242</b>	<b>377</b>	<b>62</b>	<b>5,705</b>
<b>Total assets</b> .....	<b>\$ 38</b>	<b>\$ 239</b>	<b>\$ 25,333</b>	<b>\$ 1,446</b>	<b>\$ 3,235</b>	<b>\$ 30,291</b>
<b>Liabilities</b>						
Accounts payable .....	\$ 17	\$ 26	\$ 8,075	\$ 271	\$ 984	\$ 9,373
Other current liabilities .....	56	57	3,732	666	595	5,106
<b>Total current liabilities</b> .....	<b>73</b>	<b>83</b>	<b>11,807</b>	<b>937</b>	<b>1,579</b>	<b>14,479</b>
Other long-term liabilities .....	107	125	532	766	1,809	3,339
<b>Total long-term liabilities</b> .....	<b>107</b>	<b>125</b>	<b>532</b>	<b>766</b>	<b>1,809</b>	<b>3,339</b>
<b>Total liabilities</b> .....	<b>180</b>	<b>208</b>	<b>12,339</b>	<b>1,703</b>	<b>3,388</b>	<b>17,818</b>
<b>Carrying amount, net</b> .....	<b>\$ (142)</b>	<b>\$ 31</b>	<b>\$ 12,994</b>	<b>\$ (257)</b>	<b>\$ (153)</b>	<b>\$ 12,473</b>



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Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of December 31, 2021 (in thousands):

	<u>SDVM</u>	<u>PT Hitek</u>	<u>SDNL</u>	<u>SDOSL</u>	<u>SDAL</u>	<u>Total</u>
<b>Assets</b>						
Cash and cash equivalents .....	\$ 9	\$ 98	\$ 268	\$ 15	\$ 47	\$ 437
Accounts and other receivables, net .....	—	155	10,860	—	—	11,015
Other current assets .....	—	—	241	710	—	951
<b>Total current assets .....</b>	<b>9</b>	<b>253</b>	<b>11,369</b>	<b>725</b>	<b>47</b>	<b>12,403</b>
Property and equipment, net .....	—	—	2,120	—	16	2,136
Other long-term assets .....	7	53	3,785	900	136	4,881
<b>Total non-current assets .....</b>	<b>7</b>	<b>53</b>	<b>5,905</b>	<b>900</b>	<b>152</b>	<b>7,017</b>
<b>Total assets .....</b>	<b>\$ 16</b>	<b>\$ 306</b>	<b>\$ 17,274</b>	<b>\$ 1,625</b>	<b>\$ 199</b>	<b>\$ 19,420</b>
<b>Liabilities</b>						
Accounts payable .....	\$ 71	\$ 146	\$ 4,565	\$ 84	\$ 228	\$ 5,094
Other current liabilities .....	53	88	3,477	599	117	4,334
<b>Total current liabilities .....</b>	<b>124</b>	<b>234</b>	<b>8,042</b>	<b>683</b>	<b>345</b>	<b>9,428</b>
Other long-term liabilities .....	220	202	2,063	569	69	3,123
<b>Total long-term liabilities .....</b>	<b>220</b>	<b>202</b>	<b>2,063</b>	<b>569</b>	<b>69</b>	<b>3,123</b>
<b>Total liabilities .....</b>	<b>344</b>	<b>436</b>	<b>10,105</b>	<b>1,252</b>	<b>414</b>	<b>12,551</b>
<b>Carrying amount, net .....</b>	<b>\$ (328)</b>	<b>\$ (130)</b>	<b>\$ 7,169</b>	<b>\$ 373</b>	<b>\$ (215)</b>	<b>\$ 6,869</b>

There are no material restrictions on distributions of the assets disclosed above, except for certain property and equipment which is pledged as collateral as discussed in Note 13 – Debt. Liability holders typically have recourse to the general credit of the Company when seeking to enforce settlement of liabilities. See Note 25 – Related Parties for additional discussion on the Company’s transactions with its VIEs.

**Note 8 – Property and Equipment**

Property and equipment consisted of the following (in thousands):

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Rigs and equipment .....	\$ 1,936,237	\$ 1,488,910
Construction in progress .....	84,091	25,183
Spares .....	47,875	54,511
Land and building .....	2,197	2,197
Other .....	17,542	17,261
<b>Total property and equipment .....</b>	<b>\$ 2,087,942</b>	<b>\$ 1,588,062</b>
<b>Less: Accumulated depreciation .....</b>	<b>611,557</b>	<b>555,975</b>
<b>Total property and equipment, net .....</b>	<b>\$ 1,476,385</b>	<b>\$ 1,032,087</b>

See also Note 11 – Loss on Impairment of Assets.

The net carrying amount of rigs and equipment includes the Shelf Drilling Barsk rig which is under the bareboat charter agreement. See Note 5 – Revenues, Contract Liabilities, Deferred Contract Costs and Allowance for Credit Losses for additional details. The carrying value and accumulated depreciation of this rig was (in thousands):

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	<b>As of December 31, 2022</b>
Carrying value	\$ 169,419
Less: Accumulated depreciation	1,547
Net carrying value	\$ 167,872

**Capital Expenditures**

Total capital expenditures for the years ended December 31, 2022, 2021 and 2020 were \$511.6 million, \$40.1 million and \$112.6 million, respectively. During the year ended December 31, 2022, capital expenditures included \$417.7 million related to the acquisition of five jack-up rigs from various subsidiaries of Noble (See Note 4 – Acquisition) and \$58.1 million related to the purchase and rig readiness project for the Shelf Drilling Victory.

During the year ended December 31, 2020, capital expenditures included \$80.5 million related to the acquisition, reactivation and upgrade costs of the Shelf Drilling Enterprise. See also Note 18 – Shareholders’ Equity and Note 22 – Supplemental Cash Flow Information).

**Sales and Disposals**

Sales and disposals of property and equipment with a net carrying value of \$5.1 million, \$4.7 million and \$3.5 million during the years ended December 31, 2022, 2021 and 2020, respectively, were concluded for net proceeds of \$1.8 million, \$4.2 million and \$1.3 million, respectively, which resulted in a loss of disposal of assets of \$3.3 million, \$0.5 million and \$2.2 million, respectively. See Note 9 – Assets Held for Sale for information on the sale of rigs recorded as assets held for sale.

**Note 9 – Assets Held for Sale**

As of December 31, 2022 and 2021, there were no rigs recorded as assets held for sale. See also Note 11 – Loss on Impairment of Assets.

The Company did not have any rig sale transactions during the year ended December 31, 2022. During the year ended December 31, 2021, the Company completed the sale of Shelf Drilling Journey, High Island VII, Trident 15, Key Hawaii, Galveston Key and Randolph Yost with a combined carrying value of \$80.8 million for total net proceeds of \$81.3 million, which resulted in a gain on disposal of \$0.5 million. During the year ended December 31, 2020, the Company sold two rigs, the Trident XIV and Hibiscus with a combined carrying value of \$0.2 million, for total net proceeds of \$6.0 million which resulted in a gain on disposal of \$5.8 million.

In the fourth quarter of 2020, the Company executed agreements to sell the five rigs recorded as assets held for sale for total proceeds of \$80.9 million. The Company recorded an impairment on these rigs of \$11.2 million during the year ended December 31, 2020 based on the sale proceeds less estimated costs to sell the rigs. The Company received gross cash deposits totaling \$16.5 million related to these sales in 2020, of which \$15.5 million relating to the sale of the Shelf Drilling Journey was recorded as restricted cash on the Company’s consolidated balance sheet as of December 31, 2020.

**Note 10 – Leases**

The Company has operating lease agreements principally for offices and yard space, expatriate employee accommodations, vehicles and rig and office equipment with either cancellable or non-cancellable lease terms. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases typically are for periods ranging from one to five years and are spread across multiple geographical locations where the Company operates. Most leases include extension and/or termination options, where the exercise of the lease renewal options is at the Company’s discretion. Certain lease agreements include payments that are adjusted periodically for inflation. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. See also Note 11 – Loss on Impairment of Assets.

As of December 31, 2022 and 2021, the Company did not have any finance leases.

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**Operating right-of-use assets and operating lease liabilities**

Right-of-use assets and lease liabilities are as follows (in thousands):

	As of December 31,	
	2022	2021
Right-of-use assets		
Other long-term assets .....	\$ 12,221	\$ 12,376
Lease liabilities		
Other current liabilities .....	\$ 7,969	\$ 7,602
Other long-term liabilities .....	5,696	8,609
	\$ 13,665	\$ 16,211

**China Merchants bareboat charter leases**

On February 21, 2019, the Company signed agreements with China Merchants to bareboat charter two premium newbuild jack-up rigs, each with an initial contract term of three years and options to extend the lease term or to buy the rig. These operating leases provided for total lease payments of approximately \$16.4 million each to be paid over the respective lease term. In the third quarter of 2020, the Company paid \$3.9 million to settle and terminate its obligations under the bareboat charter agreements with China Merchants. The Company did not take possession of the leased rigs prior to the terminations. The Company recorded \$3.6 million in operating and maintenance expenses in the consolidated statements of operations during the year ended December 31, 2020 related to the lease terminations.

**Lease expense**

During the years ended December 31, 2022, 2021 and 2020, total lease expense was \$15.8 million, \$9.8 million and \$12.1 million, respectively, of which \$6.6 million, \$6.5 million and \$8.1 million, respectively, related to the operating lease right-of-use assets and \$9.2 million, \$3.3 million and \$4.0 million, respectively, related to short-term leases.

Following is the summary of the maturity of lease liabilities as of December 31, 2022 (in thousands):

	As of December 31, 2022
2023 .....	\$ 8,381
2024 .....	3,925
2025 .....	1,188
2026 .....	631
2027 .....	583
Thereafter .....	246
Total lease payments .....	\$ 14,954
Less: Interest .....	1,289
Present value of lease liabilities .....	\$ 13,665

The weighted-average remaining lease term and weighted average discount rate for operating lease right-of-use assets are as follows:

	As of December 31,	
	2022	2021
Weighted-average remaining lease term (years) .....	2.4	2.6
Weighted-average discount rate .....	7.5%	6.3%

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During the years ended December 31, 2022, 2021 and 2020, the Company paid \$8.9 million, \$9.9 million and \$9.4 million, respectively for amounts that have been included in the measurement of operating lease liabilities.

**Note 11 – Loss on Impairment of Assets**

The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. These impairment calculations use significant unobservable inputs, which are based on numerous estimates and include year by year assumptions about future operations and market conditions for each rig and are therefore considered non-recurring level 3 fair value measurements.

During the years ended December 31, 2022 and 2021, the Company considered the general economic and business environment, industry specific indicators, Company specific factors and conditions related to specific assets or asset groups and as a result did not identify any indicators which would trigger an impairment analysis for its long-lived assets. Therefore, the Company did not record a loss on impairment during the years ended December 31, 2022 and 2021, respectively.

During the first quarter of 2020, the Company identified several indicators of impairment, including an unprecedented decrease in global oil and natural gas demand and an increase in economic instability resulting from the COVID-19 pandemic, as well as the sharp decline in Brent crude oil prices. Further, as the number of global cases of COVID-19 increased, many governments implemented lock downs and travel restriction measures. The resulting reduction in oil consumption and price created significant downward pressure on rig demand and dayrates. During the fourth quarter of 2020, the Company identified several indicators of impairment, including continuing downward pressure on revenues due to customer contract terminations, suspensions and renegotiation of prices generated from the impact of the pandemic on global demand for oil. Therefore, the Company concluded that a triggering event had occurred during the first quarter and fourth quarter of 2020 and performed an asset impairment analysis for its long-lived assets during these periods.

The assumptions used in the 2020 impairment calculations included in the first few years an average marketed utilization above 80% and a modest average dayrate increase over 2020. The discount rates used in 2020 were within the range of 14% to 16%, which represents an increase from prior years, primarily due to the negative impacts of COVID-19.

During the year ended December 31, 2020, the Company recorded a loss on impairment of assets of \$249.2 million in the consolidated statements of operations. Impairment losses during the year ended December 31, 2020 were recognized on 19 rigs and other long-lived assets and five rigs classified as assets held for sale. These impairment losses primarily related to the Company's property and equipment of \$183.1 million and also included the impairment of assets held for sale of \$11.2 million, current deferred costs of \$19.4 million, non-current deferred costs of \$26.8 million and right-of-use assets of \$8.7 million.

**Note 12 – Income Taxes**

**Tax Rate**

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. Tax rates can vary significantly between jurisdictions. SDL is exempt from all income taxation in the Cayman Islands, its country of incorporation. The relationship between the provision for income taxes and income or loss before income taxes can vary significantly from period-to-period considering, among other factors:

- the overall level of income before income taxes;
- changes in the blend of income that is taxed based on gross revenues rather than income before taxes;
- rig movements between taxing jurisdictions;
- changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction;
- results of income tax audits and/or related settlements; and
- fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

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The annual effective tax rate for the Company's continuing operations was 343.9%, (30.7)% and (7.7)% for the years ended December 31, 2022, 2021 and 2020, respectively.

**Income Tax Expense**

The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Current tax expense .....	\$ 32,803	\$ 17,875	\$ 18,513
Deferred tax expense .....	1,337	595	1,182
Income tax expense .....	\$ 34,140	\$ 18,470	\$ 19,695

The following is a reconciliation of the differences between the income tax expense for the Company's operations computed at the Cayman statutory rate of zero percent and the Company's reported provision for income taxes (in thousands):

	Years ended December 31,		
	2022	2021	2020
Income tax expense at the Cayman statutory rate .....	\$ —	\$ —	\$ —
Earnings subject to rates different than Cayman statutory rate .....	25,871	13,509	15,479
Change in reserve for uncertain tax positions .....	2,520	2,852	3,219
Adjustments to prior year tax liabilities or receivables .....	4,437	1,993	(527)
Interest and penalties on uncertain tax positions .....	1,312	116	1,524
Income tax expense .....	\$ 34,140	\$ 18,470	\$ 19,695

Income tax expense in 2022 was higher than in 2021 primarily due to an increase in revenues, an increase in tax expense related to prior year tax receivables which are measured in foreign currencies and subject to fluctuations against the U.S. Dollar and higher tax rates in certain new jurisdictions where the Company operated during 2022.

**Deferred Taxes**

The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2028. Proposed legislation in a certain jurisdiction would prohibit the use of net operating losses to offset taxable income for periods beginning after March 31, 2023 which would result in additional tax expense of \$2.4 million to be recognized in the period during which this proposal would become law.

The Company's deferred tax assets also include assets related to differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes.

The Company's deferred tax liabilities as of December 31, 2022 and 2021 include liabilities related to differences in book and tax depreciation based on the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries, none of which are considered permanently reinvested. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements.

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The significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	As of December 31,	
	2022	2021
<b>Deferred tax assets</b>		
Net operating loss carry-forwards of subsidiaries	\$ 2,665	\$ 5,244
Depreciation	2,090	—
Valuation allowance	—	(2,003)
Other	89	—
	\$ 4,844	\$ 3,241
<b>Deferred tax liabilities</b>		
Depreciation	\$ 7,100	\$ 5,036
Unremitted earnings	2,923	2,433
	\$ 10,023	\$ 7,469

Deferred tax assets are recorded net of any valuation allowances. Changes in the Company's estimates and assumptions used to determine the valuation allowance, including any changes in applicable tax laws or tax rates, may impact the Company's ability to recognize the underlying deferred tax assets and could require future adjustments to the valuation allowances.

There was no valuation allowance at the end of 2022 due to an increase in future estimated taxable income at relevant subsidiaries which is expected to allow the Company to use a larger amount of its net operating loss carry-forwards in future periods.

**Liabilities for Uncertain Tax Positions**

The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are more likely than not to be successful if challenged by the relevant tax authorities in the future.

The changes to liabilities for uncertain tax positions, excluding interest and penalties, were as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Balance, beginning of year	\$ 14,573	\$ 11,721	\$ 8,502
Additions for current period tax positions	1,471	631	3,216
Additions for prior period tax positions	2,331	2,588	3
Reductions for prior period tax positions	(1,283)	(367)	—
Balance, end of year	\$ 17,092	\$ 14,573	\$ 11,721

The Company recognizes any interest and penalties related to income tax as a component of income tax expense. Interest and penalties related to uncertain tax positions were an expense of \$(1.3) million, \$(0.1) million and \$(1.5) million for the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022 and 2021, the Company had \$3.8 million and \$2.5 million of accrued interest and penalties related to uncertain tax positions recorded as other long-term liabilities.

Liabilities for uncertain tax positions may change from year-to-year based on various factors, including, but not limited to, favorable or unfavorable resolution of tax audits or disputes, expiration of relevant statutes of limitations, changes in tax laws or changes to the interpretation of existing tax laws due to new legislative guidance or court rulings, or new uncertain tax positions taken on recently filed tax returns. Although the Company has recorded liabilities against all tax benefits resulting from tax positions which, in management's judgment, are more likely than not to be successful if challenged by the relevant tax authorities in the future, the Company cannot provide assurance as to the final tax liability related to its tax positions as it is not possible to predict with certainty the ultimate outcome of any related tax disputes. Thus, it is reasonably possible that the ultimate tax liabilities related to such tax positions could substantially exceed recorded liabilities related to such tax positions, resulting in a material adverse effect on the Company's earnings and cash flows from operations.

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**Tax Returns and Examinations**

The Company is currently subject to, or expects to be subject to, income tax examinations in various jurisdictions where the Company operates or has previously operated. If any tax authority successfully challenges the Company's tax positions, including, but not limited to, tax positions related to the tax consequences of various intercompany transactions, the taxable presence of the Company's subsidiaries in a given jurisdiction, the basis of taxation in a given jurisdiction (such as deemed profits versus actual profits), or the applicability of relevant double tax treaty benefits to certain transactions; or should the Company otherwise lose a material tax dispute in any jurisdiction, the Company's income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. As of December 31, 2022, income tax periods from 2013 through 2022 remain open for examination in many of the Company's jurisdictions.

The Company is currently challenging a tax assessment of \$7.7 million related to one of the Company's operations. The Company is appealing the assessment and believes it is more likely than not that it will ultimately prevail. In January 2022, the Company began making required monthly tax deposits calculated over a six year period while the Company's appeal is being considered.

**Note 13 – Debt**

**Summary**

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

	As of December 31,	
	2022	2021
<b>8.875% Senior Secured First Lien Notes, due November 2024</b>		
Principal amount .....	\$ 310,000	\$ 310,000
Unamortized debt issuance costs .....	(3,900)	(5,702)
Unamortized discount .....	(3,333)	(4,872)
Carrying value .....	\$ 302,767	\$ 299,426
<b>8.25% Senior Unsecured Notes, due February 2025</b>		
Principal amount .....	\$ 900,000	\$ 900,000
Unamortized debt issuance costs .....	(6,021)	(8,511)
Unamortized premium .....	1,142	1,614
Carrying value .....	\$ 895,121	\$ 893,103
<b>10.25% Senior Secured Notes, due October 2025</b>		
Principal amount .....	\$ 250,000	\$ —
Unamortized debt issuance costs .....	(4,295)	—
Unamortized discount .....	(6,925)	—
Carrying value .....	\$ 238,780	\$ —
<b>Total .....</b>	<b>\$ 1,436,668</b>	<b>\$ 1,192,529</b>

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Following is a summary of scheduled long-term debt maturities by year as of December 31, 2022 (in thousands):

	<b>As of December 31, 2022</b>
2023	\$ 6,250
2024	322,500
2025	1,131,250
Total	\$ 1,460,000

**Revolving Credit Facility, due April 2023**

On February 24, 2014, SDHL entered into a revolving credit facility, which was subsequently amended four times, including on January 9, 2017 and June 4, 2018 and modified in related waivers and side letters (“SDHL Revolver”). The SDHL Revolver had a facility of \$225 million, which could be drawn as, or as a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of contractual conditions set forth in the underlying credit agreement. All borrowings under the SDHL Revolver were to mature on April 30, 2023 and letters of credit and bank guarantees issued under the SDHL Revolver were to expire no later than five business days prior to April 30, 2023.

In March 2021, the Company fully settled the outstanding \$55.0 million of the balance due under the SDHL Revolver and the bank guarantees totaling \$22.9 million. The Company recognized a loss of \$3.7 million associated with the debt extinguishment, which included a \$3.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the year ended December 31, 2021. The amortization of debt issuance costs during the year ended December 31, 2021 was \$0.4 million.

**8.75% Senior Secured Notes, due November 2024**

On February 20, 2020, SDHL completed the issuance through a private offering of \$80.0 million aggregate principal amount of new 8.75% Senior Secured Notes, due November 15, 2024 (the “8.75% Senior Secured Notes”) issued at par. SDHL received proceeds of \$80.0 million, less \$2.7 million of fees and expenses, which were recorded as debt issuance costs and were being amortized over the life of the debt. The Company used the proceeds to replenish its liquidity following the acquisition of the Shelf Drilling Enterprise in January 2020 and to finance the reactivation and upgrade costs associated with the deployment of the rig in advance of its contract commencement in January 2021 in the Gulf of Thailand.

In March 2021, the Company fully settled the \$80.0 million of 8.75% Senior Secured Notes. The Company recognized a loss of \$6.4 million associated with this debt extinguishment, which included a \$4.2 million call premium and a \$2.1 million write-off of unamortized debt issuance costs. These transactions were recorded as an expense in interest expense and financing charges during the year ended December 31, 2021. The total amortization of debt issuance costs during the year ended December 31, 2021 was \$0.1 million.

**8.875% Senior Secured First Lien Notes, due November 2024**

On March 26, 2021, SDHL completed the issuance through a private offering of \$310.0 million aggregate principal amount of new 8.875% Senior Secured First Lien Notes, due November 15, 2024 (the “8.875% Notes”) issued at 98.082% for total gross proceeds of \$304.1 million, including a \$5.9 million discount. SDHL recorded \$7.0 million of fees and expenses as debt issuance costs, which are being amortized over the life of the debt. The resulting \$297.1 million net proceeds were used to repay and terminate the SDHL Revolver, cash collateralize bank guarantees issued under the SDHL Revolver, redeem and repurchase all of the outstanding 8.75% Senior Secured Notes and for general corporate purposes.

The obligations under the 8.875% Notes are guaranteed by SDL and the majority of the Company’s subsidiaries that guarantee the obligations under the 8.25% Senior Unsecured Notes and are secured by a first-priority lien on substantially all of the assets of the Company and the subsidiary guarantors.

Interest on the 8.875% Notes accrues from March 26, 2021 at a rate of 8.875% and is payable semi-annually in arrears beginning on November 15, 2021 and on May 15 and November 15 of each year thereafter. The effective interest rate on the 8.875% Notes is 10.28%.



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SDHL may redeem the 8.875% Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to but not including the redemption date.

Period	Redemption Price
Between March 15, 2022 and March 15, 2023 .....	106.656%
Between March 15, 2023 and September 15, 2023 .....	103.328%
On or after September 15, 2023 .....	100.000%

If a change in control occurs, as per the terms of the 8.875% Notes, the Company must offer to repurchase the outstanding 8.875% Notes at a price equal to 101% plus any accrued and unpaid interest.

**8.25% Senior Unsecured Notes, due February 2025**

On February 7, 2018, SDHL completed the issuance of \$600.0 million of new 8.25% Senior Unsecured Notes due February 15, 2025 (the “8.25% Senior Unsecured Notes”) issued at par. SDHL received net proceeds of \$589.3 million, after deduction of \$10.7 million of fees and expenses which were recorded as debt issuance costs and are being amortized over the life of the debt. On June 19, 2018, SDHL completed the issuance of an additional \$300.0 million of 8.25% Senior Unsecured Notes at an issue price of 101% for total gross proceeds of \$303.0 million, including a \$3.0 million premium. SDHL received net proceeds of \$297.2 million, after the deduction of \$5.8 million of fees and expenses which were recorded as debt issuance costs and are being amortized over the life of the debt.

Interest on the 8.25% Senior Unsecured Notes accrues at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year. The effective interest rate on the 8.25% Senior Unsecured Notes is 8.54%.

SDHL’s obligations under the 8.25% Senior Unsecured Notes are guaranteed by the majority of SDHL’s subsidiaries (collectively, the “Note Guarantors”), subject to certain exceptions. The 8.25% Senior Unsecured Notes, and the related guarantee of payment by SDHL and the Note Guarantors:

- rank senior in right of payment to any of SDHL’s and the Note Guarantors’ existing and future subordinated indebtedness, if any;
- rank pari passu in right of payment with all existing and future senior unsecured indebtedness of SDHL and the Note Guarantors;
- are effectively subordinated to all existing and future secured indebtedness of SDHL and the Note Guarantors, to the extent of the value of the assets securing such indebtedness; and
- are structurally subordinated to all existing and future indebtedness, preferred stock and other liabilities, including trade payables, of any non-guarantor subsidiaries of SDHL.

On or after February 15, 2022, SDHL may redeem the 8.25% Senior Unsecured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
Between February 15, 2022 and February 14, 2023 .....	104.125%
Between February 15, 2023 and February 14, 2024 .....	102.063%
On or after February 15, 2024 .....	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.25% Senior Unsecured Notes and a decrease in the rating of the 8.25% Senior Unsecured Notes by both Moody’s Investors Services (“Moody’s”) and Standard & Poor’s Financial Services LLC (“S&P’s”) by one or more gradations, it must offer to repurchase the 8.25% Senior Unsecured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

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**10.25% Senior Secured Notes, due October 2025**

On September 26, 2022, Shelf Drilling (North Sea) Holdings, Ltd. (“SDNSH”), an indirect wholly-owned subsidiary of SDNS, completed the issuance of \$250.0 million aggregate principal amount of new 10.25% senior secured notes due October 31, 2025 (the “10.25% Senior Secured Notes”) issued at 97.0% for total proceeds of \$242.5 million, after deduction of \$7.5 million discount. The debt proceeds were used to partially finance the Acquisition (see Note 4 – Acquisition). SDNS recorded \$4.7 million additional fees and expenses as debt issuance costs. The debt issuance discount and costs are being amortized over the life of the debt using the effective interest method.

Interest on the 10.25% Senior Secured Notes will be paid semi-annually in cash in arrears on April 30 and October 31 of each year, commencing on April 30, 2023. The 10.25% Senior Secured Notes require 5% per annum principal payments based on the initial aggregate principal amount; payments will be made semi-annually beginning on October 31, 2023 and continuing on each interest payment date thereafter. The effective interest rate on the 10.25% Senior Secured Notes is 12.26%.

The 10.25% Senior Secured Notes were issued under an indenture among SDNSH and its subsidiaries and Wilmington Trust, National Association, as trustee and as collateral agent. The 10.25% Senior Secured Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by the Company. The 10.25% Senior Secured Notes are fully and unconditionally, jointly and severally guaranteed on a senior secured basis by Shelf Drilling (North Sea) Intermediate, Ltd. (“SDNSI”) (a direct subsidiary of SDNS, the direct parent of SDNSH and an indirect parent of all of the subsidiaries of SDNSH, including the rig owning entities and rig operating entities), with a first-priority lien on substantially all of the assets of SDNSI, SDNSH and its subsidiaries securing the 10.25% Senior Secured Notes.

On or after September 26, 2023, SDNSH may redeem the 10.25% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
Between September 26, 2023 and March 25, 2024	103.000%
Between March 26, 2024 and September 25, 2024	101.500%
On or after September 26, 2024	100.000%

**Terms Common to All Indebtedness**

The 8.875% Notes, 8.25% Senior Unsecured Notes and 10.25% Senior Secured Notes contain customary restrictive covenants. The 8.875% Notes and the 8.25% Senior Unsecured Notes also contain a provision under which an event of default by SDHL or by any restricted subsidiary on any other indebtedness exceeding \$25.0 million would be triggered if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity. The 10.25% Senior Secured Notes contain a provision under which an event of default by SDNSI, SDNSH or their subsidiaries on any other indebtedness exceeding \$10.0 million would be triggered if such default: i) is caused by failure to pay the principal or interest when due after the applicable grace period, or ii) results in acceleration of such indebtedness prior to maturity.

The 8.875% Notes and 8.25% Senior Unsecured Notes contain covenants that, among other things, limit SDHL’s ability and the ability of its restricted subsidiaries to do the following, and the 10.25% Senior Secured Notes also contain covenants that, among other things, limit SDNSI’s ability and the ability of its subsidiaries to do the following:

- Incur or guarantee additional indebtedness or issue certain preferred shares;
- Pay dividends or make other distributions on, or redeem or repurchase, any equity interests;
- Make other restricted payments;
- Make certain acquisitions or investments;
- Create or incur liens;
- Transfer or sell assets;
- Incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;

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- Enter into transactions with affiliates and
- Consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Company's assets or certain subsidiaries' assets.

The 8.875% Notes, 10.25% Senior Secured Notes and 8.25% Senior Unsecured Notes also contain standard events of default. The Company was in compliance with all covenants of its debt agreements as of December 31, 2022 and 2021.

### **Interest Expense**

Interest expense, including the amortization of debt issuance costs, discounts and premiums, was \$114.8 million, \$102.3 million and \$87.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

### **Note 14 – Employee Benefit Plans**

#### **Overview**

The Company sponsors various employee benefit programs, including shore-based retention plans, defined contribution plans, end of service plans and a defined benefit plan. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. Eligibility under these plans may vary based on jurisdiction, years of service or other factors, as outlined in the respective plans or Company policies. Cash payments are made by the Company immediately for certain matching contribution programs, when a triggering event occurs, such as meeting of the vesting period for a retention plan, or after the departure of an employee for certain postemployment benefit programs.

#### **Shore-Based Retention Plans**

The Company recorded \$8.4 million, \$7.3 million and \$3.7 million expense for shore-based retention plans for the years ended December 31, 2022, 2021 and 2020, respectively. Total cash payments under these retention plans are expected to be \$2.9 million during 2023. The Company recorded obligations of \$2.6 million and \$2.7 million in other current liabilities and other long-term liabilities, respectively, and assets for retention plans paid in advance of \$2.9 million and \$1.4 million in other current assets and other long-term assets, respectively, on the consolidated balance sheet as of December 31, 2022. The Company recorded obligations for these plans of \$2.9 million and \$1.4 million in other current liabilities and other long-term liabilities, respectively, and assets for retention plans paid in advance of \$2.9 million and \$4.3 million in other current assets and other long-term assets, respectively, on the consolidated balance sheet as of December 31, 2021.

In November 2020, the Company granted a retention plan with payments in 2021 and 2022, calculated based on the fair value of the Company's common stock over a defined time period and linked to certain share-based compensation awards granted in 2019 and 2020. This retention plan had a maximum cash payout of \$4.5 million. In August 2021, the Company amended this retention plan after the cancellation of the associated share-based compensation awards. The amended plan had fixed cash payments totaling \$3.8 million, of which \$1.9 million was paid in each of the years ended December 31, 2022 and 2021, respectively. See Note 19 – Share-based Compensation for additional discussion of the Company's share-based compensation plans.

In May 2021, the Company granted a new cash retention bonus plan for certain employees for a total of \$9.0 million, which is expensed over the vesting period through June 30, 2024. The total amount of \$9.0 million was paid during the year ended December 31, 2021. The plan has a repayment provision, which requires employees to repay the retention amount if employment is not maintained through the end of the vesting period, with certain exceptions.

#### **Defined Contribution Plans**

The Company recorded \$7.0 million, \$6.5 million and \$7.5 million expense for defined contribution plans for the years ended December 31, 2022, 2021 and 2020, respectively.

#### **End of Service Plans**

The Company recorded \$3.6 million, \$2.6 million and \$3.8 million in expense for employee end of service plans (defined benefit plans) for the years ended December 31, 2022, 2021 and 2020, respectively.

The discount rate used in the analyses ranged from 3.9% to 19.2% for the year ended December 31, 2022, 2.6% to 14.9% for the year ended December 31, 2021 and 2.2% to 14.5% for year ended December 31, 2020, respectively. The assumed average annual rate of compensation increase ranged from 1.0% to 15.0% for the year ended December 31, 2022, 1.0% to 13.7% for year ended

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December 31, 2021 and zero to 3.0% year ended December 31, 2020, respectively. The Company recorded obligations for these plans of \$1.6 million and \$14.2 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheets as of December 31, 2022. The Company recorded obligations of \$1.5 million and \$13.8 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheets as of December 31, 2021.

**Defined Benefit Plan**

The Company recorded a gain of \$0.2 million, \$0.1 million and expense of \$0.1 million in other, net in the consolidated statements of operations related to its defined benefit plan for the years ended December 31, 2022, 2021 and 2020, respectively. The discount rates used in the analyses were 5.10%, 2.20% and 1.75% for the years ended December 31, 2022, 2021 and 2020, respectively. The Company recorded obligations for these plans of \$0.1 million and \$1.2 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheets as of December 31, 2022. The Company recorded obligations of \$0.1 million and \$1.6 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheets as of December 31, 2021.

**Note 15 – 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.

**Insurance**

The Company's hull and machinery, property, cargo and equipment and excess liability insurance consists of commercial market policies that the Company renews annually. Noble maintains hull and machinery coverage and the excess liability coverage insurance for the Shelf Drilling Barsk rig. SDNS is the named beneficiary of the Shelf Drilling Barsk insurance policy. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2022, the insured value of the Company's fleet, excluding the Shelf Drilling Barsk rig, was \$2.0 billion.

*Hull and Machinery Coverage*

As of December 31, 2022, under the Company's hull and machinery insurance policies, the Company maintained a \$5.0 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The Company also has insurance coverage for costs incurred for wreck removal for the greater of 25% of the rig's insured value or \$25.0 million. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a Political Risks Policy covering acts of war and terrorism with a \$250,000 deductible per occurrence (an additional \$2.75 million in certain countries) and a limit of \$200.0 million.

As of December 31, 2022, the Company also carried \$100.0 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The policy deductible is \$1.0 million per occurrence.

*Excess Liability Coverage*

As of December 31, 2022, the Company carried \$300.0 million to \$400.0 million of commercial market excess liability coverage, exclusive of deductibles, which generally covered onshore and offshore risks such as personal injury, third-party property claims and third-party non-crew claims, including pollution from the rig and non-owner aviation liability. The Company's excess liability coverage generally has a \$1.0 million deductible per occurrence.

*Self-Insured Medical Plan*

The Company provides self-insured medical plans to certain employees in certain jurisdictions, subject to exclusions and limitations. The Company offers a self-insured medical plan for certain U.S. resident rig-based expatriate employees and their eligible dependents to provide medical, vision and dental coverage within the U.S. The maximum potential liability as of December 31, 2022

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related to the plan is \$2.4 million, as the Company is reinsured for the claims in excess of that amount by a third-party insurance provider.

The Company also offers a self-insured medical plan to provide medical coverage for certain employees represented by labor unions and work under collective bargaining agreements, and their eligible dependents. The Company is fully responsible for eligible claims.

*Directors' and officers' liability insurance*

As of December 31, 2022, the Company carried a \$35.0 million directors' and officers' liability policy for the benefit of any director or officer in respect of any loss or liability attached to him or her for a claim of negligence, default, breach of duty or breach of trust. The deductible under this policy varies based on the type of claim but can be as high as \$5.0 million per occurrence.

**Surety Bonds and Other Bank Guarantees**

It is customary in the Company's business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations. The Company maintains surety bond facilities in either U.S. dollars or local currencies provided by several banks in India, the United Kingdom, UAE, Nigeria and Thailand, which may be secured by restricted cash balances to guarantee various contractual, performance and customs obligations. As of December 31, 2022, the Company's total surety bond facilities totaled \$99.2 million, of which \$72.6 million was outstanding. As of December 31, 2021, the Company's total surety bond facilities totaled \$68.0 million, of which \$43.6 million was outstanding.

**Other Contingencies**

The Company received an assessment for withholding taxes for one of its subsidiaries related to multiple tax years under review. The total amount of the tax assessment plus estimated penalties and interest was \$8.3 million and \$12.5 million as of December 31, 2022 and 2021, respectively, and the Company will be indemnified for \$8.1 million and \$12.3 million, respectively, of this exposure from the third-party prior owner of the subsidiary. The Company does not believe that the ultimate resolution of these proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

**Note 16 – Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities and operating lease liabilities approximate their fair market values due to the short-term duration and/or the nature of the instruments.

The following table represents the estimated fair value and carrying value of the long-term debt (in thousands):

	As of December 31,		As of December 31,	
	2022		2021	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.875% Senior Secured First Lien Notes, due November 2024	\$ 302,767	\$ 304,200	\$ 299,426	\$ 319,142
8.25% Senior Unsecured Notes, due February 2025	895,121	782,397	893,103	656,253
10.25% Senior Secured Notes, due October 2025	238,780	247,458	—	—
	<u>\$ 1,436,668</u>	<u>\$ 1,334,055</u>	<u>\$ 1,192,529</u>	<u>\$ 975,395</u>

The estimated fair values of the 8.875% Notes, 8.25% Senior Unsecured Notes and the 10.25% Senior Secured Notes were determined using quoted market prices, or Level 1 inputs. The estimated fair values of the 8.875% Notes, 8.25% Senior Unsecured Notes and 10.25% Senior Secured Notes exclude unamortized debt issuance costs, discounts and premiums, as applicable. See Note 13 – Debt.

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**Note 17 – Interest Rate, Foreign Currency and Credit Risk**

**Interest Rate Risk**

Financial instruments that potentially subject the Company to interest rate risk include cash and cash equivalents and debt. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted semi-annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument’s maturity is greater than one year, exposes the Company to changes in market interest rates if and when voluntary refinancing or refinancing of maturing debt with new debt occurs. The Company has in the past utilized interest rate swaps or other derivative instruments to manage interest rate risk.

**Foreign Currency Risk**

The Company’s functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with the compensation costs of the Company’s employees and purchasing costs from suppliers in currencies other than the U.S. dollar.

The Company’s primary currency exchange rate risk management strategy involves customer contracts that provide for partial payment in U.S. dollars and partial payment in local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term and local statutory requirements. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. In addition, the Company can utilize forex contracts to manage foreign exchange risk related to certain currencies. See Note 20 – Derivative Financial Instruments for further discussion of the Company’s forex contracts. The currency exchange effect resulting from the Company’s international operations generally has not had a material impact on its operating results. The Company recognized a gain / (loss) of \$0.1 million, \$0.4 million and \$(1.2) million related to net foreign currency exchange during the years ended December 31, 2022, 2021 and 2020, respectively.

**Credit Risk**

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

The market for the Company’s services is the offshore oil and natural gas industry. The Company’s customers primarily consist of government owned or controlled energy companies, publicly listed global integrated oil companies or independent exploration and production companies. Periodic credit evaluations of the Company’s customers are performed and the Company generally does not require material collateral from its customers. However, the Company may from time-to-time require its customers to make advance payment or issue a bank guarantee/letter of credit in its favor to mitigate the risk of non-payment. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations.

Consolidated revenues (excluding amortization of intangible liability) by top customer for each of the years ended December 31, 2022, 2021 and 2020 were as follows:

	<b>Years ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Largest customer .....	29%	32%	26%
Second largest customer .....	13%	27%	26%
Third largest customer .....	11%	13%	14%
Others .....	47%	28%	34%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

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**Note 18 – Shareholders’ Equity**

**Authorized share capital and issued and outstanding shares**

As of December 31, 2022 and 2021, the Company had authorized common shares of 234,063,473 and 184,063,473, respectively with a par value of \$0.01 per share. As of December 31, 2022, 176,368,767 of the Company’s authorized common shares were outstanding and 7,296,600 were reserved by the Company’s Board of Directors for issuance pursuant to the 2017 LTIP. See Note 19 – Share-based Compensation. The Board of Directors may amend or alter the number of shares reserved for such purposes in future periods.

As of December 31, 2022, 138,308,840 shares were listed on the OSE. The remaining shares represent shares held by Castle Harlan, Inc. and Lime Rock Partners (together, the “Sponsors”), or certain other shareholders, which have not been listed and are not currently required to be listed on the OSE.

On June 24, 2022, the Company issued 38,400,000 common shares at \$0.01 per share. The gross proceeds from the issuance were \$50.4 million and equity issuance costs were \$2.3 million resulting in net proceeds of \$48.1 million. The Company used these proceeds for the Acquisition as discussed in Note 4 – Acquisition.

See Note 26 – Subsequent Events for a subsequent common share issuance.

**Share repurchase program**

On September 1, 2019, the Board of Directors approved a share repurchase program under which the Company could repurchase shares of the Company’s common stock for an aggregate of \$25.0 million over a period of two years from the date of approval (the “2019 Repurchase Program”). Any repurchased shares were canceled and resumed the status of authorized and unissued shares upon the repurchase date, as the repurchased shares were considered constructively retired on the repurchase date. Shares were repurchased in the open market on the OSE. In accordance with Cayman Islands law, the repurchased shares were canceled by default immediately after repurchase. The Company made an accounting policy election to allocate the purchase price of repurchased shares between additional paid-in-capital and retained earnings. In March 2020, the Company suspended its repurchase activities under the 2019 Repurchase Program and the program expired on September 1, 2021.

The Company repurchased approximately 721,000 shares of common stock at an average price of \$2.16 (19.50 NOK) per share during the year ended December 31, 2020 under the 2019 Repurchase Program.

**Shareholder rights and dividend distributions**

All common shares have pari passu rights to participate in any common share dividends declared and represent the residual claim on the Company’s assets. The Company did not pay any common share dividends during the years ended December 31, 2022, 2021 and 2020, respectively. Certain of the Company’s debt agreements contain covenants that limit the payment of dividends. See Note 13 – Debt.

The Company’s Articles of Association contain certain preferential governance rights for the Sponsors, including the right of the Sponsors to appoint and remove directors, subject to certain ownership thresholds being met.

**Note 19 – Share-based Compensation**

**2017 Long-Term Incentive Plan**

In October 2022, the Board of Directors amended the 2017 LTIP to increase the maximum number of shares to be granted under the plan to 23.4 million shares from 18.4 million shares. As of December 31, 2022 and 2021, there were 7.3 million shares and 2.6 million shares, respectively, available for issuance under the 2017 LTIP. However, future grants of any additional awards are limited to the Company’s authorized but unissued shares at the time of the respective award dates.

**Nonqualified Stock Options**

The Company may grant NQSOs, which are contractual rights to purchase shares in the future at a predetermined price known as the option price or strike price provided the specific vesting condition is met. During the requisite service period, the NQSOs may not be sold or transferred and are subject to forfeiture and the option holder does not have the right to receive dividends until the NQSOs are vested and exercised.

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There were no NQSOs granted, exercised or forfeited during the year ended December 31, 2022.

During the year ended December 31, 2021, 13.7 million NQSOs were granted to key employees with an exercise price of 4.60 NOK (\$0.51) per share and which vest in February 2025 and expire in February 2030. Concurrently with the grant of the NQSOs, the Company cancelled unvested time based RSUs (“TBRsUs”) and performance based RSUs (“PBRsUs”) subject to the achievement of the market condition of total shareholder return against a predetermined peer group (“TSR share units”) and the performance condition of return on capital employed (“ROCE share units”) which were awarded in 2019 and 2020. Therefore, this grant and cancellation were accounted for as a modification affecting the 9 grantees. The \$4.4 million total unamortized compensation expense for the cancelled awards at the modification date plus the \$2.3 million incremental fair value of the NQSOs over the cancelled awards totals \$6.7 million, which were pooled and will be expensed on a straight line basis over the vesting period of the replacement awards.

The NQSOs granted in 2021 were measured on the grant date using the Black-Scholes-Merton model, which was prepared by an independent third party. Management reviewed the assumptions and methodologies used by the third-party experts to ensure they appear reasonable and consistent with the objective of determining fair value.

The grant date fair value of the NQSOs granted in 2021 of \$0.27 was determined based on inputs and assumptions, including the market price of the shares on the date of grant of \$0.51 and additional assumptions, as follows:

	<b>As of December 31, 2021</b>
Expected term .....	6.05 years
Risk free interest rate .....	1.02 %
Expected volatility .....	56.90 %
Expected dividend yield .....	— %

The expected term represented the period from the grant date to the expected date of vesting, the risk-free interest rate was based on the rate of government securities with similar terms and the expected volatility was based on the historical volatility of the Company’s share price and other factors.

A summary of NQSOs granted as of December 31, 2021 and changes during the year is as follows:

	<b>Shares</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual term (in years)</b>	<b>Aggregate intrinsic value</b>
Outstanding as of January 1, 2022 .....	13,693,607	\$ 0.51		
Granted .....	—	—		
Exercised .....	—	—		
Forfeited .....	—	—		
Outstanding as of December 31, 2022 .....	13,693,607	0.51	7.1	\$ 23,756,051
Vested or expected to vest as of December 31, 2022 .....	13,693,607	0.51	7.1	23,756,051
Exercisable as of December 31, 2022 .....	—	—	—	—

As of December 31, 2022 and 2021, the total unrecognized compensation cost related to non-vested NQSOs was \$4.1 million and \$6.0 million, respectively, which is expected to be recognized over a weighted average period of approximately 2.1 years and 3.1 years, respectively.

**Restricted Share Units**

The Company may grant restricted share units (“RSUs”), which are contractual rights to receive shares in the future provided the specific vesting condition is met. The RSUs granted to employees may be settled in cash in lieu of shares at the Company’s sole discretion. During the requisite service period, the RSUs may not be sold or transferred and are subject to forfeiture. The RSU holder



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has the right to receive dividend equivalent but does not have the rights of a shareholder until the shares are issued. The dividend equivalent will be forfeited if the RSUs are forfeited before vesting. The RSUs awarded by the Company consisted of TBRsUs and PBRsUs.

The TBRsUs granted to key employees typically vest in one-third increments over a three-year period and to non-employee directors typically vest at the end of one year from the grant date, subject to certain acceleration provisions following a change in control. The fair value of TBRsUs is based on the market price of the shares on the date of grant.

A summary of the TBRsUs granted as of December 31, 2022 and changes during the year is as follows:

	Time based restricted share units	Weighted average grant date fair value per share
Non-vested shares as of January 1, 2022	852,974	\$ 0.76
Granted	348,668	1.93
Vested	(852,974)	0.76
Non-vested shares as of December 31, 2022	348,668	\$ 1.93

The aggregate grant date fair value of the TBRsUs vested was \$0.6 million, \$2.1 million and \$1.2 million during the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, the total unrecognized compensation cost related to non-vested TBRsUs was \$0.6 million which is expected to be recognized over a weighted average period of approximately 0.9 years.

PBRsUs awarded are subject to the achievement of specified performance goals, such as the market condition of total shareholder return against a predetermined peer group (“TSR share units”) and the performance condition of return on capital employed (“ROCE share units”). Total PBRsUs that may be earned range from 0% to 200% of the granted units depending on performance.

The TSR share units granted in 2020 which have a service and a market condition, were measured on the grant date using the Monte-Carlo option pricing model, which was prepared by an independent third party. Management reviewed the assumptions and methodologies used by the third-party experts to ensure they appeared reasonable and consistent with the objective of determining fair value.

The estimated grant date fair value of the TSR share units granted in 2020 of \$3.15 per share was determined based on inputs and assumptions, including the market price of the shares on the date of grant of \$2.05, and additional assumptions, as follows:

	As of December 31, 2020
Valuation assumptions	
Expected term	3.00 years
Risk free interest rate	1.30%
Expected volatility	56.77%
Expected dividend yield	—%

For each period, the expected term represented the period from the grant date to the expected date of vesting, the risk-free interest rate was based on the rate of government securities with similar terms and the expected volatility was based on implied volatility from publicly traded peer group, historical volatility of the Company’s share price and other factors.

For ROCE share units awarded in 2020, the grant date was not established prior to the cancellation of the awards in 2021 as the complete performance goals had not yet been determined and communicated to the award recipients at the time the awards were cancelled.

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The Company had no PBRsUs outstanding as of December 31, 2022.

**Share-Based Compensation Expense**

The Company recorded share-based compensation expense related to NQSOs of \$1.9 million and \$0.8 million for the years ended December 31, 2022 and 2021. No corresponding expense was recorded for the year ended December 31, 2020 related to NQSOs. The Company recorded share-based compensation expense related to RSUs of \$0.7 million, \$2.6 million and \$4.2 million during the years ended December 31, 2022, 2021 and 2020, respectively. Share-based compensation expense is recorded in general and administrative expenses on the consolidated statements of operations. No income tax benefit was recognized for these awards.

**Note 20 – Derivative Financial Instruments**

**Foreign Currency Forward Exchange Contracts**

The Company did not settle any forex contracts during the years ended December 31, 2022 and 2021. During the year ended December 31, 2020, the Company settled forex contracts with aggregate notional values of approximately \$29.4 million, of which the aggregate amounts were designated as an accounting hedge. As of December 31, 2022 and 2021, the Company had no outstanding forex contracts.

**Gain / (loss) on Derivative Financial Instruments**

The following table presents the impact of gains and losses related to the Company’s derivative financial instruments designated as cash flow hedges on accumulated other comprehensive income / (loss) (“AOCIL”) in the Company’s consolidated statements of operations (in thousands). Included are gains and losses recognized through AOCIL, less gains and losses reclassified from AOCIL and recorded under operating and maintenance expense in the consolidated statements of operations for forex contracts.

	<b>Cash Flow Hedges</b>		
	<b>Years ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Foreign current forward contracts			
Unrealized (loss) / gain recognized through AOCIL.....	—	—	(574)
Less realized (loss) / gain reclassified from AOCIL and recognized through “Operating and maintenance” .....	—	—	(334)
	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (240)</b>

**Note 21 – Supplemental Balance Sheet Information**

Accounts and other receivables consisted of the following (in thousands):

	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
Accounts receivables .....	\$ 169,326	\$ 130,900
Other .....	10,175	8,537
Allowance for credit losses .....	(3,844)	(3,186)
	<b>\$ 175,657</b>	<b>\$ 136,251</b>

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Other current assets consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Deferred costs .....	\$ 44,224	\$ 50,119
Prepayments .....	17,269	7,768
Restricted cash .....	12,554	2,803
Income tax receivable .....	2,184	1,885
Other .....	3,533	5,505
	\$ 79,764	\$ 68,080

Other long-term assets consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Deferred costs .....	\$ 88,345	\$ 71,112
Income tax receivable .....	35,198	34,434
Restricted cash .....	23,952	18,100
Operating right-of-use assets .....	12,221	12,376
Other .....	9,131	9,541
	\$ 168,847	\$ 145,563

Other current liabilities consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Accrued compensation and benefits .....	\$ 22,343	\$ 15,152
Operating lease liabilities .....	7,969	7,602
Contract liabilities .....	4,910	29,036
Intangible liability .....	2,152	—
Other .....	2,943	1,925
	\$ 40,317	\$ 53,715

Other long-term liabilities consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Intangible liability .....	\$ 33,312	\$ —
Income taxes .....	20,904	17,072
Operating lease liabilities .....	5,696	8,609
Contract liabilities .....	3,514	1,757
Other .....	18,728	17,549
	\$ 82,154	\$ 44,987

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**Note 22 – Supplemental Cash Flow Information**

**Operating Cash Flows**

The net effect of changes in operating assets and liabilities on cash flows from operating activities was as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
<b>Decrease / (increase) in operating assets</b>			
Accounts and other receivables, net .....	\$ (40,218)	\$ (7,749)	\$ 23,623
Other current assets .....	(2,276)	(3,179)	5,262
Other long-term assets .....	(199)	(5,889)	(3,502)
<b>Increase / (decrease) in operating liabilities</b>			
Accounts payable and other current liabilities .....	56,902	39,077	(20,959)
Accrued interest .....	6,763	2,232	1,088
Accrued income taxes .....	4,092	297	(349)
Other long-term liabilities .....	5,036	1,876	4,234
	<u>\$ 30,100</u>	<u>\$ 26,665</u>	<u>\$ 9,397</u>

Additional cash flow information was as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Interest and other financing charges .....	\$ 101,763	\$ 95,983	\$ 85,191
Income taxes .....	\$ 25,892	\$ 16,684	\$ 15,831

**Capital expenditures and deferred costs**

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases, construction expenditures on newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades), mobilization and stacked rig reactivations.

The Company's capital expenditures and deferred costs were as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Regulatory and capital maintenance .....	\$ 66,084	\$ 67,321	\$ 44,837
Contract preparation .....	32,699	28,710	14,783
Fleet spares and other .....	12,052	15,628	6,431
	<u>\$ 110,835</u>	<u>\$ 111,659</u>	<u>\$ 66,051</u>
Rig acquisitions .....	476,376	1,462	88,331
Total capital expenditures and deferred costs .....	<u>\$ 587,211</u>	<u>\$ 113,121</u>	<u>\$ 154,382</u>

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The reconciliation of the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs was as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Cash payments for additions to property and equipment .....	\$ 453,659	\$ 45,852	\$ 111,817
Noncash increase to fair value of rigs in the Acquisition .....	42,678	—	—
Net change in accrued but unpaid additions to property and equipment .....	15,232	(5,752)	744
Total capital expenditures .....	\$ 511,569	\$ 40,100	\$ 112,561
Changes in deferred costs, net .....	\$ 11,337	\$ 34,091	\$ (5,327)
Add: Amortization of deferred costs .....	64,305	38,930	47,148
Total deferred costs .....	\$ 75,642	\$ 73,021	\$ 41,821
Total capital expenditures and deferred costs .....	\$ 587,211	\$ 113,121	\$ 154,382

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

	As of December 31,	
	2022	2021
Cash and cash equivalents .....	\$ 140,841	\$ 232,315
Restricted cash included in other current assets .....	12,554	2,803
Restricted cash included in other long-term assets .....	23,952	18,100
Total cash, cash equivalents and restricted cash .....	\$ 177,347	\$ 253,218

**Note 23 – Earnings / (Loss) Per Share**

The following tables set forth the computation of basic and diluted earnings / (loss) per share (in thousands, except per share data):

	Years ended December 31,		
	2022	2021	2020
<b>Numerator for loss per share</b>			
Net loss attributable to controlling interest .....	\$ (28,805)	\$ (78,637)	\$ (274,859)
<b>Denominator for loss per share</b>			
Weighted average common shares:			
Weighted average common shares - basic and diluted .....	157,322	136,816	136,157
Loss per common share - basic and diluted .....	\$ (0.18)	\$ (0.57)	\$ (2.02)

The NQSOs awarded in 2021 do not contain rights to dividends, and therefore would not be considered participating securities for purposes of computing earnings per share. The RSUs awarded in 2020 and 2019, which were outstanding during the year ended December 31, 2021 contain forfeitable rights to dividends, and would not be considered participating securities for purposes of computing earnings per share. The NQSOs do not represent common shares outstanding until they are vested and exercised and the RSUs do not represent common shares outstanding until they are vested and converted into common shares. See Note 19 – Share-based Compensation.

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For the years ended December 31, 2022, 2021 and 2020, there were 8,605 thousand, 120 thousand and zero dilutive common shares, respectively, related to the Company's RSUs which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive. For the year ended December 31, 2021, NQSOs to purchase 13.7 million common shares were not included in the computation of diluted loss per share as the effect of these NQSOs would have been anti-dilutive.

**Note 24 – Segment and Related Information**

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract services, which reflects how the Company manages its business, and the fact that the Company's fleet is dependent upon the worldwide oil and natural gas industry.

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

	<b>Years ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Saudi Arabia	\$ 202,246	\$ 143,376	\$ 152,568
India	123,848	81,485	87,166
Thailand	89,336	167,932	142,250
Nigeria	73,823	52,712	78,132
Angola	63,312	—	—
United Arab Emirates	—	25,896	62,055
Others <sup>(1)</sup>	135,056	55,165	63,005
	<u>\$ 687,621</u>	<u>\$ 526,566</u>	<u>\$ 585,176</u>
Amortization of intangible liability	7,600	—	—
Total revenues	<u>\$ 695,221</u>	<u>\$ 526,566</u>	<u>\$ 585,176</u>

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

Although the Company is incorporated under the laws of the Cayman Islands, the Company does not conduct any operations and does not have any operating revenues in the Cayman Islands.

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

	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
Thailand	\$ 463,073	\$ 546,608
Saudi Arabia	189,308	203,793
Norway	167,872	—
United Arab Emirates	129,151	55,754
United Kingdom	113,115	—
Nigeria	87,560	100,468
Angola <sup>(1)</sup>	74,041	87,349
Congo	—	66,448
India	60,276	74,081
Others <sup>(2)</sup>	336,779	31,193
Total long-lived assets, net	<u>\$ 1,621,175</u>	<u>\$ 1,165,694</u>

(1) Rig was in international waters in the process of mobilization to the listed location as of December 31, 2021.

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

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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 25 – Related Parties**

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

A related party provided rig related services to one of the Company's foreign subsidiaries. There was no material spending with this related party during the years ended December 31, 2022 and 2021, respectively. These services totaled \$1.3 million during the year ended December 31, 2020. The total liability recorded under accounts payable was zero as of December 31, 2022 and 2021, respectively.

The Company recorded \$1.2 million, \$0.7 million and \$0.8 million during the years ended December 31, 2022, 2021 and 2020, respectively, of Sponsors' and Directors' costs. Sponsors' and Directors' costs include directors' fees and reimbursement of costs incurred by Sponsors, and by a former sponsor through the first quarter of 2020 and directors for attendance at meetings relating to the management and governance of the Company. The total liability recorded under accounts payable for such transactions was \$0.3 million and \$0.1 million as of December 31, 2022 and 2021, respectively.

The Company recorded \$39 thousand of SDNS independent directors' costs during the year ended December 31, 2022, which includes SDNS directors' fees and reimbursement of costs incurred for attendance at SDNS meetings relating to the management and governance of SDNS. The total liability recorded under accounts payable was \$39 thousand as of December 31, 2022. There were no such transactions during the years ended December 31, 2021 and 2020.

Certain VIE related parties provided goods and services to drilling rigs owned by several of the Company's foreign subsidiaries. These goods and services totaled \$2.9 million, \$1.9 million and \$2.2 million during the years ended December 31, 2022, 2021 and 2020, respectively. The total liability recorded under accounts payable for such transactions was \$0.8 million and \$0.4 million as of December 31, 2022 and 2021, respectively.

**Lease with a related party**

The Company entered into lease agreements for the lease of two bareboat charter rigs with a related party. These agreements were terminated in September 2020 prior to their commencement. See Note 10 – Leases.

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The right-of-use asset was \$1.0 million and \$1.9 million as of December 31, 2022 and 2021, respectively. The corresponding operating lease liability was \$2.0 million (current: \$1.6 million; long-term: \$0.4 million) as of December 31, 2022 and \$3.5 million (current: \$1.6 million; long-term: \$1.9 million) as of December 31, 2021. The Company has recorded total lease expense of \$1.0 million, \$1.1 million and \$1.3 million for the years ended December 31, 2022, 2021 and 2020, respectively. See also Note 11 – Loss on Impairment of Assets.

The following is a summary of the maturity of lease liabilities for the lease with the related party as of December 31, 2022 (in thousands):

	<b>As of December 31, 2022</b>
2023 .....	\$ 1,676
2024 .....	419
<b>Total lease payments .....</b>	<b>\$ 2,095</b>
<b>Less: Interest .....</b>	<b>60</b>
<b>Present value of lease liabilities .....</b>	<b>\$ 2,035</b>

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As of December 31, 2022 and 2021, the weighted-average remaining lease term was 1.1 years and 2.1 years, respectively, and weighted average discount rate for operating lease right-of-use asset pertaining to the lease with a related party was 5.7%. The Company paid \$1.7 million in each of the years ended December 31, 2022 and 2021, for amounts that have been included in the measurement of operating lease liabilities.

**Note 26 – Subsequent Events**

The Company has evaluated subsequent events through March 20, 2023, the date of issuance of the consolidated financial statements.

In February 2023, the Company completed the issuance of 17,636,876 common shares. The gross proceeds from the issuance were \$45.7 million and equity issuance costs are estimated to be \$1.9 million resulting in estimated net proceeds of \$43.8 million.